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ABSTRACT

This report summarizes the findings of the National Education Association's 1985 Retirement Provisions Survey. The survey encompasses all U.S. public retirement systems that include teachers or educational support personnel. The survey addressed all major plan administration topics including retirement eligibility provisions, benefit formulas, disability and survivor benefits, plan governance, funding status, and investment policies and performance. The six major areas given primary attention are: (1) coverage of retirement systems; (2) retirement benefit provisions; (3) eligibility for retirement benefits; (4) legislation and governance; (5) plan assets and income; and (6) investment policies. (JD)

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Executive Summary

The National Education Association (NEA) Retirement Provisions Survey is designed to cover all U.S. public retirement systems that include teachers or educational support personnel. The survey's purpose is to make available information on the benefit provisions and finances of these systems for use by the NEA's membership, policymakers, and survey participants.

The 1985 survey was mailed to 92 plan administrators during October 1986, to allow time for compilation of financial data for the 1985 plan year. The survey's 72 respondents represented retirement systems in 47 state the District of Columbia, and Puerto Rico. Twenty-nine plans covered public school teachers, 13 plans covered all public school system employees, and 30 plans covered general public employees, including teachers and educational support personnel. Total active membership in participating plans was 5.8 million employees.

Sixty-five participating plans for which data were available paid yearly benefits totalling $13.9 billion. The 46 plans reporting detailed benefit data had a total of 1,448,915 retirees of all types on the rolls in 1984 who received a total of $9.2 billion in benefits, an average of $6,346 per retiree. Average yearly benefits for educational system retirees were $7,417, compared to $5,122 for retirees in general public employee systems.

The typical normal retirement benefit formula reported by respondents was 2 percent of the employee's highest three consecutive years' compensation times years of service. This formula produces a benefit of 50 percent of the "high three" after 25 years of service. Very few plans integrated their benefits with Social Security, but plans with Social Security coverage had a less generous benefit formula on average than stand-alone plans.

Approximately one-half of surveyed plans had automatic cost-of-living adjustment (COLA) provisions. The typical COLA provision matched all or part of the increase in the CPI, with a maximum adjustment of 3 percent per year.

Plans without Social Security coverage were significantly more likely to have automatic COLA provisions than were plans with Social Security. The data also showed that plans restricted to educational personnel were only half as likely to have automatic COLAs as general public employee plans.

An analysis of survey responses concerning eligibility provisions for early retirement (with reduced benefits) not reveal any predominant practice corresponding to the private sector's wide acceptance of age 55 with ten years of service. Among widely scattered practices, 25 years of service at any age, and age 55 with ten years of service were reported most frequently. The typical benefit reduction was 5 percent for each year below normal retirement age. Educational plans generally allowed early retirement at younger ages than did general public employee plan but required an average of five years more service to establish eligibility.

Plans reporting detailed career length information cited 62,325 service retirements in 1984, with average service of 23.2 years. The data showed that 1984 retirees in educational plans had almost five more years of service on average than retirees in general public employee plans.

The most common vesting provision reported by respondents was full vesting after ten years of service. Over half of all respondents also allowed purchase of credit for prior service in another state or local retirement system, with purchases frequently limited to ten years' credit.

Sixty-eight percent of respondents reported that pension security provisions of law precluded plans from diminishing promised retirement benefits.

Analysis of survey responses to questions on plan governance revealed that the typical (median) retirement plan board of trustees had nine members. Six members of the board were also system members, including three members who were teachers and one member employed in educational support. The typical board met nine times per year. Educational system boards were more likely to meet only semiannually or quarterly than were general public system boards. Three-fourths of system boards were reported to exercise authority over investment policy.

In response to a question about recent legislative activity, 18 respondents reported that legislation had been to create a new retirement system or to add a separate tier to the existing system. In 12 cases, such legislation had also been enacted. Regarding specific plan changes, 20 or more respondents reported that legislation had been enacted to change the employer contribution, the retirement benefit formula, survivor benefits, and investment policies.

The survey collected information on plan assets and income for the latest available year. Sixty-eight plans reported total assets of $250.9 billion, an average of $3.7 billion per plan. Three plans had assets of $15 billion or more, while only two had assets of less than $100 million. Respondents reported a yearly total of $6.2 billion in employee contributions, and $15.3 billion in employer contributions.

Ninety percent of plans in the survey group required employee contributions, typically 5 to 6 percent of total compensation. The most common employer contribution was a fixed percent of payroll, with a median rate of 9 percent.

Fifty-four plans reported total net income from investments of $22.2 billion, an average of $411 million per plan. The net annual yield on plan assets varied from 6.5 to 28.5 percent, with a mean of 13.7 percent. Educational plans' average yield of 12.3 percent was significantly lower than the 15.9 percent average yield reported by general public employee plans.

Respondents' unfunded liabilities ranged from $7.4 million to $10.9 billion, with a mean of $1.7 billion. Despite their typically smaller size, educational plans reported much higher average unfunded liabilities ($2.1 billion) than did general public employee plans ($962 million).

The survey found that limitations on plans' investment portfolios were common. Thirty-three plans had limits on their holdings of corporate stock, while 11 plans had limits on real estate investments. Corporate stock averaged 25 percent of plans' portfolios, while 23 percent of assets were invested in state and local government securities. Venture capital holdings amounted to 1.8 percent of plan assets.

Fourteen plans (21 percent of respondents) reported a policy of divestiture from securities of companies that were financially involved in South Africa. Eleven divestiture programs were directed at both new and existing investments, while three plans limited divestiture to new investments.

Introduction

This report summarizes the findings of *NEA's 1985 Retirement Provisions Survey*. The survey's universe encompasses all U.S. public retirement systems that include teachers or educational support personnel. Of the 92 questionnaires mailed to plan administrators, the NEA received 72 responses to the survey (78 percent response rate), representing retirement systems in 47 states, the District of Columbia, and Puerto Rico. Together, these retirement systems reported 5.8 million active participants and 1.4 million retirees.

The NEA Retirement Provisions Survey is conducted every few years by the NEA to make available information of timely interest to the Association's membership, policymakers, and participating retirement systems. The most recent prior survey covered the 1983 plan year. The 1985 survey was administered in the fall of 1986, to allow time for the compilation of data covering the 1985 plan year. However, owing to several factors, the results could not be published earlier. These factors include slow response from plans; quality of data, which necessitated extensive data editing and manipulation; and personnel changes.

The survey addressed all major plan administration topics including retirement eligibility provisions, benefit formulas, disability and survivor benefits, plan governance, funding status, and investment policies and performance.

Those survey topics considered most timely and important have been analyzed and incorporated into this report. The six major areas given primary attention are:

- coverage of retirement systems;
- retirement benefit provisions;
- eligibility for retirement benefits;
- legislation and governance;
- plan assets and income;
- investment policies.

Focusing on several major topics of prime importance allows some depth of analysis while retaining a report of readable length and format. For those wishing to examine the survey responses in greater detail, the complete survey database on 5¼ inch diskette is available without charge from NEA Research. Use the request form on the last page of this report. In addition, a complete enumeration of plans' responses to several key questions is presented in Appendix B.

To enhance the richness of the survey analysis, the report supplements summary data covering respondents as a group with selected data shown separately for the following subgroups:

- *Plan Occupational Coverage*. To shed light on the merits of separate retirement plans for educational employees, survey data were analyzed separately for educational plans restricted to teachers and/or educational support personnel, and for general public employee plans that included teachers and educational support personnel.
- *NEA Region*. Data on major plan provisions were tabulated separately by region, to discern any significant geographical patterns in retirement practices. A list of states in each NEA region is in Appendix A.
- *Social Security Status*. Since Social Security coverage or noncoverage is normally an important consideration underlying plan design, data were compiled separately for plans in states where most participants also had Social Security coverage, and for plans in states where Social Security was generally not provided.
- *Plan Membership*. To test the common expectation that large pension plans tend to have more liberal benefits than small plans, data were tabulated separately for smaller plans with active membership of less than 100,000, and for larger plans with membership of 100,000 or more.

This survey report did not attempt to explore the implications for NEA policy of the data presented. Rather, the approach adopted was to provide an analytical basis needed for the policymaking process by highlighting key practices revealed by the survey.

In the future, the NEA plans to conduct full retirement surveys on a quadrennial basis, with the next survey covering the 1989 plan year. Between major surveys, tightly focused smaller surveys may be conducted to collect in-depth information on specific retirement topics of special interest to NEA policy makers. Such an approach will permit the continued tracking of major retirement system trends while also making available more detailed information about key areas of concern.

III. Coverage of Retirement Systems

The 72 retirement plans included in the 1985 survey consisted of 61 state-sponsored plans and 11 locally sponsored plans with total active membership of 5.8 million employees. As Table 1 shows, of the 61 state-sponsored plans, 23 plans covered public school teachers only, ten plans covered all public school system employees, and 28 plans covered general public employees including teachers and support personnel. The 11 locally sponsored plans included six plans covering teachers only, three plans covering all public school employees, and two plans covering general public employees.

Considering both levels of government, 42 plans were restricted to teachers and/or educational support personnel, while 30 plans covered general public employees. The educational plans included 45 percent of the 5.8 million total active employees in the survey while the general public employee plans included 55 percent. The educational plans were typically smaller than the general public employee plans, averaging about 74,000 active participants compared with 119,000 for the general plans.

TABLE 1.
SPONSORSHIP AND COVERAGE OF PLANS

Sponsor	Number of Plans
State	61
1. Teachers only	23
2. Teachers and support personnel	10
3. General public employees	28
Local	11
1. Teachers only	6
2. Teachers and support personnel	3
3. General public employees	2

Membership By Plans' Occupational Coverage

Coverage	Number of Plans	Active Membership
Educational (1+2)	42	2,576,469 (45%)
General employee (3)	30	3,212,733 (55%)

Table 2 shows the number of responding plans, total active membership, and total number of retirees reported according to NEA region. Plans in the Southeastern, Midwestern, and Pacific regions all reported in excess of one million active members. Plans in the Northeastern region reported the fewest active members, slightly over one-half million.

TABLE 2.
PLANS, ACTIVE MEMBERSHIP, AND NUMBER OF RETIREES BY NEA REGION

Region	Number of Plans	Membership	Retirees
Northeastern	12	526,526	244,449
Southeastern	13	1,240,774	269,032
Mid-Atlantic	9	822,385	208,334
Midwestern	18	1,156,429	228,554
Pacific	9	1,076,722	320,193
Western	11	966,367	178,351
Total reported		5,789,203	1,448,913

In terms of size, 40 plans had active membership of less than 100,000, accounting for a total of 1.6 million members. Twenty-two plans reported active membership of 100,000 or more, and together accounted for 4.2 million members. The remaining ten plans did not report active membership figures.

Number of Retirees and Benefit Amounts

All participating plans reported paying benefits totaling $13.9 billion in the most recent year for which data were available. In the 46 plans reporting detailed benefit data, there were a total of 1,448,915 retirees of all types on the rolls in fiscal year 1984 who received a total of $9.2 billion in benefits, an average of $6,346 per retiree. Survey respondents cited a total of 107,895 retirements by active plan participants during fiscal year 1984.

Table 3 shows, average retiree benefits differed among the major employee subgroups of survey respondents. For example, average yearly benefits reported were substantially higher for retirees in the educational systems ($7,417) than for retirees in systems covering general public employees ($5,122).

Average yearly benefits in 1985 also varied significantly by NEA region, from a low of $5,137 for plans in the Northeastern region to a high of $9,054 for plans in the Southeastern region. In addition, retirees in states with Social Security coverage for most participants received slightly lower average benefits ($6,165) than did those in states without Social Security ($6,385). Although the difference is small, this result is consistent with the expectation that, other things being equal, plans would respond to Social Security coverage by restraining benefits. Further evidence of this tendency is presented in the section on benefit formulas.

In terms of membership size, smaller plans had slightly lower average benefits than did larger plans.

TABLE 3.
AVERAGE YEARLY RETIREMENT BENEFITS BY SUBGROUP

NEA Region	Average Benefits
Northeastern	$5,137
Southeastern	9,054
Mid-Atlantic	4,559
Midwestern	5,202
Pacific	7,255
Western	5,548
Plans' occupational coverage	
Educational only	$7,417
General employees	5,122
Plan membership	
Less than 100,000	$5,077
100,000 or more	6,191
Social Security status	
No SS coverage	$6,385
SS coverage	6,165
All Respondents	$6,346

NOTE: Total survey responses may not decompose completely into subgroup responses. Subgroups were identified on the basis of specific survey questions with differing nonresponse characteristics.

IV. Retirement Benefit Provisions

This section discusses survey questions concerned with the calculation of benefits for normal retirement, and with cost-of-living adjustments (COLAs) after retirement.

Except for two *defined contribution* plans where benefits were based on the amount of money in an account set up on the employee's behalf, all of the survey respondents reported operating *defined benefit* plans. In these plans, benefits typically are based on the employee's years of service under the plan and salary averaged over a specified number of years (known as *final average salary* or *FAS*). The employee's age at retirement is sometimes considered in the benefit formula, but more often age enters via a reduction in normal benefits if the employee retires before the plan's normal retirement age.

Benefit Formula

Of the 67 plans responding to a question about the normal retirement benefit formula, 45 plans—two-thirds of the total—used a fixed percentage of final average salary times years of service under the plan. This percentage is known as the *accrual rate*. An example of this formula would be a benefit of 2.0 percent of final average salary for each year of service under the plan.

The next most common benefit formula, used by 12 plans accounting for 18 percent of the total, varied the accrual rate according to years of service categories. For example, the plan might provide a benefit of 1.5 percent of final average salary for each of the first ten years of service, plus 2.0 percent of FAS for each of the remaining years.

Five plans (7 percent of the total) reported using a step-rate approach, applying different accrual rates to different portions of the retiree's final average salary. This type of formula, most commonly used as a means of integrating an employer-sponsored pension plan's benefits with Social Security benefits, is discussed further below.

Finally, five plans had a benefit formula where the accrual rate differed according to the calendar year in which service was performed. For example, the benefit formula might provide 1.5 percent of final average salary for each year of service prior to 1955, and 2.0 percent of FAS for each year of service in 1955 or thereafter.

Table 4 contains a distribution of accrual rates for those plans reporting a fixed percentage of final average salary per year of service. By far the most common accrual rate, and also the median rate, was 2.0 percent of FAS per year of service, used by 21 plans—47 percent of those plans with a fixed accrual rate. The next most common accrual rate was 1.7 percent, used by seven plans representing 17 percent of the total. The remaining accrual rates were widely scattered between 1.1 percent and 2.5 percent. The mean accrual rate among plans with a flat percentage formula was 1.8 percent.

TABLE 4.
FIXED ACCRUAL RATES, 1985–
PERCENT OF FINAL AVERAGE SALARY PER YEAR OF SERVICE

Rate[a]	Number of Plans	Percent[b]
1.1%	2	4.4
1.2	2	4.4
1.3	2	4.4
1.5	2	4.4
1.6	3	6.7
1.7	7	16.6
1.8	1	2.2
1.9	1	2.2
2.0	21	46.7
2.1	1	2.2
2.5	1	2.2
Unspecified	2	4.4
Total	45	100.0

[a] Rate shown is midpoint of 0.1% range; e.g., 1.2% includes rates from 1.15% to 1.24%.
[b] Totals may not add owing to rounding.

Looking at the benefit formula in terms of resulting retirement benefits, the 2.0 percent accrual rate produces a benefit of 50 percent of final average salary after 25 years of service. Under the 1.7 percent accrual rate, more than 29 years of service are required to produce a 50 percent benefit.

Data on variations in the average flat percentage accrual rate were examined according to the major survey subgroups. There were generally only minor differences in the average accrual rate by NEA region. However, the Midwestern region had an average accrual rate of 1.5 percent of FAS per year of service, substantially lower than the overall average of 1.8 percent.

The influence of Social Security coverage on the accrual rate was significant. As expected, plans in states without Social Security coverage reported a higher average accrual rate (2.0 percent) than plans in states with Social Security coverage (1.7 percent).

The benefit accrual rate was not influenced by the coverage characteristics of the plan or by the membership size of the plan. All of these subgroups reported mean accrual rates of 1.8 percent, equal to the mean rate for the overall survey group.

Final Average Salary

Along with the accrual rate and years of service, the retiree's final average salary is a component of most plans' retirement benefit formulas. The final average salary (FAS) is the earnings figure to which the accrual rate is applied in order to relate retirement benefits to preretirement income. Normally, the final average salary is based on earnings over a number of years in order to dampen the effect on the annuity of any fluctuations in earnings near the time of retirement.

Table 5 contains a tabulation of the final average salary definitions of participating plans. The first section shows the distribution of responses according to type of final average salary provision. The most common provision, used by 37 (53 percent) of the 71 plans responding to this question, defined FAS as the average of salaries for a specified number of highest *consecutive* years. These would normally be the years immediately preceding retirement. The next section of Table 5 shows that "highest three consecutive years" was the most common approach, used by 20 (54 percent) of the 37 plans basing FAS on highest consecutive years. "Highest five consecutive years" was used by ten plans (27 percent). By including more years before retirement when salaries were typically lower, "high five" FAS results in lower retirement benefits than "high three" FAS. The mean number of highest consecutive years among respondents was 3.6.

TABLE 5.
FINAL AVERAGE SALARY (FAS) PROVISIONS

Type of FAS Provision

Provision	Number of Plans	Percent
Average of:		
Highest x consecutive years..	37	52
Highest x years, not consecutive	22	31
Highest x years, out of last y years	10	14
Highest x years not to exceed $z	2	3
Career	0	0
Total	71	100

Highest X Consecutive Years (Distribution of X)

Years	Number of Plans	Percent
2	1	3
3	20	54
4	3	8
5	10	27
Unspecified	3	8
Total	37	100

Highest X Years, Not Consecutive (Distribution of X)

Years	Number of Plans	Percent
3	13	59
5	9	41
Total	22	100

The second most common FAS approach was to average salary over a given number of highest-salaried years, *whether or not consecutive*. This approach, generally more liberal than the consecutive years approach, is designed to allow years of abnormally low earnings to be eliminated from the base for the annuity calculation. Twenty-two plans (31 percent of the total) reported using this approach. As the lower portion of Table 5 illustrates, three years were again the predominant averaging period, used by 13 of the 22 plans with this type of FAS formulation. The remaining nine plans based the FAS on the average of the highest five years' salary.

A final common FAS definition bases the calculation on a given number of highest years out of a specified number of years before retirement, typically ten years. Ten plans used this approach—including a mean of 3.9 years out of the last ten years before retirement. This definition is used to ensure that salaries in the FAS calculation are representative of earnings near the time of retirement. Although this was the least liberal of the three major approaches to FAS, the ten-year limitation on salary used in the FAS would rarely come into play, given typical career patterns with the highest earnings at the end.

Two plans in the survey reported maximum limits of $20,000 and $25,000 on FAS used in the benefit calculation. Finally, there were no reported cases where the FAS was calculated through an average of salaries over the entire career—a fairly common, though diminishing, practice among private pension plans.

An examination of those plans defining FAS as a given number of highest consecutive years reveals variations among subgroups in the average number of years included. Table 6 shows these variations, beginning with NEA regions. Only the Southeastern region's plans were close to the total group mean of 3.6 years. Plans in the Northeastern, Mid-Atlantic, and Pacific regions used somewhat fewer years (were more liberal) than the overall average, while Western region plans were somewhat less liberal. Midwestern region plans, with an average of 4.8 years, had much less liberal provisions for FAS than plans in the other regions. The FAS definition did not differ significantly among the other subgroups examined.

TABLE 6.
YEARS USED TO DETERMINE FINAL AVERAGE SALARY—PLANS WITH CONSECUTIVE YEARS PROVISION

NEA Region	Mean Years	Number of Plans
Northeastern	3.2	9
Southeastern	3.6	7
Mid-Atlantic	3.3	3
Midwestern	4.8	6
Pacific	3.3	7
Western	4.0	2
Social Security Status		
No SS coverage	3.4	8
SS coverage	3.7	26
Plans' Occupational Coverage		
Educational	3.7	19
General employee	3.[illegible]	15

Integration with Social Security

Although evidence was shown earlier that plans in states with concurrent Social Security coverage coordinated benefits through a less liberal accrual rate than plans in states without Social Security coverage, few plans appeared explicitly to integrate their benefit formulas with Social Security. Of 48 responses from plans where Social Security coverage was concurrent, only five reported integrating their formulas. In these five cases, a *step-rate* approach applied a smaller accrual rate to the lower portion of the retiree's final average salary, where Social Security income replacement was greatest, than to the remainder (higher portion) of FAS. For example, one plan reported an accrual rate (per year of service) of 1.0 percent of the first $6,500 of the employee's FAS, plus 1.5 percent of the remainder.

The NEA survey did not collect information about the *offset* method of Social Security integration, whereby a portion of the Social Security benefit is subtracted from the employee's pension, but this method is rarely used in public retirement plans. The survey results indicate that the practices of participating plans are overwhelmingly consistent with the continuing trend away from explicit integration of employer-sponsored pension benefits with Social Security.

Cost-of-Living Adjustments (COLAs)

The 1985 NEA survey queried participants about automatic cost-of-living adjustment provisions as well as *ad hoc* adjustments granted to retirees during 1983, 1984, and 1985.

Table 7 contains a summary of responses regarding automatic COLA provisions. Thirty-five plans (49 percent of the total) reported having automatic COLA provisions applying to all retirees. Another six plans (8 percent) reported automatic COLA mechanisms that were contingent upon the earnings of the retirement fund. The remaining 31 plans (43 percent of the total) had no automatic COLA provisions.

By far the most common automatic COLA provision—reported by 25 plans—based COLAs on changes in the Consumer Price Index (CPI) with a maximum "cap" on yearly adjustments, typically 3 percent. The survey did not collect information on precisely how these COLAs were based on the CPI, but other sources suggest that in most cases the COLAs reflected only a portion of the CPI increase, up to the maximum specified. No respondents reported automatic COLAs equal to the

TABLE 7.
SUMMARY OF AUTOMATIC COLA PROVISIONS

COLA Provision	Number of Plans	Amount Percent
Fixed $ per year	1	
Percent equal to CPI increase	0	
Percent based on CPI with cap	25	
Median cap		3.0
Mean cap		3.4
Fixed percent	9	
Median percent		3.0
Mean percent		2.4
Contingent on fund earnings	6	
Total plans reporting automatic COLAs	41	
Percent of plans reporting automatic COLAs		57%

Nine plans reported granting a fixed percent increase yearly to all retirees, regardless of the increase in the CPI. The most common fixed COLA was 3 percent per year.

Of the plans with automatic COLAs, approximately two-thirds applied the increase to the current benefit, while one-third applied the increase to the initial benefit—a less liberal practice because each COLA increase is not incorporated into the base on which subsequent COLAs are calculated.

Table 8 contains information on the automatic COLA provisions of the major survey subgroups. For the NEA regional subgroups, the percentage of plans reporting automatic COLA provisions for all retirees generally varied from 50 to 69 percent—consistent with the overall figure of 57 percent. The one exception is the Western region, in which only three plans (27 percent of the total number of plans) reported having automatic COLA provisions. A separate analysis of those plans in which COLAs were contingent on fund performance showed that the Midwestern region contained five out of the six such plans reported in the survey. Of the 11 automatic COLA provisions reported by Midwestern region plans, 5 were contingent on fund performance. Such plans provide less certain inflation protection than plans where the COLA increase is specified or related to changes in the CPI. On the other hand, retirees could share in the benefits of robust fund growth such as has occurred in the past several years.

TABLE 8.
AUTOMATIC COLA PROVISIONS FOR SURVEY SUBGROUPS (Number of Plans)

NEA Region	Automatic	Contingent	Total	Percent of Subgroup
Northeastern	6		6	50
Southeastern	9		9	69
Mid-Atlantic	5	1	6	67
Midwestern	6	5	11	61
Pacific	6		6	67
Western	3		3	27
Social Security coverage				
No SS coverage	14	0	14	70
SS coverage	21	6	27	52
Plans' occupational coverage				
Educational	13	4	17	40
General employees	22	2	24	80
Plan Membership				
Less than 100,000	17	3	20	50
100,000 and over	14	3	17	77

Automatic COLA provisions also varied significantly according to the other major subgroupings. As Table 8 shows, plans without Social Security coverage were significantly more likely to have automatic COLA provisions (70 percent) than were plans coordinated with Social Security (52 percent). Plans restricted to educational personnel were only half as likely to have automatic COLAs (40 percent) as were general public employee plans (80 percent), and those provided by educational plans were more likely to be contingent on fund performance. From another perspective, small plans were less likely to have automatic COLAs (50 percent) than large plans (77 percent). Inasmuch as education-only plans tend to be smaller than general public employee plans, the results relating to plan coverage and membership size are undoubtedly related.

The NEA survey also collected information on *ad hoc* COLAs provided by responding plans in 1983, 1984, and 1985. Table 9 summarizes reported *ad hoc* adjustments first for all plan retirees and then for certain groups of retirees, following the format of the survey questionnaire. Since *ad hoc* COLAs are often graduated according to the number of years retirees have been on the rolls, the dollar and percentage figures reported should be viewed as illustrative rather than as precise averages of COLAs granted.

Table 9 shows that only a minority of plans granted *ad hoc* increases to retirees during the years surveyed. However, the number of plans providing increases to all retirees increased from 13 in 1983 to 17 in 1984 and 20 in 1985. The average percent increases reported for those years were, respectively, 4.8 percent, 5.6 percent, and 4.2 percent. The average dollar-denominated increases for the three years of $379, $347, and $530 amounted to 5 to 8 percent of the average retiree benefit of $6,350 reported by survey participants.

The last section of Table 9 shows the provision of *ad hoc* COLAs according to plans' occupational coverage. In each year surveyed, educational plans as a group provided many fewer *ad hoc* increases to all retirees, both absolutely and proportionally, than did general public employee plans. Educational plans thus appeared to lag behind general public employee plans in provision of both automatic and *ad hoc* COLAs.

TABLE 9.
***AD HOC* COLA ADJUSTMENTS REPORTED IN 1983, 1984, 1985**

Provided to All Retirees

	Total Plans		Dollar Denominated		Percentage Denominated	
Year	No.	%	Plans	Avg. $	Plans	Avg. %
1983	13	18	2	379	11	4.8
1984	17	24	3	347	14	5.6
1985	20	28	3	530	17	4.2

Provided to Certain Groups of Retirees

	Total Plans		Dollar Denominated		Percentage Denominated	
Year	No.	%	Plans	Avg. $	Plans	Avg. %
1983	7	1	384	6	5.0	
1984	11	2	264	9	4.8	
1985	7	1	432	6	4.9	

***Ad hoc* COLAs granted to all retirees by plans' occupational coverage**

	1983		1984		1985	
	No.	%	No.	%	No.	%
Educational only	2	5	5	12	6	14
General employees	11	37	1	37	12	40

V. Eligibility For Retirement Benefits

This section analyzes responses to survey questions related to eligibility for retirement benefits and protection of earned benefits. The topics covered are age and service requirements for normal retirement and early retirement, special early retirement programs, plan vesting provisions, and credit purchase and other benefit portability provisions.

Normal Retirement: Age and Service Requirements

Virtually all of the plans responding to the survey reported age and service requirements that had to be met by active employees in order to qualify for retirement benefits. In terms of the definitions used in this survey report, an employee is considered to have met the plan requirements for normal retirement if he or she can retire on an immediate, unreduced annuity. In some cases, this may be earlier than the normal retirement age specified by the plan, which is often age 62 or 65. The term *early retirement* is reserved for cases where a benefit reduction is imposed because the employee does not meet the plan age and/or service requirements for an immediate, unreduced benefit.

Normal retirement eligibility rules for the 68 plans providing such information are summarized in Table 10. For each plan, the table shows the youngest age and its associated service requirement at which normal (unreduced) retirement benefits were payable. For example, if a plan allowed normal retirement at age 55 with 30 years of service, or at age 60 with 25 years of service, 55/30 would be the age and service provisions for the plan reported in Table 10.

The most common eligibility requirements for normal retirement—reported by 17 plans (25 percent of the total)—were any age with 30 years of service. The next most common requirements, reported by seven plans (10 percent), were age 55 with 30 years of service. Third most common were age 62 with ten years of service, used by six plans (9 percent). The most liberal provision in terms of age found in the survey—any age with 20 years of service—was reported by three plans. The most liberal service provision was age 60 with no service requirement, reported by the plan. The most stringent normal retirement provision reported was age 65 with 30 years of service, used by one plan. Another plan required age 62 with 35 years of service for normal retirement eligibility.

TABLE 10.
AGE/SERVICE REQUIREMENTS FOR NORMAL RETIREMENT (Number of Plans)

Years Service/Age	Any Age	55	60	62	65
Any					
0	—	—	1	1	2
1	—	—	1	—	—
4	—	—	1	—	—
5	—	—	2	—	1
10	—	—	1	6	2
15	—	—	1	—	—
20	3	—	1	—	—
25	1	3	3	—	—
30	17	7	1	4	1
35	4	3	—	1	—

TABLE 11.
NORMAL RETIREMENT REQUIREMENTS BY NEA REGION

Region	Most Common Requirement		Percent of Plans with Normal Retirement at Age:				
	Provision	Percent of Plans	Any	55	60	62	65
Northeastern	62/10	25	25	17	25	33	—
Southeastern	Any/30	54	62	—	15	23	—
Mid-Atlantic	Any/30	63	75	—	—	—	25
Midwestern	55/30	19	12	38	12	25	12
	55/35	19					
	62/30	19					
Pacific	Any/30	25	50	25	25	—	—
	55/30	25					
	60/5	25					
Western	55/25	18	18	27	27	9	18

Overall, 37 percent of participating plans allowed normal retirement at any age with sufficient service, while only 18 percent required work until age 62, and 9 percent until age 65.

Table 11 highlights normal retirement eligibility provisions by NEA region. While practices varied widely within all the NEA regions, it is noteworthy that at least one-half of the plans in the Southeastern, Mid-Atlantic, and Pacific regions allowed normal retirement at any age after 30 years of service—a rate significantly higher than that reported by plans in the other regions.

The plans' normal retirement provisions also differed significantly according to whether or not most employees were covered by Social Security. Eighty-four percent of those plans without Social Security coverage allowed retirement at age 55 or less, subject to a service requirement. However, only 45 percent of those plans coordinated with Social Security coverage allowed normal retirement as early as age 55. Thus, plans with Social Security coverage appear to have generally older retirement ages, consistent with Social Security's minimum age of 62 for earliest receipt of benefits.

Normal retirement eligibility also differed significantly according to plans' occupational coverage. Sixty-two percent of the educational plans allowed normal retirement at age 55 or earlier with sufficient service, compared to 48 percent of the general public employee plans. General public plans were more likely to establish age 60 as the earliest normal retirement age than were the educational plans.

Early Retirement: Age and Service Requirements

A plan's early retirement provisions allow participants to retire earlier than the plan's normal retirement age and service rules would allow. The price of early retirement is some form of reduction in the benefit payable under normal retirement, in order to reflect costs to the plan stemming from early retirees' generally younger ages and greater life expectancies.

While among private sector pension plans a large majority allow early retirement at age 55 with ten years of service, no corresponding predominant practice was observed among NEA survey respondents. Table 12 contains a distribution of the youngest age and corresponding service requirements for early retirement reported by the 62 plans providing information.

TABLE 12.
EARLY RETIREMENT AGE AND SERVICE REQUIREMENTS (Number of Plans)

Years Service/Age	Any Age	50	52	55	60
Any 0	—	—	—	3	1
2	—	—	—	1	—
5	—	2	—	6	—
8	—	—	—	2	—
10	1	2	—	10	2
15	—	2	—	2	—
20	—	1	—	3	—
25	11	—	1	3	—
30	6	1	—	1	—
35	1	—	—	—	—

The most common eligibility provision was 25 years of service at any age, reported by 11 plans (18 percent of the total). Under this provision, many employees would qualify for early retirement as young as age 45 or 50. The second most common early retirement provision, used by ten plans (16 percent), was age 55 with ten years of service--the predominant private sector practice. Age 55 with five years of service, and 30 years of service at any age, were each reported by six plans (10 percent).

Overall, one-half of the plans set age 55 as the youngest age for early retirement, while 44 percent allowed early retirement at age 50 or younger with sufficient service.

Some interesting patterns emerged from an examination of the early retirement eligibility provisions according to the survey subgroups. Table 13 shows the most common early retirement provision, along with a distribution of early retirement ages by NEA region. There was little consistency of practice across regions, but any age and age 55, with varying amounts of service, accounted for most of the eligibility provisions in each of the regions.

TABLE 13.
EARLY RETIREMENT ELIGIBILITY PROVISION BY NEA REGION

Region	Most Common Requirement		Percent of Plans with Normal Retirement at Age:				
	Provision	Percent of Plans	Any	55	60	62	65
Northeastern	55/10	33	22	11	—	67	—
Southeastern	Any/25	27	46	9	9	18	18
Mid-Atlantic	55/30	43	14	14	—	71	—
Midwestern	Any/30	20	27	13	—	60	—
Pacific	55/10	22	11	22	—	67	—
Western	Any/25	36	55	9	—	27	9

Social Security coverage held a different significance for early retirement than it did for normal retirement. Whereas plans without Social Security tended to have the more liberal normal retirement provisions, the opposite was true for early retirement. Fifty percent of the plans with Social Security coverage allowed early retirement before age 55, compared to only 31 percent of plans without Social Security. Plans with Social Security also tended to require less service for early retirement—an average of 16 years compared to 18 years for plans without Social Security. One possible explanation for this phenomenon is that plans with more liberal normal retirement provisions perceive less need for early retirement and may therefore be less inclined to encourage it through liberal eligibility provisions.

Looking at early retirement results according to plans' occupational coverage, educational plans tended to allow early retirement at younger ages than did general public employee plans but required an average of five years more service to establish eligibility.

Early Retirement: Benefit Reductions

The second major aspect of early retirement is the benefit reduction imposed by the plan. This normally takes the form of a percentage reduction in the full accrued benefit for each month or year the retiring employee is below the normal retirement age, or sometimes below a stipulated amount of service.

Twenty-six plans reported imposing actuarial reductions for early retirement. An actuarial reduction—normally in the range of 5 to 7 percent per year—is intended to diminish the normal retirement benefit by an amount that offsets the cost to the plan of the extra years of expected annuity payments owing to early retirement. Another 28 plans specified the early retirement reductions imposed. These reductions varied from 0.25 percent per month (3 percent per year) to 0.67 percent per month (8 percent per year). The median reduction was 0.42 percent per month, equivalent to 5 percent per year. Under the median reduction, an employee retiring five years early would incur a 25 percent reduction in his or her full accrued benefit as determined through the plan's benefit formula.

Nine plans reported supplementing their early retirement provisions with special incentives to encourage early retirement. Such incentives are often employed to encourage early retirement in cases of workforce reduction or reorganization. Early retirement incentives may include lower early retirement reductions, bonus years of service credit, and/or substantial cash payments.

Years of Service at Retirement

Twenty-two respondents reported the number of employee retirements according to years of creditable service at retirement. In 1984, these plans together accounted for 62,325 service retirements. As shown in Table 14, roughly one-third of total service retirees in 1984 had between 10 and 19 years of service at retirement, followed by 29 percent with 20 to 29 years, and 27 percent with 30 to 39 years. Using the midpoint of each range, the overall average service at retirement was 23.2 years. Interestingly, the average amount of service for retirees in educational plans, 24.8 years, was almost five years greater than the average of 20.1 years for retirees from plans covering general public employees

As shown in the lower part of Table 14, the number of years of service by 1984 retirees also differed according to NEA region, ranging from a low of 21.4 years in the Northeastern region to a high of 26.5 years in the Western region.

TABLE 14.
DISTRIBUTION OF 1984 RETIREES BY YEARS OF SERVICE

Years	Number of Retirees	Percent of Retirees
0-9	4,861	7.8
10-19	21,031	33.7
20-29	18,245	29.3
30-39	16,769	26.9
40+	1,419	2.3
Total	62,325	100.0

Average Years of Service Based on Midpoint of Ranges

Total group	23.2
Educational	24.8
All public	20.1
NEA Region	
Northeastern	21.4
Southeastern	22.8
Mid-Atlantic	23.4
Midwestern	24.3
Pacific	22.1
Western	26.5

Vesting Provisions

A retirement plan's vesting provisions determine when employees acquire a nonforfeitable right to benefits under the plan, even if they leave employment prior to retirement eligibility.

The most common vesting provision—reported by 61 plans (85 percent of the total)—granted full vesting upon completion of a specified number of years of service. This practice of moving to full vesting from no vesting at a single career point is known as *cliff vesting*. Thirty-one plans—about one-half of all plans with a cliff vesting provision—provided full vesting after ten years of service. Full vesting after five years of service was the other common approach used by 20 plans, about one-third of the total. A complete distribution of cliff vesting provisions is included in Table 15.

TABLE 15.
VESTING PROVISIONS

Cliff Vesting Schedules

Years of Service	Number of Plans	Percent of Plans
4	3	4.2
5	20	27.8
7	1	1.4
8	2	2.8
10	31	43.1
20	1	1.4
30	3	4.2
Total	61	84.9

Age and Service Vesting

Age Requirement	Number of Plans	Percent of Plans
40	1	1.4
45	1	1.4
55	2	2.8
60	4	5.5
62	2	2.8
65	4	5.5
Total	14	19.4

Service Requirement	Number of Plans	Percent of Plans
0	2	2.8
4	1	1.4
5	5	6.9
10	6	8.3
Total	14	19.4

Another vesting approach, reported by a minority of respondents, grants full vesting at a particular age, provided that a specified amount of service has been attained. This type of vesting was reported by 14 plans (19 percent of the total), including some cases where this provision is an alternative to the plan's cliff vesting requirements. Most plans with age and service vesting granted full vesting to employees at age 60 to 65 with five to ten years of service. Separate distributions of age and service requirements for this type of vesting are shown in Table 15.

Benefit Portability

Another issue closely associated with vesting provisions is benefit portability—the ability to transfer pension credits earned in one retirement system to another system. Benefit portability provisions may significantly affect the cost in lost benefits when teachers or support personnel move from one state or local system to another in midcareer. Such portability is important even if benefits are fully vested in the employee's old system, since the salary base on which accrued benefits are paid is invariably frozen at the time of separation, resulting in a steady erosion to inflation of the value of the vested benefit. Credit transfers allow credit for earlier employment to be applied at the higher salary levels near retirement age.

Forty plans—56 percent of all respondents—reported allowing some form of purchase of credit for prior service in another state or local retirement system. The most common limit on credit purchased was ten years—imposed by 19 plans. Nine plans limited credit purchases to five years, while eight plans had no limit on the number of prior years of credit purchased.

As expected, educational retirement systems were more likely to allow credit purchases than were general public employee plans. Two-thirds of the educational plans allowed such transfers, compared to 47 percent of general public employee plans. In contrast, educational systems were more likely to impose limits on the number of years of credit that could be purchased. Over 90 percent of the educational plans with credit purchase provisions limited such transfers to ten years or less, compared to only about one-half of the general public employee plans. In addition, almost one-half of the general public employee plans with credit purchase programs allowed unlimited credit purchases, compared to only 4 percent of the educational plans with such programs.

Pension Security

Pension security is another issue that influences an employee's ability to accumulate a substantial, predictable pension over a period of many years. If, by law, pension benefits already earned or reasonably expected cannot be reduced or otherwise curtailed by the employer, then the employee's benefit is significantly more secure than if subsequent modifications are allowed.

Sixty-eight percent of respondents reported that guarantees in the state constitution, statute, or court decisions precluded diminishment of pension benefits "promised and toward which contributions had been made." In 32 percent of the cases, diminishment was reported to be legally permissible under at least some circumstances during the time period covered by the survey.

VI. Legislation and Governance

This section considers responses to survey questions concerning the composition and authority of pension plan governing bodies as well as recent trends in legislation affecting participating plans.

Composition and Authority of Boards of Trustees

Boards of trustees for plans represented in the survey ranged in size from 5 members to 24 members. Three plans operated without boards of trustees, with governing authority vested in a senior official of the sponsoring government. Table 16, which contains a distribution of participating plans according to total number of trustees, shows that practices varied widely. The most common number of trustees was 10, reported by 12 plans (17 percent of respondents), but 5, 7, 9, and 11 trustees were also common. The mean and median number of trustees was nine. The number of trustees reported by major survey subgroups did not vary greatly from the overall survey group.

On average, six members of the board of trustees were system members, accounting for two-thirds of the average number of system trustees. The plans averaged three teachers as trustees—one-third of the average board's size. Educational support personnel occupied an average of one seat.

Although educational and general public employee systems tended to have roughly the same number of trustees and system members on their boards, educational plans, as expected, had a much higher average representation of teachers and support personnel on their boards (approximately five seats) than did general public employee plans (two seats). This greater board representation is indicative of the greater potential influence of teachers and support personnel on the policies of educational plans than on those of general public employee plans.

The representation on boards of system members and educational personnel according to NEA region is shown in Table 17. The Midwestern region had an unusually high representation of educational personnel on boards, averaging almost five seats or 52 percent of the total number of seats, while the Western region had the lowest representation, with an average of 2.6 seats or 28 percent of all seats on the board. The lowest average representation of educational personnel in terms of seats—2.3 seats—occurred in the Pacific region, but these accounted for 36 percent of the average board's relatively low 6.4 seats.

TABLE 16.
NUMBER OF PLAN TRUSTEES

Number of Trustees	Number of Plans	Percent of Plans
None	3	4.2
5	10	14.1
6	5	7.0
7	10	14.1
8	3	4.2
9	9	12.7
10	12	16.9
11	7	9.9
12	1	1.4
13	2	2.8
15	4	5.6
16	1	1.4
17	3	4.2
24	1	1.4
Total	71[a]	100.0

[a] One plan did not report board of trustees composition.

The boards of trustees governing surveyed plans met anywhere from 2 to 24 times per year, with monthly meetings the most prevalent (40 percent of plans). The next most common practice was quarterly meetings (18 percent). For the overall group, the mean and median numbers of yearly meetings were 10.5 and 9.1, respectively. On average, educational system boards met slightly less often (8.6 times per year) than did general public employee system boards (10.1 times per year). In particular, quarterly and semiannual meetings were much more common among educational system plans than among the general public plans, suggesting that educational system board members had less detailed and regular involvement in plan governance than did board members of the general public systems.

Another key indicator of boards' involvement in plan governance is the degree to which they have and exercise authority over plan investment policies. Three-

TABLE 17.
BOARD OF TRUSTEES COMPOSITION BY NEA REGION (Mean Number of Trustees)

Region	Total	System Members		Educational Personnel	
		Number	Percent	Number	Percent
Northeastern	9.7	6.4	66	4.3	44
Southeastern	9.4	6.7	71	3.6	38
Mid-Atlantic	10.4	6.7	64	3.9	38
Midwestern	8.8	5.3	60	4.6	52
Pacific	6.4	4.6	72	2.3	36
Western	9.3	5.1	55	2.6	28

fourths of responding plans reported that their boards had authority over investments, while one-fourth reported that they did not have such authority. In two-thirds of the cases where the board did not have authority over investment policy, one or more members of the board were officially involved in investment decisions.

The prevalence of boards' authority over investment decisions was similar for educational (76 percent) and general public employee plans (73 percent). Smaller plans' boards were slightly more likely to exercise investment authority (74 percent) than were larger plans' boards (68 percent).

Recent Pension Legislation

The survey requested information on significant pension-related legislation proposed and/or enacted beginning in 1983. Eighteen of the 72 respondents reported that legislation had been introduced to create a new retirement system or to add a new tier to the existing system. A new tier is a separate set of eligibility, contribution, and/or benefit provisions applicable to certain employees, usually those hired after a certain date. Twelve plans reported that such legislation had actually been enacted.

The survey also asked respondents to indicate whether legislation had been enacted in nine major pension areas. As shown in Table 18, a change in employer contributions to the pension plan was the most commonly enacted change—reported by 34 (47 percent) of the 72 respondents. Changes in the pension benefit formula, survivor benefits, and investment policies were all reported by 20 or more respondents. There was also significant legislative activity in the areas of death and disability benefits. Seven plans changed the selection process for trustees, while three plans became noncontributory, in line with the typical private practice of not requiring employee contributions. No plans reported integrating or coordinating their benefits with Social Security during the survey period.

Looking at responses according to plans' occupational coverage, educational and general public employee plans had approximately the same incidence of legislative activity to create a new system or tier (26 percent and 23 percent, respectively). However, the general public employee plans had a higher reported incidence of actually enacting legislation. Of the seven proposals to overhaul general public plans, six were enacted into law. Conversely, of the 11 proposals involving educational plans, 6 were enacted, a significantly lower rate of enactment.

The incidence of particular types of legislation also differed between educational and general public employee systems, as illustrated in Table 19. General public employee plans reported more legislative activity than educational plans in most areas, especially death and disability benefits, benefit formulas, and employer contributions. On the other hand, educational plans reported more legislative activity revising the selection process for plan trustees.

TABLE 18.
RECENT PENSION LEGISLATION

Area	Number of plans	Percent
1. Benefit formula was changed	25	34.7
2. System was made noncontributory	3	4.2
3. System was integrated/coordinated with Social Security	0	0.0
4. Survivor benefits were changed	24	33.3
5. Death benefits were changed	17	23.6
6. Disability benefits were changed	19	26.4
7. Board of trustees selection process was changed	7	9.7
8. Investment policy was liberalized	26	36.1
9. Employer contribution rate was changed	34	47.2

TABLE 19.
LEGISLATIVE CHANGES IN SPECIFIC AREAS BY PLANS' OCCUPATIONAL COVERAGE

	Educational		General Public	
Area	No.	Percent	No.	Percent
1. Benefit formula	13	31.0	12	40.0
2. Noncontributory	1	2.4	2	6.7
3. Integration with SS	—	—	—	—
4. Survivor benefits	14	33.3	10	33.3
5. Death benefits	8	19.0	9	30.0
6. Disability benefits	8	19.0	11	36.7
7. Trustee selection	6	14.3	1	3.3
8. Investment policy	15	35.7	11	36.7
9. Employer contribution	18	42.9	16	53.3
Total plans	42		30	

Looking at legislative activity according to plan size, larger plans had a higher incidence of proposed major plan overhaul legislation (27 percent) than did smaller plans (18 percent). Larger plans also reported a slightly higher rate of enactment of such proposals (67 percent enacted versus 57 percent enacted for smaller plans).

Legislative proposals to create an entirely new retirement system or tier also varied according to NEA region. As Table 20 shows, 7 out of the 12 plans in the Northeastern region reported such legislative proposals including five enactments, compared to two proposals and one enactment from the 18 plans in the Midwestern region; one proposal (enacted) from the 9 plans in the Mid-Atlantic region; and one proposal (enacted) from the 11 plans in the Western region.

The percentage of plans in each NEA region reporting legislative change in the nine specific areas surveyed is shown in Table 21.

Plans in the Northeastern region reported considerable legislative activity in key plan areas, undoubtedly related to the high incidence in this region of legislation establishing new plans or tiers. However, the Midwestern and Western regions, which reported a relatively lower level of legislative activity directed at major overhauls, did show considerable legislative activity in the individual plan areas surveyed.

TABLE 20.
LEGISLATION TO CREATE A NEW RETIREMENT SYSTEM OR TIER, 1983-86
(Number of Plans by NEA Region)

Region	Proposals	Enactments	No Activity	Total Plans
Northeastern	7	5	5	12
Southeastern	3	2	10	13
Mid-Atlantic	1	1	8	9
Midwestern	2	1	16	18
Pacific	4	2	5	9
Western	1	1	10	11

TABLE 21.
ENACTED CHANGES IN SPECIFIC PENSION AREAS (Percentage of Plans by NEA Region)

	Northeastern	Southeastern	Mid-Atlantic	Midwestern	Pacific	Western
1. Benefit formula	50	23	33	39	22	36
2. Noncontributory	0	7	0	0	11	9
3. Integration with SS	0	0	0	0	0	0
4. Survivor benefits	50	7	22	39	22	55
5. Death benefits	42	23	0	17	11	45
6. Disability benefits	42	15	22	22	11	45
7. Trustee selection	0	31	0	11	0	9
8. Investment policy	50	62	11	28	33	27
9. Employer contributions	75	38	56	17	67	55
Total number of plans	12	13	9	18	9	11

VII. Plan Assets and Income

This section reviews the responses to the survey in the areas of plan assets, funding, and investment performance.

Retirement System Assets

Sixty-eight participating plans reported assets data for the most recent available year. Thirty-one plans provided 1986 data, 26 reported 1985 data, and 11 provided 1984 data.

TABLE 22.
TOTAL PLAN ASSETS

Assets	Number of Plans
Less than $100 million	2
$100 million – $499 million	13
$500 million – $999 million	7
$1 billion – $4.9 billion	31
$5 billion – $9.9 billion	8
$10 billion – $14.9 billion	4
$15 billion or more	3
Total	68

The sum total of all participants' assets was $250.9 billion, with a mean level of $3.7 billion per plan. Individual plan assets ranged from a low of $56 million to a high of $31 billion. Table 22 contains a distribution of assets values for all participating plans. As the table shows, 31 plans—almost one-half of the total—had assets between $1 billion and $4 9 billion, making this by far the most populous assets category. The next most populous assets category was $100 million to $499 million, containing 13 plans. Only two plans had less than $100 million in assets, while three had $15 billion or more.

Educational plans together reported a total of $113.1 billion in assets, while general public employee plans reported $137.8 billion. Largely because of their smaller membership, educational plans' average assets of $2.9 billion were lower than general public employee plans' average assets of $4.7 billion. However, educational plans had only slightly lower average assets per active participant ($39,189) than did general public employee plans ($39,916).

Employee and Employer Contributions

Surveyed plans reported a total of $6.2 billion in employee contributions and $15.3 billion in employer contributions for the latest available year. The employer total of $15.3 billion consisted of $6.6 billion in local employer contributions and $8.7 billion in state contributions.

Sixty-five plans—90 percent of the total—reported requiring employee contributions, while five plans (7 percent) were noncontributory. More than one-half (52 percent) of the contributory plans reported provisions for "employer pick up" of employee contributions under IRS Section 414(h)(2), in order to secure favorable federal income tax treatment for those contributions.

Table 23 contains a distribution of contributory plans according to the type of contribution utilized, as well as a distribution of the requirements of plans with a fixed percent employee contribution. As the table shows, the most common contribution approach—used by 42 plans—required an employee contribution equal to a fixed percent of total compensation. For 21 plans, employee contribution was a fixed percent of regular salary, excluding extra pay received for extra duties. Finally, five plans reported a step-rate approach, wherein the percent contribution varied according to salary range.

TABLE 23.
EMPLOYEE CONTRIBUTION PROVISIONS
(Distribution by Type of Provision)

Type of Provision	Number of Plans[a]
Fixed percent of regular salary	21
Fixed percent of total compensation	42
Step-rate contribution	5

Distribution of Fixed Percents

Fixed percent[b]	Number of plans: Regular salary	Number of plans: Total compensation
1 or less	1	0
2	0	0
3	2	4
4	1	2
5	1	13
6	5	11
7	3	4
8	2	4
9	2	3
10 or more	1	1
Total plans reporting	18[c]	42

[a] Total in excess of number of contributory plans may indicate alternative formulas in three cases.

[b] Values shown are midpoints of 1 percent interval, e.g., 2 percent denotes contributions between 1.50 and 2.49 percent.

[c] Three plans with this provision did not report the fixed percent provided.

Among the fixed percent plans using total compensation, 5 percent was the most common practice (13 plans), followed closely by 6 percent (11 plans), with a mean of 5.8 percent. Where regular salary was the base, 6 percent was the most prevalent contribution rate (five plans), followed by 7 percent (three plans), with a mean of 6.1 percent.

As expected, the employee contribution was lower in plans coordinated with Social Security than in plans without such coverage. For example, the fixed contribution based on total compensation averaged 5.4 percent for plans coordinated with Social Security, compared to 7.2 percent for stand-alone plans. Educational plans had higher average contributions (6.2 percent) than did general public employee plans (5.4 percent), which could be largely reflective of differences in Social Security coverage between the two subgroups.

Employer contributions to surveyed pension plans took several forms, including fixed percentages and dollar amounts, and actuarially determined percentages and dollar amounts. The fixed percentage of payroll contribution, not necessarily actuarially determined, was the most common approach, utilized by 35 plans—one-half of all survey respondents. Another 13 plans based the employer contribution on an actuarially determined percentage of payroll, while 13 plans provided employer contributions as a fixed dollar amount, either actuarial or nonactuarial.

Table 24 contains a distribution of employer contributions for plans with a fixed percent of payroll, and plans with an actuarially determined percent of payroll. For the fixed percent plans, the most common contribution levels were 6 percent and 13 percent of payroll, with a median level of 9 percent. The smaller number of actuarially determined percentage employer contributions were widely scattered with a median value of 12 percent of payroll. The sources of both types of employer contributions are shown in the lower portion of Table 24.

TABLE 24.
DISTRIBUTION OF EMPLOYER CONTRIBUTIONS (Percent of Payroll)

Percent of Payroll	Number of Plans: Fixed Percent	Number of Plans: Actuarial Percent
5 or less	2	—
6	9	1
7	2	—
8	4	—
9	2	2
10	2	2
11	2	1
12	2	1
13	4	1
14	3	—
16	1	—
17	—	2
18	1	—
19	1	1
21	—	2
25 or more	1	—

Sources of employer contributions

Source	Number of Plans: Fixed Percent	Number of Plans: Actuarial Percent
State	12	2
Locality	18	5
Both	5	6

[a] Indicated percent is mid point of 1 percent interval.

Investment Income and Net Annual Yield

The 54 plans providing data on net annual income from investments reported total annual income of $22.2 billion, an average of $411.2 million per plan. The net annual yield on plan assets varied from 6.5 percent to 28.5 percent, with a mean of 13.7 percent. Larger plans had slightly higher average yields (14.1 percent) than did smaller plans (12.8 percent). The generally smaller educational plans were outperformed by general public employee plans, with average yields of 12.3 percent and 15.9 percent, respectively.

Participants in the survey reported paying a total of $134 million in investment commissions, an average of $1.9 million per plan.

Unfunded Liabilities

A plan's unfunded liability is a measure of the extent to which projected plan liabilities are not covered by projected plan assets. Fifty-six plans reported unfunded liabilities ranging from $7.4 million to $10.9 billion. The mean unfunded liability was $1.7 billion, while the median level was $918 million. Table 25 contains a distribution of unfunded liabilities, showing that the largest category is $1 billion to $4.9 billion, with 18 plans. Looking at unfunded liabilities according to membership size, smaller plans, as expected, reported lower average unfunded liabilities ($1.0 billion) than did larger plans ($3.1 billion). There was also a substantial difference in average unfunded liabilities between educational plans and general public employee plans. Despite their smaller size, educational plans had much higher mean unfunded liabilities ($2.1 billion) than did general public employee plans ($962 million). Thus, of the two plan types, the general public employee plans appear to be on a somewhat sounder financial base.

TABLE 25.
UNFUNDED LIABILITIES OF SURVEYED PLANS

Unfunded Liability	Number of Plans
Less than $100 million	9
$100 million – $499 million	13
$500 million – $999 million	9
$1 billion – $4.9 billion	18
$5 billion – $9.9 billion	6
$10 billion or more	1

Funding Methods and Accounting Policies

The plans represented in the survey have adopted a variety of funding methods keyed to the financial objectives of sponsoring instrumentalities. As Table 26 shows, the entry age normal method was by far the most common approach (46 plans), with an average 31-year period for amortization of the unfunded liability. Approximately 70 percent of survey respondents reported that amortization of their systems' unfunded liabilities was required.

There were also differences among plans in accounting policies determining how investments would be carried on the plans' books. In the case of equities, 74 percent of respondents reported using cost valuation, 19 percent reported using market value, and 6 percent carried the investments at amortized cost. For fixed income investments, 62 percent used amortized cost, 23 percent used cost, and 15 percent used market value.

TABLE 26.
FUNDING METHODS

Method	Number of Plans	Memo
1. Unit credit, interest only	1	
2. Pay as you go	4	
3. Terminal funding	0	
4. Entry age normal, interest only	4	
5. Entry age normal	46	
Memo: Mean amortization period for unfunded liability		31 years
6. Attained age normal	3	
Memo: Mean amortization period for unfunded liability		25 years
7. Aggregate	9	
8. Individual level premium	1	

VIII. Investment Policies

Investment policies are critical to retirement plans' ability to fulfill their purpose of funding benefits. In addition, they have a significant effect on U.S. financial markets and the economy generally. This section deals with the portfolio composition and other aspects of participants' investment policies.

Investment Portfolios: Statutory Limits and Composition

In some cases, plan investments are constrained by statutory limitations on the proportion of the overall portfolios that may be invested in certain types of securities. Survey participants were asked to report any statutory limitations on their portfolios as well as their actual portfolio composition. The results are shown in Table 27.

**TABLE 27.
PLAN INVESTMENTS: STATUTORY LIMITS AND PRESENT PORTFOLIO**

	Statutory Average		
	No. of Plans With Limit	Average Limit (%)	Actual Portfolio (%)[a]
1. U.S. Government securities	7	45	7.4
2. State/local	6	51	23.1
3. Common and preferred stock	33	41	25.3
4. Corporate bonds	8	51	14.7
5. Mortgages	7	30	6.0
6. Real estate	11	14	2.2
7. Mutual funds	4	13	0.5
8. Venture capital	5	6	1.8

[a] Total portfolio components do not add up to 100 percent owing to incomplete reporting by some respondents.

The most common limitation imposed was on the percentage of common and preferred stock in the portfolio. Thirty-three plans limited stock to an average of 41 percent of the plan's investment portfolio. Corporate stock actually comprised, on average, 25 percent of the plans' portfolios.

The second most common limitation—imposed on 11 plans—was on real estate investments, limiting such holdings to an average of 14 percent of the overall portfolio. Plans reported average real estate holdings amounting to 2.2 percent of their portfolios.

In addition to corporate stock, state and local government securities were highly represented in respondents' portfolios (an average of 23 percent of assets). Corporate bonds accounted for almost 15 percent. Mutual funds, a growing force in financial markets, accounted for an average of less than 1 percent of participants' portfolios. Finally, venture capital, a potentially risky but important vehicle for new jobs in the economy, comprised, on average, 1.8 percent of portfolios.

Another type of limitation commonly imposed on public pension plans concerns the percentage of the portfolio that may be invested in any single corporation or single industry. Thirty-nine plans—over half of the total—reported limiting investment in a single corporation to an average of 5 percent of the plans' portfolios. However, only seven plans reported limitations on investments in a single industry. In such cases, the average limitation was 16 percent of the plan's portfolio.

Divestiture

The trend toward divestiture of new or existing pension plan investments from firms financially involved in South Africa has been gathering momentum in recent years. Fourteen plans—21 percent of those plans furnishing divestiture information—reported an active divestiture program. Fifty-two plans (79 percent) reported no divestiture program. Eight of the 14 divesting plans stated that such action was required by legislation. There were no reported instances where the decision to divest derived from collective bargaining.

Most of the divestiture programs (11 out of 14) were directed at both new and existing investments in companies associated with South Africa. Three plans limited divestiture to new investments in such companies.

A divestiture policy was reported more frequently by educational plans than by general public employee plans. Ten of the 39 responding educational plans (26

Table 28 shows divestiture activity according to NEA region. The greatest divestiture activity occurred in the Northeastern region, where four plans—36 percent of those responding—reported a divestiture program. Plans in the Southeastern and Western regions also reported above-average divestiture activity. The least activity was in the Pacific region, where plans reported no divestiture programs.

TABLE 28.
DIVESTITURE POLICIES BY NEA REGION

Region	Responding Plans	Divesting Plans: Number	Divesting Plans: Percent
Northeastern	11	4	36
Southeastern	11	3	27
Mid-Atlantic	7	1	14
Midwestern	18	3	17
Pacific	9	0	0
Western	10	3	30

Appendix A. Listing of States by NEA Region

Northeastern Region

Maine
New Hampshire
Vermont
Massachusetts
Connecticut
Rhode Island
New York
New Jersey
Pennsylvania

Midwestern Region

Michigan
Wisconsin
Illinois
Indiana
Minnesota
Iowa
Missouri
North Dakota
South Dakota

Pacific Region

Montana
Idaho
Alaska
Washington
Oregon
Nevada
California
Hawaii

Mid-Atlantic Region

Delaware
Maryland
District of Columbia
Ohio
Virginia
West Virginia
Kentucky
North Carolina

Southeastern Region

South Carolina
Tennessee
Georgia
Florida
Alabama
Mississippi
Arkansas
Louisiana
Puerto Rico

Western Region

Nebraska
Kansas
Oklahoma
Texas
Wyoming
Colorado
New Mexico
Utah
Arizona

Appendix B-1. Plan Participants and Benefits

Plan	Active Employees	Retirees	1984 Benefits ($Million)	Assets ($Million)	Unfunded Liability ($Million)
Alabama	92,058	20,251	110	3,718	423
Alaska Tchers	10,023	192	4	866	209
Alaska Pub Emp	25,803	381	4	1,296	199
Arizona	103,900	25,385	97	5,688	301
Arkansas Tchers	31,925	600	4	1,150	466
Arkansas Pub Emp	34,774	7,036	19	1,047	–
Calif Tchers	253,700	99,619	834	15,190	10,940
Calif Pub Emp	500,300	205,300	1,384	31,190	6,589
Colorado	94,766	25,054	187	5,195	1,274
Connecticut	38,552	10,965	118	2,169	3,500
Florida	410,000	75,104	376	8,213	7
Georgia Tchers	105,800	21,223	1,161	4,996	2,790
Georgia Sch Emp	–	7,108	1	150	69
Illinois Tchers	97,568	2,262	23	5,168	3,519
Illinois Munic	107,100	39,063	94	2,139	1,317
Indiana Tchers	59,920	24,042	137	1,064	2,608
Iowa	128,500	–	96	2,264	–
Kansas	90,129	–	–	2,602	229
Kentucky Tchers	47,947	17,441	11	2,225	1,339
Kentucky Ret Sys	80,346	20,023	56	1,500	184
Louisiana	102,600	24,686	255	2,111	2,684
Maine	41,110	18,255	108	1,140	1,583
Maryland	–	17,900	–	–	–
Massachusetts	71,895	18,793	173	1,482	6,000
Michigan	274,200	60,420	299	7,854	3,416
Minnesota Tchers	58,190	–	75	2,168	1,500
Mississippi	121,800	20,640	94	2,980	750
Missouri Pub Sch	54,463	15,915	104	2,854	707
Montana Tchers	15,579	5,220	29	450	559
Montana Pub Emp	–	–	–	560	275
Nebraska	25,945	5,539	10	487	16
Nevada	42,317	9,481	68	1,841	1,125
New Hampshire	–	–	–	946	18
New Jersey	109,200	28,169	250	4,958	6,365
New Mexico	44,261	–	–	1,292	–
N.Y. Tch Tier 1 (1)	99,376	54,974	472	14,123	961
New York State (2)	66,777	33,834	74	17,820	–
North Dakota	9,312	3,643	11	203	103
Ohio Tchers	147,800	4,286	58	9,469	6,223
Oklahoma	58,271	19,000	121	1,531	918
Oregon	110,000	–	–	6,800	512
Pennsylvania	201,700	82,873	45	8,189	6,565
S. Carolina	145,800	32,582	167	3,623	210
S. Dakota	26,535	7,404	19	911	160
Tennessee	139,800	43,644	170	3,407	–

Appendix B-1. Plan Participants and Benefits

Plan	Active Employees	Retirees	1984 Benefits ($Million)	Assets ($Million)	Unfunded Liability ($Million)
Texas	405,000	91,887	457	11,380	6,474
Utah	68,423	–	–	1,915	9
Vermont	8,218	2,225	10	251	94
Virginia	213,800	42,436	203	4,508	2,920
Washington	119,000	–	–	3,16[illegible]	693
West Virginia	49,031	18,104	86	271	1,349
Wisconsin	187,300	60,302	239	14,000	1,242
Wyoming	32,920	521	0.3	860	281
Puerto Rico	44,783	10,419	52	680	580
Minneapolis Tchers	–	2,216	162	249	–
Kansas City, Mo.	3,949	–	–	158	42
St. Louis, Mo.	6,500	2,357	1	243	49
Omaha, Neb.	4,200	–	–	156	–
N. Carolina Sch	198,700	51,344	315	10,200	1,697
Ohio Sch Emp	84,761	36,800	102	1,810	1,402
Rhode Island	10,003	–	–	1,047	–
Knoxville, Tenn.	4,297	1,488	1	185	–
N.Y. Tch Tier 2	–	263	0.7	(1)	(1)
N.Y. Tch Tier 3	30,762	1	0.0	(1)	(1)
N.Y. Tch Tier 4	5,403	0	0.0	(1)	(1)
Wash., D.C.	–	–	–	853	–
Georgia Gen emp	7,137	4,252	26	193	–
Chicago Tchers	27,561	8,683	85	1,910	1,054
Indiana Pub Emp	111,400	–	–	1,559	545
Des Moines Tchers	985	635	3	87	–
St. Paul Tchers	2,946	1,050	9	144	117
Duluth Tchers	–	562	2	56	17

NOTES:

— Denotes missing data in all tables.

(1) Employee, retiree, and benefit data refer only to the school district employees who are members of the state employees' retirement system, or are retired from this system.

(2) Asset and liability data shown for Tier 1 pertain tc all tiers of system.

Appendix B-2. Employee And Employer Contributions

Plan	Employee Contributions		Employer Contributions			
			% of Payroll		$ Million	
	% of Payroll	Base (1)	State	Local	State	Local
Alabama	5.0	TC	7.6	—	134	—
Alaska Tchers	7.0	TC	8.3	8.3	—	—
Alaska Pub Emp	6.8	TC	—	5.6	—	—
Arizona	5.5	TC	—	5.5	—	—
Arkansas Tchers	6.0	TC	13.5	—	—	—
Arkansas Pub Emp	6.0	TC	—	8.0	—	—
Calif Tchers	8.0	RS	—	—	667	—
Calif Pub Emp	Varies	RS	(2)	11.6	—	—
Colorado	8.0	TC	—	12.5	—	—
Connecticut	6.0	RS	—	21.4	175	—
Florida	None	—	—	13.1	—	—
Georgia Tchers	6.0	RS	13.2	12.7	—	—
Georgia Sch Emp	(3)	—	—	—	12	—
Illinois Tchers	8.0	TC	—	—	238	—
Illinois Munic	4.5	TC	9.7	9.7	—	—
Indiana Tchers	3.0	TC	6.4	—	—	—
Iowa	3.7	RS	5.8	5.8	—	—
Kansas	4.0	TC	4.1	—	—	—
Kentucky Tchers	9.6	TC	12.8	—	—	—
Kentucky Ret Sys	4.3	TC	—	5.8	—	—
Louisiana	7.0	RS	—	10.3	—	—
Maine	6.6	TC	—	11.5	—	—
Maryland	(4)	—	—	10.3	—	—
Massachusetts	5.0	RS	—	—	174	—
Michigan	None	—	8.3	8.3	—	—
Minnesota Tchers	4.5	TC	9.0	—	—	—
Mississippi	9.0	TC	8.8	8.8	—	—
Missouri Pub Sch	9.5	RS	—	9.5	—	—
Montana Tchers	7.0	TC	—	7.4	—	—
Montana Pub Emp	6.0	TC	—	6.4	—	—
Nebraska	5.4	TC	—	5.5	—	—
Nevada	9.0	RS	—	—	3	—
New Hampshire	4.6	TC	0.3	0.6	—	—
New Jersey	5.1	RS	11.4	—	320	—
New Mexico	7.6	TC	—	7.6	—	—
N.Y. Tch Tier 1	None	—	21.4	—	—	—
New York State	3.0 (5)	TC	—	—	—	114
North Dakota	6.3	TC	—	6.3	—	—
Ohio Tchers	8.8	TC	5.0	14.0	—	—
Oklahoma	5.0	TC	—	8.0	—	125
Oregon	6.0	TC	—	11.7	—	—
Pennsylvania	6.3	TC	11.0	—	—	—
S. Carolina	(6)	—	7.3	—	—	—
S. Dakota	5.0	TC	8.8	1.0	—	—
Tennessee	5.0	TC	11.1	—	—	—
Texas	6.4	RS	8.0	—	—	—
Utah	6.0	RS	6.0	—	—	—
Vermont	None	—	8.8	—	—	—
Virginia	5.0	TC	11.2	—	—	—
Washington	4.8	TC	8.4	8.0	—	—
West Virginia	6.0	TC	—	—	45	—
Wisconsin	5.0	TC	8.3	5.0	—	—
Wyoming	5.6	TC	—	5.7	—	—
Puerto Rico	7.0	RS	8.5	—	—	—

Appendix B-2. Employee And Employer Contributions

Plan	Employee Contributions		Employer Contributions			
			% of Payroll		$ Million	
	% of Payroll	Base (1)	State	Local	State	Local
Minneapolis Tchers	8.5	TC	—	—	—	—
Kansas City, Mo.	(7)	—	—	6.8	—	—
St. Louis, Mo.	3.0	RS	—	5.8	—	—
Omaha, Neb.	4.9	TC	—	—	—	—
N. Carolina Sch	6.0	TC	—	—	—	—
Ohio Sch Emp	8.8	TC	—	14.0	—	—
Rhode Island	8.5	RS	9.5	9.5	—	—
Knoxville, Tenn.	(8)	—	—	—	—	6
N.Y. Tch Tier 2	None	—	—	21.4	—	—
N.Y. Tch Tier 3	3.0	TC	—	21.4	—	—
N.Y. Tch Tier 4	3.0	TC	—	21.4	—	—
Wash., D.C.	6.0	RS	—	—	—	—
Georgia Gen Emp	7.0	RS	—	10.3	—	—
Chicago Tchers	1.0	RS	—	—	—	—
Indiana Pub Emp	3.0	TC	—	—	—	—
Des Moines Tchers	(9)	—	—	—	—	1
St. Paul Tchers	8.0	TC	12.6	—	—	—
Duluth Tchers	4.5	TC	—	5.8	—	—

NOTES:

(1) The base for employee contributions is abbreviated TC (total compensation) or RS (regular salary.)

(2) The state allots funds to schools to pay employee contributions.

(3) Members contribute $4.00 per month for 9-month school year.

(4) Members pay 5% of salary over annual Social Security wage base.

(5) Applies to Tiers 3 and 4 only.

(6) Members pay 4% of first $4,800 of salary and 6.0% of remainder.

(7) Members pay 5% of first $47,000 of salary plus 2% of salary between $6,500 and $47,000.

(8) Members pay 3.0% of first $4,800 of yearly salary, and 5.0% of remainder of earnings.

(9) Employee contribution percent set at employment based on entry age.

Appendix B-3. Retirement Eligibility Requirements

Plan	Normal Retirement	Early Retirement	
	Age and Service	Age and Service	Reduction (%/mo.)
Alabama	Any/30,60/10	—	—
Alaska Teachers	Any/20,55/8	50/8	Act(1)
Alaska Public Employment	Any/30,60/5	55/5	Act
Arizona	60/25,62/10,65/0	50/5	.42
Arkansas Teachers	Any/30,60/10	Any/25	.42
Arkansas Public Employment	Any/30,65/10	55/10	Act
California Teachers	60/5	50/30,55/5	Act
California Pub;oc Employment	50/5,55/10(Tier2)	(2)	Act
Colorado	55/30,60/20,65/5	55/20,60/5	Act
Connecticut	Any/35,60/20	Any/25,55/20,60/10	Act
Florida	Any/30,62/10	Any/10	Act
Georgia Teachers	Any/30,62/10	60/10	.25
Georgia School Employment	60/10	—	—
Illinois Teachers	Any/35,55/20,60/10	—	—
Illinois Munic	55/35,60/8	55/8	.50
Indiana Teachers	65/10	50/15	.42
Iowa	62/35,65/0	55/0	.50
Kansas	65/0	60/10	.30
Kentucky Teachers	Any/30,60/5	55/5	Act
Kentucky Ret System	Any/30,65/4	55/5	· -
Louisiana	(2a)	50/10	Act
Maine	60/1	Any/25	Act
Maryland	Any/30,62/5	55/15	—
Massachusetts	Any/20,55/10	—	—
Michigan	55/30,60/10	55/15	.50
Minnesota Teachers	62/30,65/10	Any/30,55/10	.25
Mississippi	Any/30	60/4	.25
Missouri Public School	Any/30,60/0	Any/25	—
Montana Teachers	Any/25,60/5	50/5	Act
Montana Public Employment	Any/30,60/5,65/0	Any/25,50/5	Act
Nebraska	65/5	Any/35,60/5	Act
Nevada	55/30,60/10	55/10	.42
New Hampshire	60/0	50/10	Act
New Jersey	55/25,60/0	Any/25	.25
New Mexico	55/25,60/15,65/5	Any/25	—
New York Tch Tier 1	Any/35,55/20	55/2	.42
New York State	62/10	55/10	—
North Dakota	55/35,65/10	55/10	.42
Ohio Teachers	Any/30	55/25,60/5	Act
Oklahoma	55/25,62/10	55/10	Act
Oregon	55/30,58/0	55/0	.67
Pennsylvania	Any/35,60/30,62/1	55/25	.25
South Carolina	Any/30,65/0	60/0	Act
South Dakota	60/25,65/5	55/5	.25
Tennessee	Any/30,60/10	Any/25,55/10,60/4	.40
Texas	60/20,65/10	Any/30,55/10	Act
Utah	Any/30,65/4	Any/25,60/20,62/10	Act
Vermont	62/10,65/4	55/10	.50
Virginia	65/0	55/5	—
Washington	60/5	55/20	Act
West Virginia	Any/35,55/30,60/5	Any/30	—
Wisconsin	62/30,65/0	55/10	.40
Wyoming	60/4	Any/25,50/4	Act
Puerto Rico	Any/30,55/25	52/25	.42
Minneapolis Teachers	(3)	—	—
Kansas City, Missouri	55/30,60/5	Any/30	Act
St. Louis, Missouri	55/30,60/5	55/30	—
Omaha, Nebraska	62/10,65/0	55/10,62/0	Act
North Carolina School	Any/30,60/25,65/5	50/20,60/5	Act

Appendix B-3. Retirement Eligibility Requirements

Plan	Normal Retirement	Early Retirement	
	Age and Service	Age and Service	Reduction (%/mo.)
Ohio School Employment	55/25,60/5	—	—
Rhode Island	Any/30,60/10	—	—
Knoxville, Tennessee	62/0	Any/25	—
New York Tch Tier 2	62/30	55/5	.42
New York Tch Tier 3	62/10,70/5	55/10	Act
New York Tch Tier 4	55/30,62/10,70/5	—	—
Washington, D.C.	—	—	—
Georgia Gen Employment	60/15	55/25	.50
Chicago Teachers	55/35,60/20,62/5	55/20	.50
Indiana Public Employment	65/10	50/15	.42
Des Moines Teachers	(3)	—	—
St. Paul Teachers	60/25	55/10	.50
Duluth Teachers	62/30,65/1	Any/30	.25

NOTES:

(1) Denotes actuarial reduction.

(2) Same as normal retirement; benefit is determined by age benefit factor.

(2a) With 2.0 formula at any/20, 60/10 or with 2.5% formula at any/30, 55/25, or 65/25 with no military credit.

(3) Money purchase (defined contribution) plan; benefit actuarially determined based on fund balance and age when payments commence.

Appendix B-4. Retirement Benefit Provisions

	Benefit Formula		
Plan	% of FAS/Year	FAS Years	Automatic COLAs
Alabama	2.01	3	No
Alaska Tchers	2.00	3	No
Alaska Pub Emp	(1)	3	Yes
Arizona	2.00	3	No
Arkansas Tchers	1.59	5	Yes
Arkansas Pub Emp	(2)	5	Yes
Calif Tchers	2.00	3	Yes
Calif Pub Emp	(3)	3	Yes
Colorado	(4)	3	Yes
Connecticut	2.00	3	Yes
Florida	(5)	5	Yes
Georgia Tchers	2.00	2	Yes
Georgia Sch Emp	—	—	No
Illinois Tchers	(6)	4	Yes
Illinois Munic	(7)	4	Yes
Indiana Tchers	1.10	5	No
Iowa	1.66	5	No
Kansas	(8)	5	No
Kentucky Tchers	(9)	5	Yes
Kentucky Ret Sys	1.85	5	No
Louisiana	(9a)	3	No
Maine	2.00	3	Yes
Maryland	(10)	3	Yes
Massachusetts	(11)	3	No
Michigan	1.50	5	Based on fund earnings
Minnesota Tchers	(12)	5	Based on fund earnings
Mississippi	2.00	4	Yes
Missouri Pub Sch	2.10	5	Yes
Montana Tchers	1.66	3	No
Montana Pub Emp	1.66	3	No
Nebraska	1.65	3	No
Nevada	2.50	3	Yes
New Hampshire	1.69	3	Yes
New Jersey	1.70	3	Yes
New Mexico	(13)	5	Yes
N.Y. Tch Tier 1	(14)	3	No
New York State	(15)	3	Yes
North Dakota	1.15	3	—
Ohio Tchers	2.00	3	Yes
Oklahoma	2.00	3	—
Oregon	1.67	3	Yes
Pennsylvania	2.00	3	No
S. Carolina	(16)	3	Yes
S. Dakota	1.20	(16a)	Yes
Tennessee	(17)	5	Yes
Texas	2.00	3	No
Utah	(18)	5	Yes
Vermont	1.30	5	Yes
Virginia	—	3	Yes
Washington	2.00	5	Yes
West Virginia	2.00	5	No
Wisconsin	1.60	3	Based on fund earnings
Wyoming	(19)	3	No
Puerto Rico	1.80	3	—
Minneapolis Tchers	(20)	—	—
Kansas City, Mo	(21)	5	—

Appendix B-4. Retirement Benefit Provisions

Plan	Benefit Formula: % of FAS/Year	Benefit Formula: FAS Years	Automatic COLAs
St. Louis, Mo.	1.25	5	No
Omaha, Neb.	1.50	3	No
N. Carolina Sch	1.58	4	Based on fund earnings
Ohio Sch Emp	2.00	3	Yes
Rhode Island	(22)	3	Yes
Knoxville, Tenn.	(23)	5	Yes
N.Y. Tch Tier 2	(14)	3	No
N.Y. Tch Tier 3	(24)	3	Yes
N.Y. Tch Tier 4	(25)	3	No
Wash., D.C.	—	—	—
Georgia Gen Emp	2.00	3	Yes
Chicago Tchers	(26)	4	Yes
Indiana Pub Emp	1.10	5	Yes
Des Moines Tchers	(20)	—	—
St. Paul Tchers	2.00	5	Based on fund earnings
Duluth Tchers	(27)	5	Based on fund earnings

NOTES:

(1) 2.0% for year 1 to year 10; 2.25% for year 11 to year 20; 2.5% for year 21 and thereafter.

(2) Benefit = (1.8 × FAS - 1.25% × Social Security) × yrs. of service.

(3) Years of service × age benefit factor × FAS = unmodified allowance; average salary is reduced when member contributes to Social Security.

(4) 2.5% for year 1 to year 20; 1.0% for year 21 to year 40.

(5) 1.60% for year 1 to year 30 or age 62; 1.63% for year 31 or age 63; 1.65% for year 32 or age 64; 1.68% for year 33 or age 65 and thereafter.

(6) 1.67% for year 1 to year 10; 1.9% for years 11 to 20; 2.1% for years 21 to 30; 2.3% for years 31 to 38.

(7) 1.67% for years 1 to 15; 2.0% for year 16 and thereafter.

(8) 1.25% for service before 1982; 1.4% for service beginning in 1982.

(9) 2.0% for service between 1941 and 1984; 2.5% for service after 1984.

(9a) 2.0% with 10 years of service at age 60 or 20 years of service at any age; 2.5% with 20 years of service at age 65 (with no military credit) or 25 years of service at age 50 or 30 years of service at any age.

(10) Benefit = (0.8% of first $15,700 + 1.5% of remainder of FAS) × years of service.

(11) Benefit + FAS × years of service × age factor.

(12) 1.0% for years 1 to 10; 1.5% for year 11 and thereafter.

(13) 1.5% for service before 1957; 2.0% for service beginning in 1957.

(14) 1.8% for service before 1959; 2.0% for service beginning in 1959; reduction of 5% per year for each year less than 20, up to 50%.

(15) Tier 4: 1.7% for years 1 to 24; 2.0% for years 25 to 30; 1.5% for year 31 and thereafter.

(16) Benefit = (1.25% of first $4,800 + 1.65% of remainder of FAS) × years of service.

(16a) FAS = 3 years during final 10 years.

(17) Benefit = (1.5% of current average SS integration level + 1.75% of remainder of FAS) × years of service.

(18) 1.1% for service before 1961; 1.25% for service between 1961 and 1975; 2.0% for service after 1975.

(19) 1.5% for service before 1975; 2.0% for service beginning in 1975.

(20) Money purchase (defined contribution) plan.

(21) Benefit = (1.0% of the first $6,000 + 1.5% of remainder of FAS) × years of service.

(22) 1.7% for years 1 to 10; 1.9% for years 11 to 20; 2.4% for years 21 to 30.

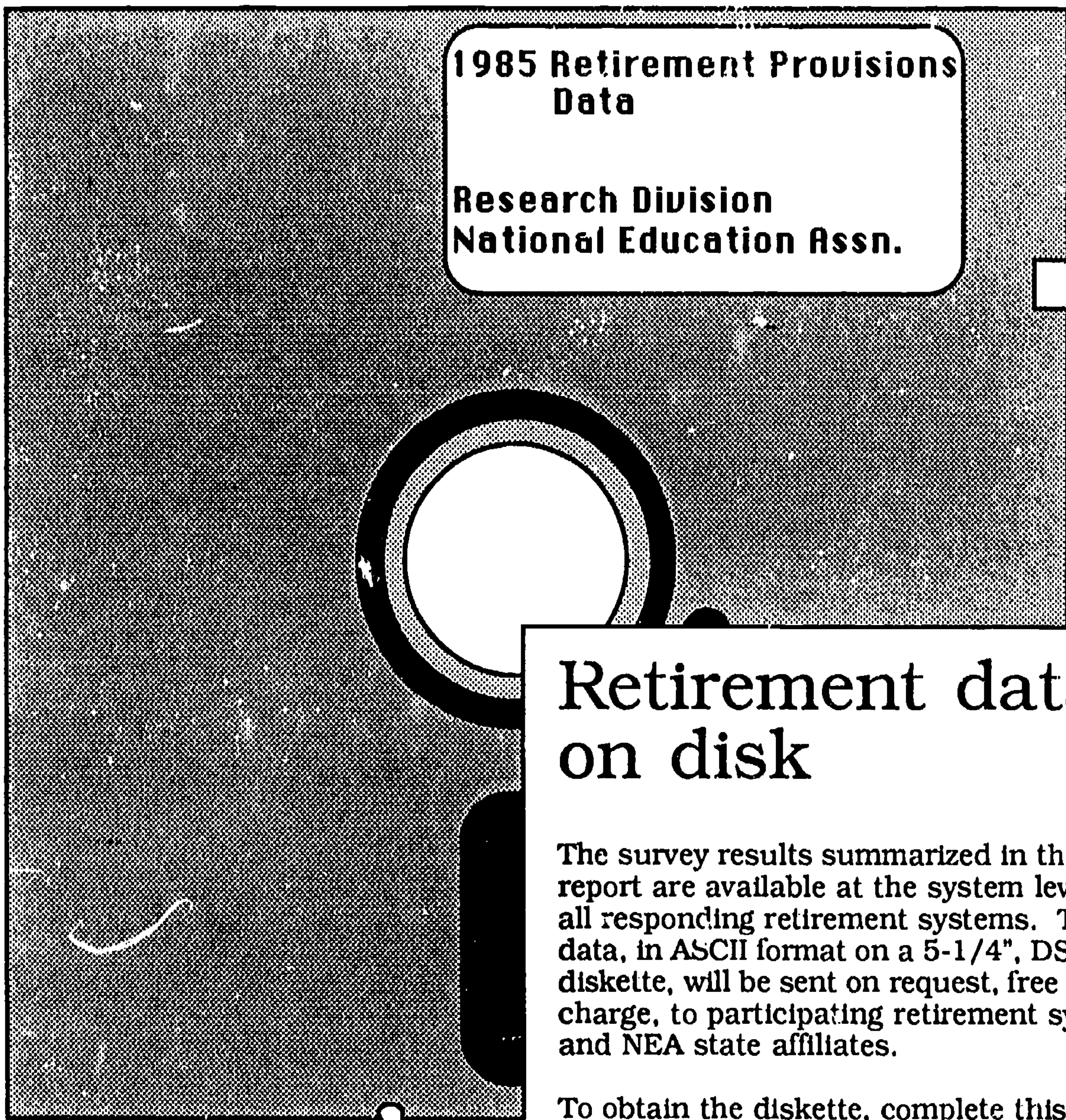
(23) Benefit = (0.8% of the first $4,800 + 1.5% of remainder of FAS) × yeas of service.

(24) 1.67% for years 1 to 20; if over 20 years of service, 2.0% for years of service up to 30. At age 62, benefit is decreased by one-half of Social Security benefit.

(25) If service is less than 25 years: 1.67 × FAS × years of service. If service is greater than or equal to 25 years and less than or equal to 30 years: 2.0% × FAS years of service. If service is greater than 30 years, 60% of FAS for first 30 years + 1.5% of FAS for each additional year.

(26) 1.67% for years 1 to 10; 1.9% for years 11 to 20; 2.1% for years 21 to 30; 2.3% for years 31 to 38.

(27) 1.0% for years 1 to 10; 1.5% for year 11 and thereafter.



Retirement data on disk

The survey results summarized in this report are available at the system level for all responding retirement systems. The data, in ASCII format on a 5-1/4", DS, DD diskette, will be sent on request, free of charge, to participating retirement systems and NEA state affiliates.

To obtain the diskette, complete this form and mail it to:

Data Systems & Services
Research Division
National Education Association
1201 - 16th St., N.W.
Washington, D.C. 20036

Data available for 1985 only
One disk per organization
Allow six weeks for delivery

Please send a copy of the 1985 Retirement Provisions Survey data disk to:

Name: ________________________________

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