

SCPP Study: School Employee ERFs

Issue

Recent legislation (Chapter 7, Laws of 2012, First Special Session) modified Early Retirement Factors (ERFs) for newly hired employees in the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS). It also required the Select Committee on Pension Policy (SCPP) to study two things.

- ❖ High-risk job classifications.
- ❖ Classroom Employee ERFs.

This report responds to the mandate to "study existing ERFs and job requirements that may limit the effectiveness of the older classroom employee."

Background

The normal retirement age for teachers in TRS Plans 2/3 is age 65. Early retirement is available to members who have attained age 55 and meet the minimum service requirements of twenty years in Plan 2 or ten years in Plan 3.

Early retirement provides members the option to start receiving benefits at earlier ages in exchange for a reduction in initial benefits. The default reduction for early retirement is a full actuarial reduction. However, retirees meeting certain criteria can qualify for one of several smaller reductions (i.e. higher take-home benefits) known as ERFs.

In addition to creating the study mandate, the recent legislation decreased early retirement factors (i.e. lower take-home benefits) for employees hired on or after May 1, 2013, in most state pension systems.

Policy Questions

This issue raises the following questions.

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

Findings

Classroom effectiveness is subjective and difficult to define, and committee staff are not experts in education policy. Staff reviewed existing studies of teacher retirement and classroom effectiveness to identify factors that may impact classroom effectiveness. The factors identified by those sources can be grouped in two categories: work conditions and personal factors.

❖ Work Conditions.

◇ Physical Aspects.

- Class size too large/excessive workload.
- Lack of security or potential for violence.
- 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.

- A teacher's effectiveness may be different in the fifth year of teaching than in the twenty-fifth.

◇ Health and health care.

- People age differently, may experience different health problems, and experience different injuries.

◇ Work not challenging enough.

- If the work is not challenging enough, it can lead to a loss of engagement in the classroom environment.

◇ Sense of efficacy.

- If a teacher does not feel effective, he or she is not likely to be as effective.

◇ Qualifications and training.

- Advanced degrees and certification may or may not impact effectiveness.

Staff also reviewed available data regarding teacher retirement plans in other states and found that almost all teacher retirement plans have more than one option for unreduced retirement eligibility.

- ❖ Most teacher plans (including Washington's TRS plans) have at least one option based on a combination of age and service.
 - ◇ This includes about one-fifth of teacher plans that have a "Rule of ___" option, where the member qualifies for normal retirement when the member's age and service combine to equal a number. Common numbers are 80, 85, and 90.
- ❖ About half the teacher plans in other states have a service-only option.

Policy Highlights

- ❖ The findings did not identify pension provisions as factors impacting classroom effectiveness. Instead, pension provisions were raised as ways to manage the impacts of the identified factors.
- ❖ Pension policy may be better suited to address factors related to age and service, because it can influence the decision to retire. Other policies (such as human resources policy) may be better suited to address other factors, and current policies may already be addressing these factors to some extent.
- ❖ The new ERFs reduce the early retirement benefits available for new hires. This likely reduces the incentive for classroom employees to retire earlier, and may result in members working longer.
 - ◇ Experience data will not be available until new teachers hired on or after May 1, 2013, have worked 30 years.
- ❖ Washington State has a new teacher and principal evaluation system. Once fully implemented, the new system may inform decision-making in this area.
- ❖ There may be many options for addressing the identified factors, both in and outside the pension system. Policy makers may disagree on whether pension provisions should be changed. Two examples:
 - ◇ Pension policy could be used to retain experienced workers, or encourage retirement and replacement with younger workers.
 - ◇ A factor like class size may be better addressed by hiring more teachers or building more classrooms, rather than by changing pension policy.
- ❖ If policy makers choose to modify pension provisions, they may wish to consider the following:
 - ◇ State policy is to provide consistent benefits, unless unique job requirements warrant different benefits.

- ◇ Pension changes are long term and may create contractual rights.
- ◇ Benefit improvements can impact long-term plan affordability.

Options For Further Study

Continued study of classroom effectiveness by SCPP staff may not materially change the findings of this study. However, the SCPP and other policy makers may wish to consider other study of ERFs in the future.

Committee Activity

The SCPP studied this issue at the May, June, July, September, October, and November meetings. At the November meeting, the Full Committee adopted the study with an additional finding about retirement eligibility in other states.

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