

AARP IN THE STATES

OVERVIEW: Employees' Retirement System of Alabama



The **Employees' Retirement System of Alabama (ERS)** provides a defined benefit (DB) pension for public employees. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees to better serve taxpayers. DB pension payments also support the state's economy.

The spending from the pension checks of the 56,743 retired public employees helps support:



\$4.8 billion

in economic output in Alabama.



27,150 jobs

paying \$1.4 billion in wages supported by retirees' spending from public pensions in Alabama.



\$686 million

in federal, state, and local tax revenues based on spending of pension benefits in Alabama.

Pensions are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New ERS employees contribute 6% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers (via employer contributions) paid only 26.3% of the cost of pension benefits in Alabama.

57.2%
Investment Earnings



26.3%
Employer Contributions

16.5%
Employee Contributions

Key facts about the plan and its benefits:



84,697

Total active members of Employees' Retirement System of Alabama.



49.5%

After a 30-year career, a pension benefit from ERS will replace 49.5% of an employee's pre-retirement income.



\$1,927

Average pension benefit paid to retired ERS members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Alabama taxpayers (employers) in these plans supported **\$4.34** in total economic activity in the state.



\$1.00



\$4.34

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.



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PRIMER: Employees' Retirement System of Alabama

The Employees' Retirement System of Alabama (ERS) provides benefits to qualified state employees, state police, and on an elective basis, to qualified persons of cities, towns, and quasi-public organizations.

The ERS Pension Works for Alabama Stakeholders



Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.



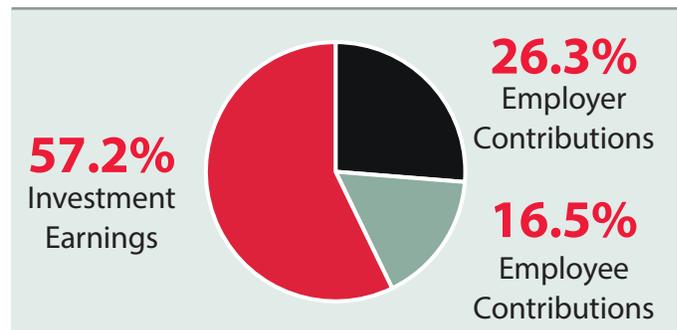
The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.



Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New ERS employees contribute 6% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers paid only 26.3% of the cost of benefits in Alabama.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:



Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

ERS Key Facts



ERS serves 84,697 active employees and 56,743 retired members and survivor beneficiaries.



New employees contribute 6% to ERS.



Employers contribute 16.2% to the fund for employees.



The average monthly retirement benefit for members is \$1,927.



After a 30-year career, a pension benefit from ERS will replace 49.5% of final average salary.

Historical ERS Funding Experience

Alabama established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2022 year, ERS had \$14.50 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Alabama Paid 100% of Weighted Average Percent of ADC from FY2001-FY2022 for ERS



Alabama Made Plan Changes to ERS in Recent Years

Following the global stock market crash in 2008-2009, Alabama policymakers proactively made changes to ERS to ensure long-term sustainability. These included:

- Higher employee contributions for employees hired before 12/31/2012.
- A new benefit structure for employees hired after 1/1/2013 provides reduced benefits with a lower multiplier, older normal retirement ages and lower final average salary.

The Economic Impact of Alabama Pensions:



\$4.8 billion

in economic output generated by retirees' spending from public pensions in Alabama.



27,150 jobs

paying \$1.4 billion in wages supported by retirees spending from public pensions in Alabama.



\$686 million

in federal, state, and local tax revenues generated by retiree benefits and spending in Alabama.

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AARP IN THE STATES



OVERVIEW: Teachers' Retirement System of Alabama



The **Teachers' Retirement System of Alabama (TRS)** provides a defined benefit (DB) pension for teachers. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced teachers, who provide quality education for our children. DB pension payments also support the state's economy.

The spending from the pension checks of the 105,549 retired public employees helps



\$4.8 billion

in economic output in Alabama.



27,150 jobs

paying \$1.4 billion in wages supported by retirees' spending from public pensions in Alabama.



\$686 million

in federal, state, and local tax revenues based on spending of public pension benefits in Alabama.

Pensions are a good deal for taxpayers:

Funding of teacher pensions is shared by employees and employers. New TRS employees contribute 6.5% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers (via employer contributions) paid only 26.3% of the cost of pension benefits in Alabama.

57.2%
Investment
Earnings



26.3%
Employer
Contributions

16.5%
Employee
Contributions

Key facts about the plan and its benefits:



135,783

Total active members of Teachers' Retirement System of Alabama.



49.5%

After a 30-year career, a pension benefit from TRS will replace 49.5% of an employee's pre-retirement income.



\$1,996

Average pension benefit paid to retired TRS members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Alabama taxpayers (employers) in these plans supported **\$4.34** in total economic activity in the state.



\$1.00



\$4.34

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PRIMER: Teachers' Retirement System of Alabama

The Teachers' Retirement System of Alabama (TRS) is a component of Retirement Systems of Alabama. It provides benefits to qualified employees of educational institutions in the state.

The TRS Pension Works for Alabama Stakeholders



Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.



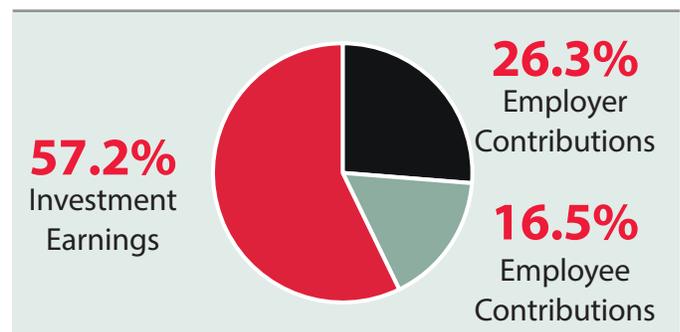
Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.



Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New TRS employees contribute 6.5% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers paid only 26.3% of the cost of benefits in Alabama.



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Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:



Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

TRS Key Facts



Alabama TRS serves 135,783 active employees and 105,549 retired members and survivor beneficiaries.



New employees contribute 6.5% to TRS.



Employers contribute 12.6% to the fund for employees.



The average monthly retirement benefit for members is \$1,996.



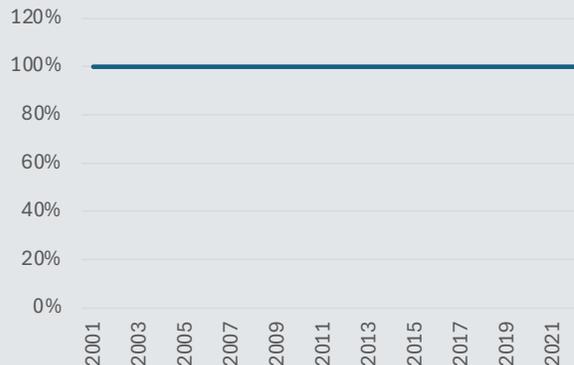
After a 30-year career, a pension benefit from TRS will replace 49.5% of final average salary.

Historical TRS Funding Experience

Alabama established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2022 year, TRS had \$28.5 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Alabama Paid 100% of Weighted Average Percent of ADC from FY2001-FY2022 for TRS



Alabama Made Plan Changes to TRS in Recent Years

Following the global stock market crash in 2008-2009, Alabama policymakers proactively made changes to TRS to ensure long-term sustainability. These included:

- Higher employee contributions for employees hired before 12/31/2012.
- A new benefit structure for employees hired after 1/1/2013 provides reduced benefits with a lower multiplier, older normal retirement ages and lower final average salary.

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Pensions Help Deliver Quality Education in Alabama

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.¹

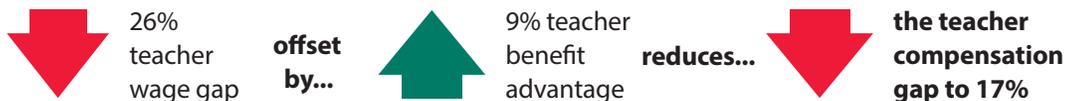
Because pensions help attract and retain workers, Alabama can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Alabama, as enrollment in traditional teacher preparation programs has *declined by 14%* between 2009-2010 and 2021-2022.

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 26 percent pay gap relative to comparable private sector workers in 2019. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 17 percent. In Alabama, teachers experience a 31percent wage gap when compared to other college graduates in the workforce.²



Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



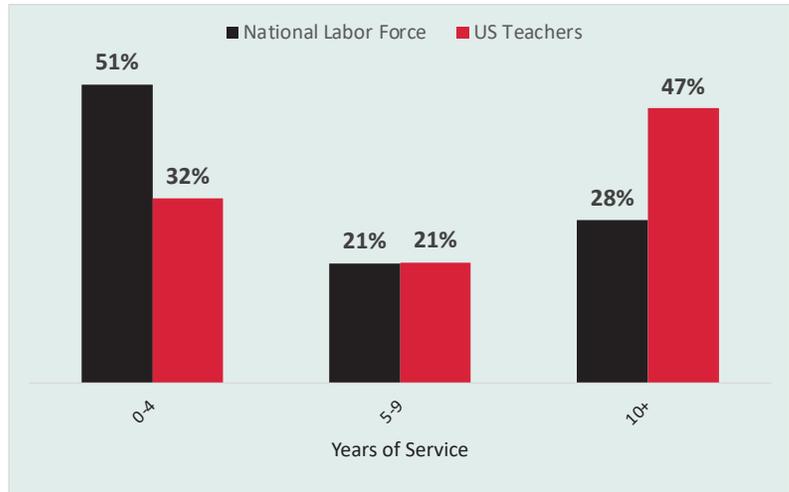
82 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



78 percent of Americans agree that teachers deserve pensions to compensate for lower pay.³

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual DC accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.⁴



TRS Key Facts



Alabama TRS serves 135,783 active employees and 105,549 retired members and survivor beneficiaries.



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Employers contribute 12.6% to the fund.



The average monthly retirement benefit for members is \$1,996.



TRS has \$28.5 billion in assets and \$14.0 billion in unfunded actuarial accrued liability.⁵

The Economic Impact of Alabama Pensions

\$4.8 billion



in economic output generated by retirees' spending from public pensions in Alabama.

27,150 jobs



paying \$1.4 billion in wages supported by retirees' spending from public pensions in Alabama.

\$686 million



in federal, state, and local tax revenues based on spending of pension benefits in Alabama.⁶

¹ Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

² Allegretto, S. 2023. "Teacher pay penalty still looms large." Washington, DC. Economic Policy Institute.

³ Doonan, D. and Kenneally, K. 2024. "Retirement Insecurity 2024: Americans' Views of Retirement." Washington, DC. NIRS.

⁴ Copeland, C. 2023. "Trends in Employee Tenure, 1983–2022." Washington, DC. Employee Benefit Research Institute.

⁵ All data, unless otherwise noted, as of fiscal year ended 2023.

⁶ Boivie, I. 2025. "Pensionomics 2025: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.