Teacher Pensions MYTHBUSTERS

Pension Myth Defined benefit plans provide teachers with a secure retirement.

The Facts

Less than 20 percent of new teachers will stay in a retirement system long enough to earn full benefits.[1]

- Traditional pension plans are often grossly unfair to teachers who move between states, leave the teaching profession, or enter the profession mid-career.
- The average defined benefit plan intentionally suppresses retirement savings accrual for teachers in their first 20 years of teaching.[2] The typical pension plan offers very little retirement savings even to teachers who stay for 10 or 20 years.
- Under the average defined benefit plan, a teacher who stays in the profession for life, but moves to a different state just once, will lose up to half of her retirement wealth.[3]
- Teachers who move have to reset the clock and start at square one. Service years and pension benefits are not transferrable across states.

Pension Myth Most states have already reformed their pension systems.

The Facts

States have made a lot of changes to their teacher pension systems in recent years – often at the expense of teachers – but these changes represent mostly minor adjustments designed to reduce costs, rather than systemic improvements to teacher retirement plans.

- Since 2009, nearly all states have increased the mandatory contribution amount that employers must pay into pensions, while 29 states have increased the amount teachers contribute; 33 states have increased the age of retirement for current teachers; 27 states reduced or eliminated cost of living adjustments; and 17 states made changes to the final calculation of benefits.
- All of these changes impact the plans teachers accepted at the beginning of their careers, and which they had counted on for retirement.
- With almost $499 billion in unfunded pension liabilities across the country – a debt load that has climbed by over $100 billion between 2012 and 2014 alone – we cannot expect teachers to continue to carry the burden of a broken pension system.[4] State legislators must take action to meaningfully fix teacher pension systems so they are fair to both teachers and taxpayers.

Pension Myth

Defined benefit plans have no risk for teachers while defined contribution plans have great risk.

The Facts

All teacher retirement plans have some level of risk.

- The risk associated with a defined contribution plan is that of investment losses, the same risk that those using a 401K to save for retirement face.
- The risk associated with a defined benefit plan is that of not being in the system long enough to collect fully (or even at all) –a reality for many teachers who choose or are forced to move during their teaching careers or who enter the profession mid-career.

BUSTED

Pension Myth

Defined benefit plans would work for everyone if states made their promised contributions. It's a political problem, not a fiscal problem.

The Facts

Funding shortfalls are real and would be improved if states met their financial commitments, but the structure of pension plans leaves too many teachers without a path to a secure retirement.

- Even if states started to fully fund teacher retirement systems, there is no magic spell that will make the already accrued debt disappear. The problems with current systems go far beyond the impact of downturns or upturns in the economy.
- States must look at solutions –like defined contribution plans –that will keep existing debt from continuing to grow while also offering teachers fair, flexible, and secure retirement plans.

BUSTED

Pension Myth

Defined contribution plans similar to 401(k)s are the only alternatives to traditional defined benefit plans.

The Facts

Other options exist.

- Defined benefit plans can be structured in ways that improve their portability, flexibility and fairness to teachers.
- Cash-balance plans offer teachers individual retirement accounts but guarantee a minimum rate of return rather than being subject to market fluctuation.
- South Dakota offers teachers a portable and flexible defined benefit plan that is also well funded.

BUSTED

Pension Myth

The transition costs of changing from a defined benefit plan to another type of plan are prohibitively high.

The Facts

There is an erroneous but commonly held belief that widely accepted accounting rules required accelerated payments when a plan closes, raising short term costs. This is not true.

- The Governmental Accounting Standards Board (GASB) has important requirements for what public retirement systems must disclose in their financial reporting, but this does not dictate how actual funding must occur.
- Systems must report contribution requirements in specific ways, but it is up to the state to determine how closed plans are funded.[5]

BUSTED

Pension Myth: All teachers prefer a traditional, defined benefit retirement plan.

The Facts

When options are available, teachers increasingly choose defined contribution plans.

- **A recent nationally representative survey found the vast majority of teachers want a retirement plan that is fair, flexible, and offers stability regardless of its structure.[6]**
- **Over 40% of new teachers are career changers who need flexibility in their pensions, so it makes sense that nearly a third would opt out of traditional, defined benefit retirement plans for more flexible options.[7]**
- **In fact, a recent case study in Florida found that 30% of teachers entering the system between 2003-04 and 2008-09 selected a defined contribution option over the traditional defined benefit retirement plan.[8]**

Pension Myth: Defined benefit plans are an effective component of teacher retention strategies.

The Facts

Holding teachers' retirement savings hostage is not a sound retention strategy.

- **Teacher retention rates and rates of withdrawal from state retirement systems do not suggest defined benefit systems prevent teachers from leaving. If pensions were effective teacher retention tools, we would see evidence of teachers remaining in the profession just long enough to qualify for pension benefits, but we don't.[9]**
- **While retirement benefits may help to keep some teachers in the profession, it is not clear that defined benefit plans are helping us retain our best teachers. In fact, evidence suggests that more effective teachers may actually choose hybrid pension plans when given the option.[10] These defined benefit plans may also make it more difficult to attract younger workers, who change jobs and move more often than previous generations.[11]**

To learn more about teacher pensions and other reforms to elevate the teaching profession visit: nctq.org, studentsfirst.org and teacherpensions.org

National Council on Teacher Quality

studentsfirst

Footnotes

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[3] Costrell, R., Podgursky, M. (2010) Distribution of benefits in teacher retirement systems and their implications for mobility. Education Finance and Policy, 5, 4, 519-557.

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