ALABAMA
House Bill 134

Alabama has made changes to retirement plan provisions for its Teachers' Retirement System (ALTRS), as presented in House Bill 134, passed on March 31, 2022 (and enacted into law on April 7, 2022). The stated intent of the legislation is to help improve the government's ability to recruit and retain teachers.[1] Equable Institute has analyzed the proposed changes using Retirement Security Report methodology, and we report here how these changes to retirement benefits would influence current and/or future ALTRS plan members.

RETIREMENT BENEFIT SCORE

PRIOR PLAN[2]	ADOPTED CHANGES[3]
49.3% of available points	49.6% of available points

EQUABLE'S ASSESSMENT

PRIOR PLAN	ADOPTED CHANGES
Does NOT Serve All Members Well	Does NOT Serve All Members Well

KEY POLICY CHANGES

- Normal retirement for Tier 2 members of ALTRS is age 62 with at least 10 years of creditable service (or age 56 for school public safety officers).

- HB 134 says individuals who are enrolled in the ALTRS Tier 2 will now be able to qualify for early retirement benefits at an earlier age.

- Vested members of Tier 2 can retire before age 62, but there will be a 2% reduction in the value of benefits for each year before age 62 that they retire.

WHAT HOUSE BILL 134 MEANS FOR WORKERS

ALTRS Tier 2 members — specifically, teachers and other non-public safety members — will be able to start drawing their pension checks earlier than age 62. This will have a marginally positive effect for a small number of ALTRS members (only 15% of new teachers are expected to work long enough to be affected by this provision).

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS PRIOR PLAN[4]

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB134 SCORE Status Quo Score	49.6% Prior Plan: 49.3%	33.8% Prior Plan: 33.2%	41.7% Prior Plan: 41.3%	73.4% Prior Plan: 73.4%
BENEFIT VALUE v. INCOME ADEQUACY TARGET	53.0% of points Prior Plan: 52.4%	27.7% of points Prior Plan: 26.4% Earnings Change: +$63.70/yr	43.3% of points Prior Plan: 42.6% Earnings Change: +$70.80/yr	88.1% of points Prior Plan: 88.1% Earnings Change: +$0.00/yr
COLA & INFLATION PROTECTION[5]	0.0% of points Prior Plan: 0.0%	N/A	0.0% of points Prior Plan: 0.0%	0.0% of points Prior Plan: 0.0%
FLEXIBILITY & MOBILITY	60.0% of points Prior Plan: 60.0%	60.0% of points Prior Plan: 60.0%	60.0% of points Prior Plan: 60.0%	N/A

This table shows the proposed plan's total Benefit Scores, e.g., the percentage of available points for a given category. We also show how proposed changes would improve or decrease the Benefits Score of the prior plan (the "score change"). And we show what the material effect would be on an average employee's annual retirement earnings, using salary assumptions used by ALTRS trustees.

A full scorecard for the prior plan is available in the Retirement Security Report Index at www.Retirement Security.Report.

For a breakdown of score changes by worker class, including for employees classified as elected officials and hazardous members, please visit https://equable.org/oklahoma-house-bill-2486-retirement-security-policy-scores/.

ALABAMA
House Bill 134

EQUABLE INSTITUTE'S ANALYSIS

The new retirement benefit design adopted via HB134 will have a small, positive effect for teachers who want to start drawing pension checks earlier than age 62. However, the positive effect is very small and does not change the fact that ALTRS Tier 2 offers very weak benefits and does not serve its members well.

• Short-Term Workers are not served well by Tier 2, though the adopt of HB134 makes the plan slightly better (33.8% of available points versus 33.2% of Retirement Benefits Score points).

• Medium-Term Workers are also not served well by Tier 2, but similarly are slightly better off due to the changes (41.7% of available points instead of the previous 41.4%).

• Those who work a full career up to age 62 covered by ALTRS are not affected by the changes providing early retirement benefits.

While these numbers are improvements, they are also small enough changes as to be statistically insignificant.

The modification of retirement eligibility rules only applies to those who work at least 10 years to vest in benefits (less than 40% of new, 25-year-old teachers) and then those who work close enough to age 62 such that their early draw down of benefits isn't completely wiped out by the 2% per year reduction in benefit values.

Because the proposed pension plan does not provide meaningfully better benefits, it is unlikely that HB134 will achieve its stated goals.

Most academic literature suggests that few individuals join public service because of the retirement benefits, and other factors like salary, health benefits, and working conditions are stronger factors for retention than retirement benefits (no matter the plan design).[6]

For further Retirement Security Policy Score analysis visit https://equable.org/category/rsr-policy-scores/.

ALABAMA TEACHERS' RETIREMENT SYSTEM

2021 AT A GLANCE

SUSTAINABILITY SCORE[7]
FOR PRIOR PLAN
77.8% of points

EQUABLE'S ASSESSMENT
FOR PRIOR PLAN
Fragile

FUNDED RATIO:	71.0%
TOTAL PROMISED BENEFITS:	$40.0 billion
UNFUNDED LIABILITIES:	$9.4 billion
FUNDING SHORTFALL AS A % OF STATE GDP:	4.2%
ASSUMED RATE OF RETURN:	7.45%
YEARS UNTIL ASSET SHORTFALL IS PAID OFF:	30
# YEARS ANNUAL BILL FULLY PAID:	10/10 years
#YEARS PLAN EARNED THE ASSUMED RETURN:	7/10 years
SOCIAL SECURITY	Yes
FY 2023 EMPLOYER CONTRIBUTION RATE:	2.91%
FY 2023 MEMBER CONTRIBUTION RATE:	6.5%
RISK-SHARING TOOLS:	No

FOOTNOTES: 1 - 7

To read more about the methodology behind our scoring system, please reference the notes section in our extended analysis of the legislation at: https://equable.org/alabama-house-bill-134-retirement-security-policy-scores

ABOUT THESE SCORES
These scores are based on a 25-year-old entrant with average starting salary for members of the plan. It is not intended to comprehensively measure every aspect of a retirement plan, but instead to measure the factors that are most important for measuring retirement income adequacy. It is reasonable to compare plan changes against the status quo, but the most fundamental question is whether any retirement plan (the existing benefits or proposed adjusted benefits) is providing retirement income security to all members of the plan. These scores are based on a comparison against a standard benchmark for retirement income adequacy, but there are other reasonable benchmarks too.

ABOUT EQUABLE INSTITUTE
Equable Institute is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments find ways to both fix threats to municipal finance stability and ensure the retirement security of all public servants.