



Select Committee on Pension Policy

SCPP Study: School Employee ERFs

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Continuation Of Study Mandate In 2ESB 6378

- “Study existing early retirement factors and job requirements that may limit the effectiveness of the older classroom employee.”
- Assumed “classroom employees” means members of TRS



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Policy Questions

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



Third Work Session On This Issue

- At the first meeting, staff presented the analytical framework
- At the second, staff presented research, analysis, and framework for evaluating options
- This meeting:
 - Present preliminary findings based on studies of teacher retirement and classroom effectiveness
 - Discuss interaction between classroom effectiveness and pension policy



Presentation

- Background
 - ERFs
 - Other states (new information)
- Preliminary findings
 - Factors that can impact effectiveness
 - Are they unique to teachers?
 - Can pension policy address them?
- Applying the findings to the overall study
 - Should ERFs be changed to address classroom effectiveness?
 - What are the policy considerations?
- Next steps
- No committee action required today



Early retirement allows members to receive benefits earlier, in exchange for a reduction in initial benefits

- Reduction intended to offset costs to the system
- Eligibility for ERFs based on age, service, and hire date



Hypothetical Plan 2 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 a Plan 2 member with an AFC of \$50,000 and 30 years of service. The full actuarial reductions 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.

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Hypothetical Plan 3 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	\$5,370	\$10,500	\$12,000	\$7,500
Age 60				
ERF	0.588	0.85	0.95	0.75
Reduction	41.2%	15%	5%	25%
Initial Annual Benefit	\$8,820	\$12,750	\$14,250	\$11,250
Age 62				
ERF	0.724	0.91	1.00	0.85
Reduction	27.6%	9%	0%	15%
Initial Annual Benefit	\$10,860	\$13,650	\$15,000	\$12,750

Note: This table assumes a Plan 3 member with 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.

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Other States

- Committee requested more information, beyond peer states
- Utilized 2010 data provided by WEA/NEA
 - Link to data will be included in final report
- Includes plans with at least some teachers or school employees



About Half The States Have A Separate Plan For Teachers

- Almost all teacher plans have more than one option for determining retirement eligibility
- Most have an option based on both a minimum age and length of service
 - Normal retirement age ranges from age 50 to 65
 - Earliest early retirement age was 45
- About half have a service-only option
- About one-fifth have a "Rule of ___" option
- Some pure DC plans allow normal retirement at any age with five or less years of service



About The Other States Data

- Did not audit the data
- Did review peer states
 - For peer states, the data was accurate up to 2010
 - There have been several changes since then
- Data includes plans that are closed to new members, and some municipal plans
- Does not indicate which plans are closed



Classroom Effectiveness Is Subjective, And Difficult To Define

- Washington's New Teacher Evaluation System (TPEP) currently being phased in
 - Designed to address classroom effectiveness
- Issue is outside staff expertise



Staff Reviewed Studies Of Classroom Effectiveness

- Looked for factors impacting effectiveness
 - “Job requirements”
- Not trying to define effectiveness
 - Considered definitions where identified by sources
- List of reviewed sources will be included in final report
 - Included studies, manuals, and a book
 - Most of the reviewed sources were provided by WSIPP
 - Additional text provided by OSPI
 - Other sources found through LexisNexis and Google search



Sources Did Not Define Classroom Effectiveness Or Analogous Terms Like “Teacher Quality”

- Either did not define, or did not define in a way useful to study
 - Some sources identified general qualities that a good teacher should have, such as good interaction with students
- Samples:
 - “The simulations [in the report] thus make a simplifying assumption that the design of retirement benefits may affect teacher effectiveness, regardless of how effectiveness is calculated. This means that the simulations do not have to specify the exact measure of teacher effectiveness...” *Weller, pg. 13*
 - “[T]eacher quality is a function of underlying ability, X , where X is drawn from some distribution with finite variance and is valued by the larger labor market.” *Koedel, pg. 20*



Sources Did Identify Possible Factors That Can Impact Effectiveness

- Generally two categories
 - Work conditions
 - Personal factors



Work Conditions

- Physical Aspects
 - Class size too large/high workload
 - Lack of security
 - Poor or deteriorating facilities
- Policy/Human Resources
 - Ineffective leadership
 - Lack of effective colleagues/mentoring/networking
 - Overly prescriptive policies/lack of control



Personal Factors

- Career stage
- Health and access to health care
- Work not challenging enough
- Sense of efficacy
- Qualifications and training



Most Factors Are Likely Not Unique To Teachers

- Some factors may depend on perspective
- Looking at class size, for example:
 - Case load of social worker or public defender is arguably similar to class size
 - However, teachers interact with multiple students all at one time
 - Does that simultaneity mean class size is a unique factor?



Pension Policy May Be Better Suited To Address Some Factors More Than Others

- May be better suited to addressing factors related to age and length-of-service
 - Career stage
 - Health



Pension Policy May Impact The Decision To Retire

- May encourage employees to continue working despite diminished effectiveness
 - For example, to avoid ERFs
- May encourage employees to retire while still effective
 - For example, because benefits have reached a particular level
 - Normal (unreduced) retirement
 - ERFs



May Be Able To Address Other Factors Outside The Pension System

- Other policies, such as human resources and fiscal policies, may be better suited to address things like
 - Class size
 - Security
 - Facilities
 - Leadership/mentoring
 - Health care



Sources Did Not Identify ERFs Or Pension Policy As Impacting Classroom Effectiveness

- Other identified factors impact effectiveness
- Sources approached pension policy and plan design as ways to manage impact of effectiveness
 - If you value the energy and recent training of younger teachers, then plan design can encourage older teachers to retire earlier
 - If you value retaining experience, then plan design can encourage teachers to retire later
- Did not identify an ideal age for teachers to retire



There Are Several Common Considerations When Adjusting Pension Provisions

- Benefit consistency
- Contractual rights
- Designing the changes
- Long-term affordability
- Not exhaustive list



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

- Most of the identified factors are not unique to teachers
- Should teachers receive benefit improvements that others do not?



Pension Changes Are Long-term And May Create Contractual Rights

- Will factors impacting classroom effectiveness change over the years?
- Examples:
 - As general population continues living longer, will the ideal retirement age change?
 - If addressing class size, will class sizes stay the same or change as education policy and expenditure changes over time?



If Changes Are Made, What Should They Be?

- Study mandate anticipates changing ERFs
- Stakeholders have requested Rule of 90
 - Copies in Executive Committee correspondence log and on website
- Other options?
- May want to ask employers to ring in



Benefit Improvements Can Impact Long-term Affordability

- 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
- SCPP goal of selecting retirement age that balances
 - Employer and employee needs
 - Affordability
 - Flexibility
 - Value of the benefits



Summary Of Findings

- Identified factors that may impact effectiveness fall into two categories
 - Work conditions
 - Personal factors
- Pension policy is likely better suited to address factors related to age and longevity
- Pension policies (including ERFs) may encourage members to
 - Work beyond their effectiveness
 - Retire while still effective



Policy Makers May Disagree On Whether ERFs Should Be Changed To Address Classroom Effectiveness

- Sample viewpoints
 - ERFs (or other pension policy) are impacting effectiveness and changes should be considered
 - Current pension policy provides appropriate balance of many factors and should not be changed
 - Other policies impacting teachers (such as HR and fiscal policies) should be reviewed



Possible Next Steps

- No further action
 - Staff prepares SCPP materials for inclusion in final report
- Recommend no changes
- Executive committee instructs staff to prepare and analyze one or more options for next meeting
- Final report is due to the Legislature in December
 - Final chance for SCPP action at November meeting

