

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 PLAN⁴

	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 PROTECTION⁵	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.RetirementSecurityReport.

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/>.

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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/>.

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.

ALABAMA TEACHERS' RETIREMENT SYSTEM

2021 AT A GLANCE

SUSTAINABILITY SCORE⁷

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

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COMPLETE BENEFIT SCORES FOR ADOPTED PLAN

Retirement Income Adequacy Score Goal = 100%

	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 (10 to 10 Factors)	49.6% of points	33.8% of points	41.7% of points	73.4% of points
VESTING	0.0% of points Prior Plan: 0.0%	0.0% of points Prior Plan: 0.0%	N/A	N/A
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 POLICY	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: REFUNDING POLICY	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	80.0% of points Prior Plan: 80.0%	80.0% of points Prior Plan: 80.0%	80.0% of points Prior Plan: 80.0%	N/A

WHAT ARE THESE METRICS?

ELIGIBILITY: VESTING – Retirement plan members want to know when they will be vested into their benefits. There is no formal set of vesting rule guidelines for state retirement systems but there is for private sector plans. We use the federal standards for private sector retirement plans (known as ERISA), which specify that employees should be 100% vested after five years of service (though private plans could use a shorter period).

INCOME ADEQUACY: BENEFIT VALUE – Retirement plan members want to be on a path to an adequate retirement benefit. One way to assess the adequacy of benefits of a plan is to compare the value of what a plan member has earned against an adequacy target. The target used in our analysis is a 70% income replacement rate at age 67.

COLA POLICY – Inflation adjustment of benefits is important for retirement income to actually provide security in the long-run. We grade plans on whether or not they have a policy for providing cost-of-living adjustments, and what the rules are for providing that COLA.

FLEXIBILITY & MOBILITY: REFUNDING POLICY – In most retirement systems if a plan member chooses to withdraw before reaching normal retirement, they are entitled to a refund of their own contributions. Often those contributions are supplemented with some amount of interest at a rate most frequently designated by the plan’s retirement board. In a few cases, the refund will may also include a portion of the contributions made by the employer toward the employee’s retirement benefit. Further, in some cases the level of refund can vary according to the vesting status of the member when they leave the system. Finally, some designs provide individuals all of the employer contributions and investment returns on those contributions even if they leave the plan after vesting.

FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE – The interest rate offered by a retirement system on refunded contributions in the event of a withdrawal are another key factor in determining the mobility of a plan’s benefits. If the interest rate is generous, then it will ensure that the employee will at least depart the system with some moderate savings (which could then help them continue saving for retirement). However, if the system does not offer interest or offers a low interest rate, then the member will leave with minimal savings and it will be much harder to reach a secure retirement.

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SCORE BREAKDOWN BY ENTRY AGE — TIER 2 MEMBERS

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS CURRENT PLAN
FOR A 25-YEAR-OLD ENTRANT

	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 (10 to 10 Factors)	47.5% of points Prior Plan: 47.0%	33.6% of points Prior Plan: 33.0%	35.4% of points Prior Plan: 34.7%	73.4% of points Prior Plan: 73.4%
VESTING	0.0% of points Prior Plan: 0.0%	0.0% of points Prior Plan: 0.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	48.7% of points Prior Plan: 47.8%	27.2% of points Prior Plan: 25.9% Earnings Change: +\$62.89/yr	30.7% of points Prior Plan: 29.3% Earnings Change: +\$141.60/yr	88.1% of points Prior Plan: 88.1% Earnings Change: +\$0.00/yr
COLA POLICY	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: REFUNDING POLICY	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	80.0% of points Prior Plan: 80.0%	80.0% of points Prior Plan: 80.0%	80.0% of points Prior Plan: 80.0%	N/A

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS CURRENT PLAN
FOR A 40-YEAR-OLD ENTRANT

	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 (10 to 6 Factors)	51.8% of points Prior Plan: 51.6%	34.1% of points Prior Plan: 33.4%	48.0% of points Prior Plan: 48.0%	73.4% of points Prior Plan: 73.4%
VESTING	0.0% of points Prior Plan: 0.0%	0.0% of points Prior Plan: 0.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	57.4% of points Prior Plan: 57.0%	28.2% of points Prior Plan: 26.9% Earnings Change: +\$64.50/yr	55.9% of points Prior Plan: 55.9% Earnings Change: +\$0.00/yr	88.1% of points Prior Plan: 88.1% Earnings Change: +\$0.00/yr
COLA POLICY	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: REFUNDING POLICY	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	80.0% of points Prior Plan: 80.0%	80.0% of points Prior Plan: 80.0%	80.0% of points Prior Plan: 80.0%	N/A

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FOOTNOTES

1. Mary Sell and Maddison Booth, "[House votes to change teacher retirement age requirement](#)," *Alabama Daily News*, February 4, 2022.
2. This is the average score for the plan based on a 25-year-old entrant, averaging across all classes within the retirement system, averaging across all worker types (Short-Term, Medium-Term, and Full Career). We consider only the classes within this plan that would be influenced by the legislation.
3. As described in "[Enrolled House Bill HB134 By Representatives Baker, Collins, Lovvorn, Wood \(D\), Wheeler, Meadows, Shiver, Robertson, Ledbetter, Shedd and Drummond](#)," as adopted by the Alabama House of Representatives and Alabama Senate.
4. The RSR's Benefit Scores consider a range of factors including eligibility, income adequacy, inflation protection, mobility, and more. Defined benefit pension plans are scored on 10 factors; defined contribution plans are scored on 6 factors. To ensure appropriate comparison between such plans we report the percentage of available points scored across these factors. For a complete list of factors that are used to measure different kinds of retirement plans visit [RetirementSecurity.Report](#) and read the methodology.
5. The Alabama Retirement System's plans, including the Teachers' Retirement System, does not provide cost-of-living adjustments to benefits.
6. Most individuals who become peace officers, firefighters, teachers, or other public workers join because of a personal commitment to the profession, for salary, for health benefits, for secure employment, or because of a family/friend connection. Few individuals make any job choice solely because of retirement plan benefits, no matter the underlying design. There is some evidence to suggest that pension plans can encourage retention of individuals after 15 to 20 years of service, but those effects only have been found with "very generous" benefit values and low member contribution rates, and some academic analysis has found no meaningful retention effects from retirement plan design. For more see, academic analysis from [Stock and Wise 1990](#); [Coile and Gruber 2007](#); [Behagel and Blau 2012](#); [Brown 2013](#); [Clark, Hanson and Mitchell 2016](#); [Ni and Podqursky 2016](#); [Morrill and Westhall 2018](#); [Quinby and Sanzenbacher 2020](#)
7. The RSR's Sustainability scores are an abridged assessment of the financial condition of a retirement system based on investment performance relative to assumptions, the historic consistency of state legislatures ensuring actuarially determined contributions are paid, the existence of risk-sharing tools, and whether the amortization period is projecting full funding in a reasonable period. For complete background on why we use these select factors visit [RetirementSecurity.Report](#) and read the methodology.