Frequently Asked Questions
PENSIONS

What is a pension?

A group styled retirement plan where employers and employees contribute to a pool of funds that is invested on behalf of employees. The asset base generated by the contributions and investment returns, is used to pay the employee a lifetime benefit upon retirement based on wages, service, and age.

How do pensions work?

Employers and employees contribute to a pool of funds. The funds are invested, and the contributions and investment returns are used to pay retirement benefits.

What are the benefits of a pension?

Pensions provide monthly payments for life to retired employees. Pensions offer relatively low fees, asset diversification, longevity risk pooling and professional management. Most DB plans offer disability benefits in the event members become disabled. Many pension plans offer cost-of-living adjustments (COLAs).

How do I calculate my pension?

Benefit levels are determined by a formula that is typically structured as: years of service X their final average salary X a benefit multiplier = pension benefit. However, calculations vary across retirement systems. We encourage you to contact your retirement system to determine the exact formula. Additionally, many retirement systems have produced their own pension calculators that participants can use.

How long do I have to work to get a pension and how much will it be?

Every state has different provisions and requirements to be eligible to receive a pension. Generally, the combination of year of service X final average salary X a benefit multiplier equals the pension benefit. The age requirement can range from 55 up. Typical vesting periods are 5 years.

Do I need to sign up right away or can I wait until I work for 5 years?

Participation in the pension plan is automatic at the beginning of employment. Participation in other optional retirement vehicles is generally optional. There are exceptions and it is recommended to contact the retirement system for your states specific rules.

What is a vesting period?

A period of years (typically 5) employees must work to earn a future benefit.

What happens to my contribution if I don't vest?

Employee contributions-plus interest in most cases may be refunded generally upon request.

When does my pension take effect?

Pensions take affect once an employee satisfies the minimum requirements for retirement and applies for retirement.

How are pensions different than 401(k)s?

Pensions differ in that the employer bears the longevity and all or most of the investment risk. The benefit level is pre-determined.

Pensions provide a guaranteed monthly benefit for life to retired employees. Pensions also offer disability benefits, and many provide COLAs.

401(k)s are employee sponsored retirement savings plans. Employees bear the investment and longevity risks and choose their contribution levels. Like pensions, the employee contributions are made on a pre-tax basis. Unlike pensions, retirement benefit levels are not guaranteed and are dependent upon how much employees contribute and the investment performance. There are no COLAs or disability benefits.

How are pensions different than Roth IRAs?

Pensions differ in that the employee contributions are mandatory, and the benefit level is pre-determined. Pensions provide modest guaranteed monthly payments for life to retired employees for life with disability benefits and optional COLAs. Contributions are mandatory and the benefit is pre-determined.

Roth IRAs are similar to 401(k)s, except they are not employer sponsored plans. Instead, they are individual accounts where the contributions are made on a post-tax basis. Because the contributions are post-tax, the distributions from the plan after retirement age are not taxable.

Do I need a 401(k) or an IRA if I have a pension?

That depends on the amount of the pension benefit. It is generally recommended to have alternative savings in addition to a pension to live comfortably in retirement. Cost of living adjustments in retirement vary and are not always guaranteed. Additional savings accounts allow for a more secure retirement and keep up with inflation.

It is important to note that K-12 employers don't offer 401(k)s and instead offer 403(b) plans.

What is a 403(b) plan and how is it different than a 401(k)?

Like a 401(k) plan, a 403(b) plan is a tax-deferred defined contribution plan. These plans are offered by tax-exempt organizations, including K-12 school districts. Because most educators participate in pension plans, 403(b) plans are usually used to supplement retirement income.

How do I collect my pension?

Once the minimum eligibility requirements for retirement ae met, employees can contact the retirement system to apply for retirement benefits.

What happens if I have a pension from another state?

Generally, having accrued a public pension benefit in another state will not impact your ability to accrue a new public pension benefit in the new state.

If I get married, what does a pension mean for my spouse?

This varies, but generally, a spouse could be entitled to some or all your pension. The pension summary plan description outlines the rules.

What happens to my pension when I die?

Many plans have the option of leaving some or all of pension benefits to a spouse if you die before them. Joint and survivor options are sometimes available prior to retirement. The pension summary plan description outlines the rules.

I moved to a different state, what happens to my pension?

Pensions are generally not transferrable or portable from state to state. However, employees will still receive the benefit accrued in the prior state when they reach retirement age. Employees not vested have the option of withdrawing contributions or leaving the pension in place until retirement age is reached if you are vested.

I'm switching careers—how does moving jobs affect my pension?

Career switching or moving jobs does not affect pensions. Employees who move within the same state to another employer that participates in the same retirement system generally does not impact the pension. However, employees moving to a private sector job can opt to leave the pension in place or take a withdrawal with tax penalties.

Retirement seems FAR away. Do I have to put money towards a pension, or can I opt out?

Participation in the pension system is generally a mandatory requirement. Plan contributions made by employers and employees are used to fund employee benefit payments in retirement. This is generally a state legal requirement.

Learn more about how pensions work

nea.org/pensions