

Education Week

Pensions Blamed for Costing Schools New Talent

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By Stephen Sawchuk

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Baby boomers, who make up a majority of the U.S. teaching force, are inching closer to retirement. Couple that with the downturn in the economy, and renewed worries about pension-fund liabilities are cropping up across the nation.

Yet as policymakers focus on ways to make teachers' pension plans sustainable over the long haul, some economists and administrators are concerned about what they see as another cost of those systems: the pressure they exert on the flow of teachers into and out of the profession.

Such plans, they say, strongly “backload” benefits toward teachers who stay in the profession for decades, regardless of whether those veterans are the most effective teachers. That bias, critics say, comes at the expense of teachers who are unable to commit to such a long career or who move to teach in another state or district.



Teacher Leslie Boyadjian coaches a soccer game at Washington Middle School in Albuquerque, N.M. Her take-home pay would drop under a plan by lawmakers to raise employees' pension contributions.

—Sergio Salvador/AP

By tying up precious funds, economists and others suggest, defined-benefit pension plans may be hurting districts' efforts to attract and retain talented novices and midcareer teachers.

“There's a whole group of teachers ... who may be interested in spending a good five, 10, 20 years in teaching. But they get penalized by the pension system, relative to those who stay longer,” said Robert

M. Costrell, an economist at the University of Arkansas at Fayetteville and the author of a number of studies on pensions.

“The hypothesis,” he said, “is [that] this may also be a disincentive to such teachers to even enter the system.”

The empirical evidence to back up such claims remains slim. But administrators like Brad Jupp, the senior academic adviser to the Denver public schools, say that a re-examination of how pensions affect the labor market is worth fresh consideration.

“I don’t think there are many people who have been clear-sighted enough to ask whether [these pensions systems are] unfair to either younger teachers ... [or] to students,” Mr. Jupp said.

“We know that changing entry-level pay could change the kind of people who are applying for jobs.”

Researcher interest in the effects of teacher pensions has grown over the past two years, and it resulted in a [major research conference](#) sponsored in February by the National Center on Performance Incentives at Vanderbilt University, in Nashville, Tenn.

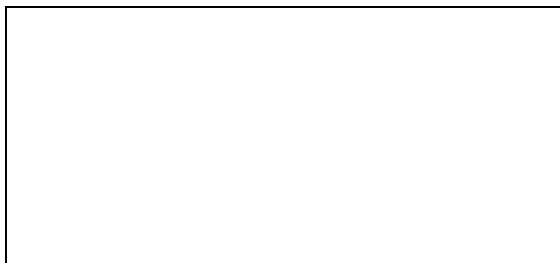
Backloaded Benefits

In a defined-benefit pension plan, teachers are guaranteed a specific annuity determined by their final salaries and years of service. The annuity is not related to teachers’ payroll contributions into the pension system.

In an analysis presented at the Vanderbilt conference, Mr. Costrell and Michael Podgursky, a professor of economics at the University of Missouri, in Columbia, found that about half an entering cohort of teachers’ net pension wealth is redistributed from those who separate from the system early to veterans who reach early retirement.

Net Pension Wealth: Missouri Model

The total retirement benefit due a Missouri teacher who enters at age 25 differs greatly depending on when she retires.



SOURCE: Robert M. Costrell

The early-retirement date is typically set by a combination of age and years of service, such as Missouri’s “rule of 80,” which allows, for instance, a 52-year-old with 28 years of service to retire. Teachers tend to take advantage of such options because they cause pension wealth, based on life expectancy, to increase sharply.

Teachers who leave the system before early retirement must defer the collection of payments until the normal retirement date, usually when they are in their 60s. As a result, they collect fewer payments.

The general pattern of redistribution found by Mr. Costrell and Mr. Podgursky held across analyses of pension systems in Arkansas, California, Massachusetts, Missouri, Ohio, and Texas.

Additionally, under defined-benefit systems, even teachers who are vested cannot withdraw their retirement money without forfeiting their employers' shares of the contributions. So they must leave their pensions in the old system and enroll in a new one when they change jobs. And they lose a lot of pension wealth by doing so.

For example, a teacher who enters the Missouri system and retires under the early-retirement option at 55 will have net pension wealth of about \$627,000. Contrast that with a teacher of the same age who takes a teaching job in another state after 15 years in Missouri and retires at age 60. Assuming the new state has a pension system like Missouri's, this mobile teacher's pension wealth will total about \$219,100 under the two systems.

The disparity occurs because the mobile teacher doesn't qualify for early retirement under either system, and receives five fewer years of payments.

Most of this "mobility loss" occurs when teachers move from one state to another, since most teacher-pension systems are run statewide. But the problem also exists in such cities as Chicago, Cleveland, Denver, and St. Louis, which established public pensions ahead of their states.

Unintended Effects

Researchers and teacher advocates don't agree, however, on whether such effects skew the teacher-workforce composition in a positive or a negative way.

Supporters of defined-benefit plans say lawmakers purposefully designed them to keep teachers in the profession for many years.

"There's no question that a defined-benefit plan favors a long-term employee, but the theory with most states is that you want a plan that's going to 'incent' a teacher to become a teacher and stay a teacher so you don't have turnover," said Jim Mosman, the executive director of the Sacramento, Calif.-based National Council on Teacher Retirement, which tracks pension policies.

On the other hand, such pensions lock in funds that could otherwise be put toward alternative methods of recruiting, compensating, and retaining teachers, especially new hires who may not stay in the state or district for 30 years. That was the conclusion of a 2008 report by the Piton and **Donnell-Kay foundations**, based in Denver, that was commissioned by that 75,000-student district to study its pension system.

The report shows that the district's pension system, to an extent, works at cross purposes to its ProComp pay system. Late last year, district leaders retooled ProComp, which is among the first pay systems to discard a district-wide salary schedule, to increase compensation incentives for new teachers in the hope of boosting recruitment efforts. (["School Leaders Target Salary Reform Toward Newer Teachers,"](#) Jan. 28, 2009.)

“I think especially for folks under 35, they want to see [increased compensation] in their salary,” said Mr. Jupp, the Denver administrator who helped negotiate ProComp as a teachers’ union official.

He added that the lack of pension portability has hurt Denver’s ability to attract talented midcareer principals from other districts.

Turnover Rates

Not all stakeholders agree, however, that traditional pension systems have a dampening effect on attracting and keeping teachers.

Rachel A. Quinn, the assistant director of the research department of the 1.4 million-member American Federation of Teachers, said newly minted teachers are not less likely than their earlier counterparts to commit to long careers in teaching.

Data from the federal Schools and Staffing Survey show that turnover rates among teachers in their first three years on the job have actually fallen slightly, from 8.3 percent in 1987-88 to 8.1 percent in 2004-05, she said.

Ms. Quinn also questioned whether changing pension plans to redirect savings to other teacher-compensation initiatives would be politically possible.

“The idea that money is magically going to come out of pensions and appear in salaries, to me, is a little optimistic,” she said. “I would imagine we’d have to fight pretty hard for that money.”

Nevertheless, teacher-policy experts argue that turnover rates among teachers are still higher than they need to be. Whether changes to pension systems can help alleviate that problem remains yet to be studied. State lawmakers have not had much luck moving to alternative pension models, such as defined-contribution plans, which require teachers to choose 401(k)-style investment options and do not guarantee a fixed payment. The teachers’ unions don’t favor such plans because they are riskier for teachers.

An Alternative?

In their paper, Mr. Costrell and Mr. Podgursky floated a second option that they argue would reduce teacher risk. Called a “cash-balance plan,” the model guarantees a specified rate of return, such as 5 percent, based on the contributions of teachers and districts. Net pension wealth thus would grow smoothly and predictably over time.

Because such a plan would uncouple the calculation of benefits from a teacher’s length of service in the district, it would allow beginning and midcareer teachers to accrue much more significant pension benefits, and equalize turnover across teacher age, Mr. Costrell postulated. As a result, he argued, teachers’ decisions to stay or leave could be more strongly tied to factors such as performance or effectiveness.

“A defined-benefit system doesn’t discriminate,” he said. “It pushes out both good and bad [teachers] and keeps in both good and bad. Under a more neutral system, we might expect that teachers who know this is not for them would leave, and those that know it is for them would stay.”

Teacher representatives, though, say that viewpoint overstates the benefits of cash-balance plans.

“CB plans are neither more nor less portable than traditional pension plans,” Ms. Quinn of the aft said. “The fact of the matter is that it’s up to the policymakers” who set plan rules to determine portability options.

Mr. Costrell acknowledged the dearth of reliable ways to determine how cash-balance plans or other alternatives would change the teacher workforce.

And so far, neither states nor teachers are clamoring for them.

That lack of demand, some experts say, may reflect the fact that early-career teachers are not always aware that leaving the profession early will cost them significantly in pension wealth.

“I think early-career teachers ... haven’t necessarily flagged [the retirement system] as an area of concern. And when you get into it deeply, it’s incredibly complex,” said Celine Coggins, the executive director and founder of Teach Plus, a Boston-based group that works to improve teacher retention in urban schools.

“The [defined-benefit pension] system does work for a whole bunch of people,” Ms. Coggins said, “so to an extent, [early-career teachers] might be thinking, ‘I might stay, and if I stay, that sure does look good.’”

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