



Select Committee on Pension Policy

School Employee ERFs

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ERFs And Classroom Employees

- Second part of the study mandate in 2ESB 6378
 1. High-risk job classifications
 2. Classroom employee ERFs
- “Study existing early retirement factors (ERFs) and job requirements that may limit the effectiveness of the older classroom employee.”



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1

Today's Briefing

- Provides background and considerations regarding using pension policy to address classroom effectiveness
- Staff is continuing to research factors that might impact effectiveness
- No committee action required today
 - Briefing intended to prepare for findings and options at September meeting
- At September meeting
 - Findings from research
 - Possible options for addressing effectiveness



Presentation

- Issues
- Background
- Policy considerations and preliminary analysis
 - Addressing effectiveness through pension policy
 - Framework for evaluating pension options
 - Other states
- Conclusion
- Next steps



Issues

- Staff converted the language of the study mandate into two questions
 1. Should ERFs for school employees be adjusted to facilitate the retirement of classroom employees whose effectiveness is diminished?
 2. If so, how should they be adjusted, and for which employees?



Preview Of Background

- Next six slides
- "Classroom employees"
- Early retirement and ERFs
 - Hypothetical example
- Classroom effectiveness



Who Are The “Classroom Employees”?

- We assume it means “classroom teacher” as defined in RCW 28A.150.203(7)
 - Certificated professional
 - In position that requires that certification
 - Primary duty is daily educational instruction of students
- Primary focus of study is TRS Plans 2/3 employees
 - Will overlap with other systems
 - Notably SERS Plans 2/3



Early Retirement Generally

- Can leave employment any time you choose
 - If vested, can receive full pension benefits once you reach normal retirement age (65)
- Early retirement allows members to start receiving benefits before age 65 in exchange for a reduction in initial benefits
- Two types of reductions
 - Actuarial reduction
 - Subsidized
- Reduction intended to counter costs to the system
 - Benefit paid longer
 - Fewer contributions received



Early Retirement Factor Comparison

Early Retirement Reduction Factors				
Age	Full Actuarial Reduction	2000 ERFs	2008 ERFs	2012 ERFs*
55	0.358	0.70	0.80	0.50
56	0.395	0.73	0.83	0.55
57	0.435	0.76	0.86	0.60
58	0.481	0.79	0.89	0.65
59	0.531	0.82	0.92	0.70
60	0.588	0.85	0.95	0.75
61	0.652	0.88	0.98	0.80
62	0.724	0.91	1.00	0.85
63	0.805	0.94	1.00	0.90
64	0.896	0.97	1.00	0.95
65	1.00	1.00	1.00	1.00

*Applied for members hired on or after May 1, 2013, with at least 30 years of service.



Hypothetical Example

	Full Actuarial Reduction	2000 ERFs	2008 ERFs	2012 ERFs (New Hires)
Age 55				
ERF	0.358	0.70	0.80	0.50
Reduction	64.2%	30%	20%	50%
Initial Annual Benefit	\$10,740	\$21,000	\$24,000	\$15,000
Age 60				
ERF	0.588	0.85	0.95	0.75
Reduction	41.2%	15%	5%	25%
Initial Annual Benefit	\$17,640	\$25,500	\$28,500	\$22,500
Age 62				
ERF	0.724	0.91	1.00	0.85
Reduction	27.6%	9%	0%	15%
Initial Annual Benefit	\$21,720	\$27,300	\$30,000	\$25,500

Note: This table assumes for a Plan 2 member an AFC of \$50,000 and 30 years of service. The full actuarial reduction shown here is hypothetical, and provided for illustration and comparison only. A Plans 2/3 member with 30 years of service would qualify for one or more of the ERFs.



Classroom Effectiveness Is Subjective And Difficult To Define

- Opinions may vary
- May be challenging to measure
- For example, age may bring declining health, but increasing experience
 - Does one outweigh the other?
- Issue is outside staff expertise
 - Staff is reviewing studies of classroom effectiveness
 - Trying to identify factors impacting effectiveness
 - Not trying to define effectiveness
- New teacher evaluation system will measure effectiveness



New Teacher Evaluation System Being Phased In

- Teacher and Principal Evaluation Pilot (TPEP)
- Will define effective teaching and leading
 - Using criteria developed with stakeholder input
- Currently being phased in
 - All districts must adopt system for 2013-14
 - All teachers and principals must be evaluated for 2015-2016
- Data could inform the study of the issue



Recap: Background

- Study is focused on TRS
 - Some overlap with other systems, including SERS
- Early retirement allows members to receive benefits earlier, in exchange for a reduction
- Two types of reductions
 - Actuarial reduction
 - Early retirement factors
- Eligibility for ERFs based on age, service, and hire date



Questions?

- Coming Next
 - Addressing effectiveness through pension policy
 - Framework for evaluating pension options
 - Other states



Refresher: What Are The Study Questions?

1. Should ERFs for school employees be adjusted to facilitate the retirement of classroom employees whose effectiveness is diminished?
2. If so, how should they be adjusted, and for which employees?



Preview Of Analysis

- Next eleven slides
- Addressing classroom effectiveness through pension policy
- Framework for evaluating pension options
- Other states



Should Classroom Effectiveness Be Addressed Through Pension Policy?

- Policy makers may disagree
- Staff still working to identify factors that may impact effectiveness
- Pension policy may be better suited to address some factors more than others
- Other factors may be addressed through options outside the pension system
- Example for illustration
 - Pension provisions may be better suited to addressing factors related to age and length-of-service than factors like class size



Pension Policy May Impact The Decision To Retire

- May encourage member to continue working despite diminished effectiveness
- May encourage employees to retire while still effective
- Two contrasting examples to illustrate
 - An employee who is no longer effective may be encouraged to continue working to avoid ERF reductions
 - An employee may be encouraged to retire even though still effective because benefits have reached a particular level



New Employees Have Less Incentive To Retire Earlier

- Generally, the more retirement benefits are reduced, the less incentive there is to retire
- 2012 ERFs reduce initial benefits more than under prior ERFs, thus reducing the incentive to retire earlier
- Unknown if it is enough to create a material change in retirement behavior
 - No experience data for at least 30 years
 - Assumed yes in actuarial fiscal note for purpose of pricing the bill
- Potential retirees will likely weigh other factors
 - Some examples
 - Desire to continue
 - Other work opportunities
 - Changes to income



Policies May Already Address Some Factors Related To Effectiveness

- Various policies allow teachers to leave service, or take temporary breaks for added variety, training, or rest
 - Includes pension policy, human resource policy, and contracting
- Examples include
 - Deferred Retirement
 - 180-Day Contract
 - In-Service Days
 - Sabbaticals and Teachers on Special Assignment (TOSA)
- Policy makers may disagree whether these provisions sufficiently address classroom effectiveness



Recap: Addressing Effectiveness Through Pension Policy

- Pension policy is likely better suited to address some factors more than others
- Policies might encourage members to
 - Work beyond their effectiveness
 - Retire while still effective
- More analysis, conclusions, and findings in September
- When analysis complete, policymakers could conclude classroom effectiveness
 - Should not be addressed through pension policy
 - There may be options outside the pension system
 - Should be addressed through pension policy
 - Policy makers may want to consider options within the pension system and how to evaluate those options



Policy Makers May Want To Consider Options Within The Pension System To Address Classroom Effectiveness

- Study mandate anticipates ERFs may be adjusted to facilitate the retirement of teachers with diminished effectiveness
- Other options likely to be identified as study progresses
 - Included in September presentation



Framework For Evaluating Pension Options

- If policy makers conclude that pension provisions should be adjusted to address classroom effectiveness
 - Who should receive the adjustments?
 - What should the adjustments be?
 - What is the fiscal impact?
- Evaluation framework may be different if non-pension options are chosen



State Policy: Provide Consistent Benefits Unless Unique Job Requirements Suggest Otherwise

- Teachers and school employees have their own retirement systems
- Not all provisions are unique
 - Early retirement provisions are identical for PERS 2/3, TRS 2/3, and SERS 2/3
- Should one group receive benefit improvements that the others do not?
 - For example
 - Teachers
 - All school employees
 - History shows that groups who do not receive the same improvement will often pursue such improvement



Other States

- Teachers and general employees largely have consistent benefits
 - Only three peer states have separate retirement systems available for new teachers
- Thus far, staff has found no indication that ERFs in other states are tied to a qualitative measure such as classroom effectiveness
- More details in appendix to issue paper



What Should The Adjustments Be?

- Staff researching other options to present to SCPP at future meeting
- Study mandate focuses on ERFs
- If policy makers choose to modify ERFs, there are essentially two options
 - Roll back the ERFs to prior levels
 - Other ERFs



What Is The Fiscal Impact?

- Pension changes are long-term and may create contractual rights
 - May want to consider whether factors impacting classroom effectiveness could change over the years
- Enacting legislation (2ESB 6378) did not have an intent section, but was enacted during a time of pension reform and budget crisis
- Policy makers may want to consider
 - Overall impact to the budget
 - Actuarial pricing
- If policy makers choose to modify ERFs, any reduction (larger initial benefits for early retirees) will carry a cost



Conclusion

- Pension policy is more suited to address some factors than others
 - Pension, HR, and contracting policies may already address some factors related to effectiveness
- There may be options for addressing effectiveness both inside and outside the pension system
 - If policy makers conclude pensions should be adjusted, the modification of ERFs is only one of the possible options
- State policy is to provide consistent benefits, unless unique job requirements warrant otherwise
- Pension changes are typically long-term and can create contractual rights
- Policy makers may want to consider overall impact to budget



Next Steps

- Staff will continue reviewing studies on teacher retirement and classroom effectiveness
 - Identifying factors that may impact effectiveness
 - Additional information and guidance from SCPP is welcome
- At the September meeting, staff will present
 - Additional research and analysis
 - Possible options
- Final report is due to the Legislature in December
 - Final SCPP action at November meeting

