

Taking Flak from All Sides: Attacks on Teacher Retirement Systems



NIRS Visionary Circle
Tucson, AZ
October 6, 2017

Diane Oakley, Executive Director



NATIONAL INSTITUTE ON
Retirement Security

Reliable Research. Sensible Solutions.

Where is the Attack on Teacher Pensions Coming From?

- Big money groups such as the Koch Brothers and Laura and John Arnold;
- Anti-Union / Anti-"Big Government" Groups;
- Big Business Advocates such as the U.S. Chamber of Commerce and ALEC;
- Education Reform Groups; and
- Grover Norquist / Americans for Tax Reform.



This proposal would put new state hires in 401(k)-style retirement plan

Public pension consultant Mike Nadol presents a proposal for new state workers on Monday, Aug. 28, 2017, that would place them in a 401(k)-style retirement system.

Jack Brammer - jbrammer@herald-leader.com

Closing the state's traditional pension plans to new workers would cost the state more, they argue, because the contributions of current workers could no longer help pay for the benefits of current retirees.

Sunderland's email, titled "Understanding the Transition Cost Myth," links to two studies by the Reason Foundation, a Libertarian-leaning think tank, to defend Bevin's position.

In the email, Sunderland said Kentucky's pension plans were never supposed to be using the contributions of current employees to help pay the benefits of current retirees. As the state cuts jobs and as the number of retirees increases, any plan that relies on current and future

Tillerson: I never considered leaving post of top diplomat

The Latest: White House says Trump confident in Tillerson

Federal government: No threatened species listing for walrus

Las Vegas gunman's girlfriend returns to US for questioning

MORE POLITICS & GOVERNMENT



NATIONAL INSTITUTE ON
Retirement Security

Reliable Research. Sensible Solutions.

Why Are They AGAINST Teacher Pensions?

- Big money groups such as the Koch Brothers and Laura and John Arnold
 - Downsize state governments and advocate for charter schools
- Education Reform Groups
 - Advocate charter schools and reduce influence of teacher unions
- Anti-Union / Anti-“Big Government” Groups;
 - Take away power from unions and downsize government
- Business Advocates (U.S. Chamber of Commerce and ALEC)
 - Corporate America abandoned pensions and greater markets (fees) for 401(k)s
- Grover Norquist / Americans for Tax Reform;
 - Downsize government



2017 Pennsylvania Pension Reform

- Op-ed by Sens. Corman and Browne: 75% of teachers leave before 20 years and claims reform shave off \$5 billion of pension debt (\$80 billion).
- Pew Charitable Trust-- "the most comprehensive and impactful reform any state has implemented.
- New Teachers: Lower Benefits/ Higher Cost

Option	<u>Default Hybrid</u>	<u>Alt. Hybrid</u>	<u>Defined Contribution</u>
Benefit Reduction	17%	35%	57%
Higher Contribution	10%	0%	0%

- *PennLive*: “perplexing thing about this plan is that it actually raises costs.” Saves only \$1.4 billion over 32 years.





Teacher retirement deal includes boost for some current teachers

- Closing Combined DB/DC to new members adds \$46B in retirement cost (House Fiscal Agency 5/24/17)
- Michigan Mackinac Center – “Pension Protestors Should Be 401(k) Supporters” (ALEC and DeVos)
- Revised Pension Reform Passes June 15
- New EEs Choice: Improved DC(default) or DB/DC
- DB plan – 6% Assumed ROR, 50/50 Cost Share
- **Concern:** If Hybrid funding falls below 85% for 2 years in a row, it triggers shutting down the Hybrid – DC plan only.



Claims of “Real” Reform Surface

But, their “Opinion” pieces do not tell the full story.

Pensions & Investments

OTHER VIEWS

The slow road to state pension reform

BY ROBERT POZEN - JUNE 26, 2017 8:48 AM - UPDATED 8:51 AM

Pennsylvania, like many other states, is facing a huge unfunded pension deficit in its defined benefit plans: a \$70 billion



The Post's View - Opinion
One major state takes a smart step toward avoiding financial disaster



Democratic Gov. Tom Wolf signs legislation designed to reduce long-term public pension costs, in the Pennsylvania Capitol on June 12. (Mark Levings/PHOTOGRAPHY PRESS)

By Editorial Board 6/26/17

THE EASIEST thing for any government to do is to give the voters what they want today, and worry about paying for it tomorrow. That basic tendency explains much of the process that landed Puerto Rico in the equivalent of bankruptcy. Illinois, New Jersey and Connecticut have trod a similar path of least political resistance en route in financial trouble, albeit not as dire, yet, as the mess in Puerto Rico.

And so it is heartening to see that at least one major state has decided to take a long-term approach: On Monday, Pennsylvania Gov. Tom Wolf signed a pension reform law that will help the state appropriately



NATIONAL INSTITUTE ON
Retirement Security

Joshua Rauh - “The Pension Bomb” Is Back! Headlining in Kentucky!

Figure 3. When States Will Run Out of Pension Money

	Year Fund Runs Out
Oklahoma	2017
Louisiana	2017
Illinois	2018
New Jersey	2018
Connecticut	2018
Arkansas	2019
West Virginia	2019
Kentucky	2020
Hawaii	2020
Indiana	2020

**Stanford University’s
Rauh Coming to UK to
Discuss Pension Issues**



LJAF's Josh McGee Falsely Claims Pensions NOT Fiscally Responsible



Equivalent Cost for Equivalent Benefits:
Primary DC Plans in the Public Sector

Josh B. McGee, Ph.D.

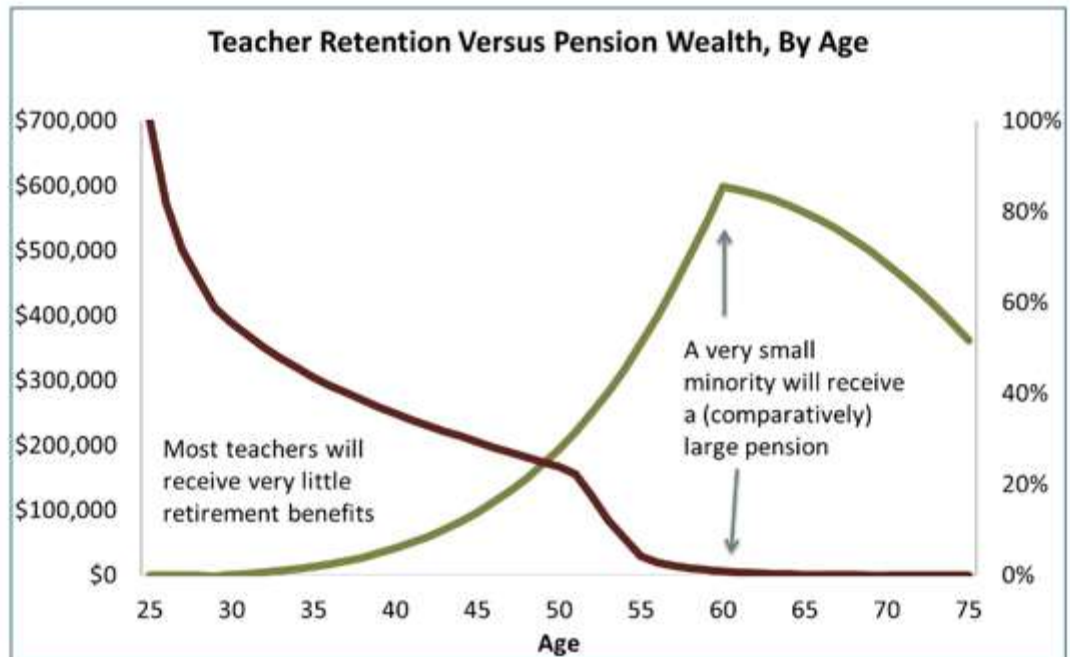
Vice President of Public Accountability
Laura and John Arnold Foundation

NIRS Fact Check

- Data misleading
- Not relevant
- NIRS Adds up
- Fair, Accurate Model
- DB returns top TDF's
- DC plan buys annuity from DB plan.

McGee's View: Backloaded Pensions Help a Small Minority of Teachers

Policy makers should consider the effect of backloaded benefits on all workers.



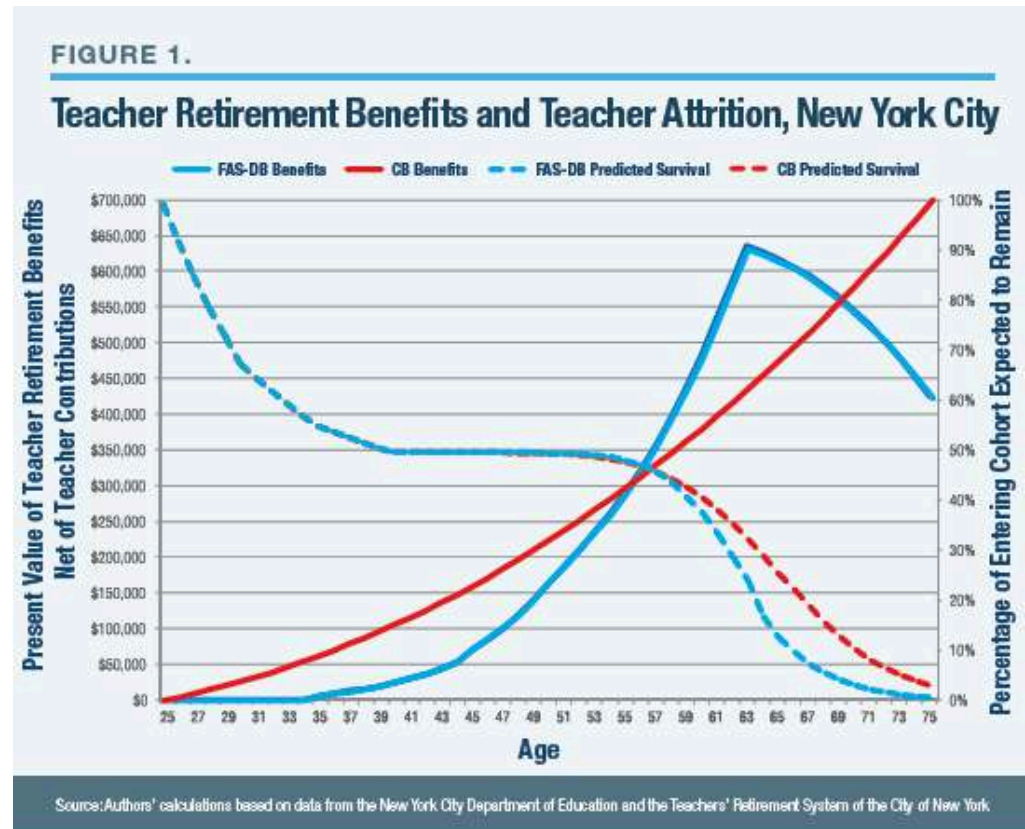
McGee's Public Testimony at the Louisiana Actuarial Committee

- The Final-Average-Salary Defined Benefit (FAS DB) plan *is not* the most cost-effective model.
- FAS DB retirement plans often *do not* help all workers reach retirement security.
- FAS DB retirement plans *do not* facilitate recruitment and retention better than other retirement plan models.
- Moving to a different retirement plan model *does not* result in large transition cost or harm the legacy plan.



Manhattan Institute: McGee Claims Better Teacher Retention in Cash Balance Plan

Results due to later retirements after normal age.



NEWS: Washington Reopened its Closed DB Plan to New Teachers

BUT Bellwether Claims :

Teacher choices in Washington show popularity of the combined DB-DC Plan.

Combined DB-DC Plan can be attractive to teachers and states.



NATIONAL INSTITUTE ON
Retirement Security

TeacherPensions.org Feeds Media with Misleading Posts

The Washington Post

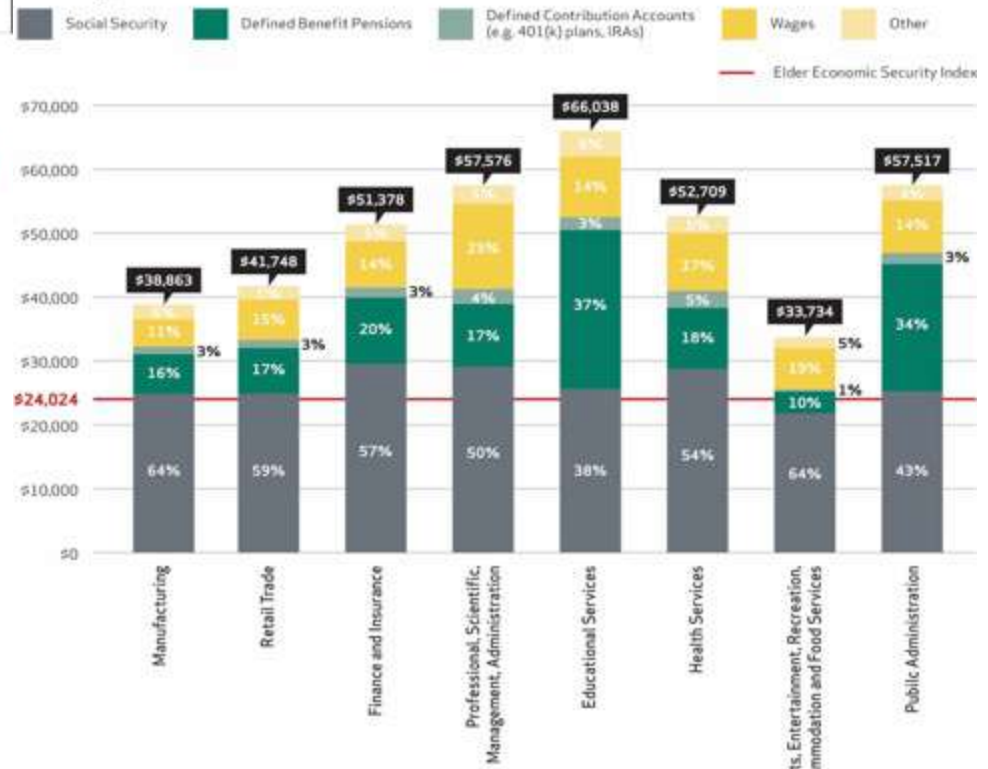
By Andrew J. Rotherham and Chad Aldeman May 16

Opinions

Many teachers face a retirement savings penalty when leaving the profession



Figure 12: Composition of average household income for women aged 65 and over, by industry, in 2013



More on the Washington Post Op-ed by Bellwether's Rotherham

By Diane Oakley, Executive Director, NIRS

Pension systems for public school teachers provide adequate lifetime incomes to teachers who spend a large part of their careers in classrooms. At the same time, these defined benefit (DB) plans help schools attract and, very importantly, retain experienced teachers who are central to delivering a quality education to our children.

TeacherPensions.org's Back to School New Teacher Message

- Rookie Teachers and NFL Players face vesting penalty.
- Claims teacher pensions are not portable.
- **Teachers are vilified, while football players are idolized.**

Opinion

What Teachers and NFL Players Have in Common: Pension Problems



National Center on Educational Statistics: Teacher Attrition After the First 5 Years

70% of the teachers hired in 2007-2008 still taught at the same school (stayers), 13% moved to another school (movers) and 17% left teaching.

Table 1. Number and percentage distribution of 2007–08 beginning public school teachers, by teacher status: 2007–08 through 2011–12

Year	Number of teachers			Percentage distribution	
	Total	Teacher status		Teacher status	
		Current	Former	Current	Former
2007–08 ¹	156,100	156,100	†	100.0	†
2008–09	156,100	140,600	15,500	90.0	10.0
2009–10	156,100	136,900	19,300	87.7	12.3
2010–11 ²	155,800	132,700	23,100	85.2	14.8
2011–12 ²	155,600	128,700	26,900	82.7	17.3

† Not applicable.

¹ BTLS teachers began teaching in either 2007 or 2008.

² The estimated total number of teachers for each year 2010–11 and 2011–12 is smaller than the estimates for the earlier years because a small number of sample members (less than 5) were found to be deceased during these years.



TeacherPensions.org's Aldeman: Pensions Don't Retain Teachers

Misinterprets Changes to Two Pensions for Teachers



Retirement Plans Don't Affect Teachers Until Teachers Are Ready to Retire

By *Chad Aldeman* 07/05/2016

 PRINT |  NO PDF |  SHARE

Advocates of teacher pension plans claim that pensions help retain teachers in the profession. That is, they argue that the very structure of defined benefit pension plans encourages workers to stick around and devote their lives to the profession.*



The problem is, researchers can't find much evidence this is true. For example, when [St. Louis](#) spent \$166 million to enhance the retirement benefits it offered to teachers, it saw a temporary, one-year boost in retention among teachers already eligible for retirement. But all other groups of teachers acted as if nothing had changed; after all that money, they were no more or less likely to leave St. Louis schools. Similarly, state plans themselves do not assume that qualifying for a pension has an [effect](#) on teacher retention. If pensions were really a retention incentive for workers, we'd see evidence of teachers handing on

Claim: St. Louis Teachers Do Not Value Pension Benefits

- Starts with a big assumption, in St. Louis teacher's plan back in 1999 and concludes:
 - Teachers simply do not value pension benefits” or
 - “Opportunistic resource extraction” occurred by senior teachers.
- Totally unsupported by the facts and the actual situation in 1999.

Do Pension Enhancements Improve Teacher Retention?

Cory Koedel

Summary

- In 1999, St. Louis Public Schools (SLPS) made a substantial, retroactive improvement to the pension benefit formula for public school teachers.
- The retroactive benefit improvement was expensive – in a recent paper we estimate that the implementation cost, in present value, was roughly \$166 million for the single cohort of SLPS teachers working at the time, or \$52,000 on average per teacher (dollar figures are in 2013 dollars). The enhancement also committed SLPS to providing pension benefits under the improved formula, which is still in place today, for new hires.
- A policy rationale for the enhancement is that it increased teachers' retention incentives. However, we do not find any evidence that teachers' retention outcomes responded to the changes in their pension incentives.
- The proportion of SLPS's budget devoted to paying pension benefits for its teachers has been rising in recent years. Although it would be irresponsible to claim that SLPS's pension-cost issues stem solely from the 1999 pension enhancement covered in this brief, it would be equally irresponsible to deny that the enhancement has played an important role.

Policy Context

Unlike their private-sector professional counterparts, public workers – including public school teachers – receive a significant fraction of their compensation in the form of a defined-benefit (DB) pension. For St. Louis teachers, who are the focus of this policy brief, current pension costs are over 20 percent of earnings (with 5 percent coming directly from teachers and the remainder being paid by SLPS). These costs are only to cover pension benefits and do not cover other benefits, like health insurance.

By design, benefit payments in DB plans are not directly tied to contributions at the individual level; rather, they are defined by a formula that depends on the employee's years of service and salary. The SLPS annual benefit formula – which has the same structure as other public pension plans nationally – is as follows:

$$B = F * YOS * FAS$$



Koedel is an Assistant Professor at the Harry S Truman School of Public Affairs. His research areas include Economics of Education, Labor Economics and Applied Microeconomics.

Report 10-2016
October 2016

Institute of Public Policy
Harry S Truman School of Public Affairs
University of Missouri

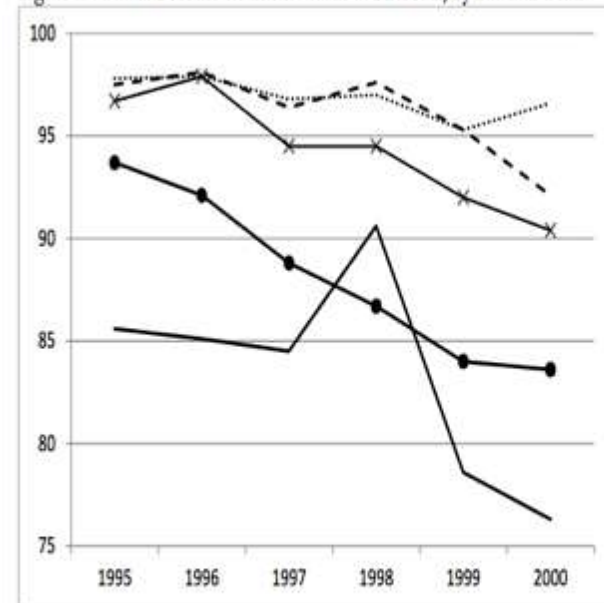


NATIONAL INSTITUTE ON
Retirement Security

Retention of Teachers Already High Pension Benefits Perhaps Inadequate

- In 1999, the St. Louis School Board improved the benefit formula by increasing its multiplier to 2 percent.
- **Assumed rationale** was to improve retention, but 95-97% of teachers returned each year. In fact, 85% of teachers eligible for retirement returned too.
- **Perhaps, teachers could not afford to retire.**

Figure 2. Annual Teacher Retention Rates in St. Louis, by Bin and Year.

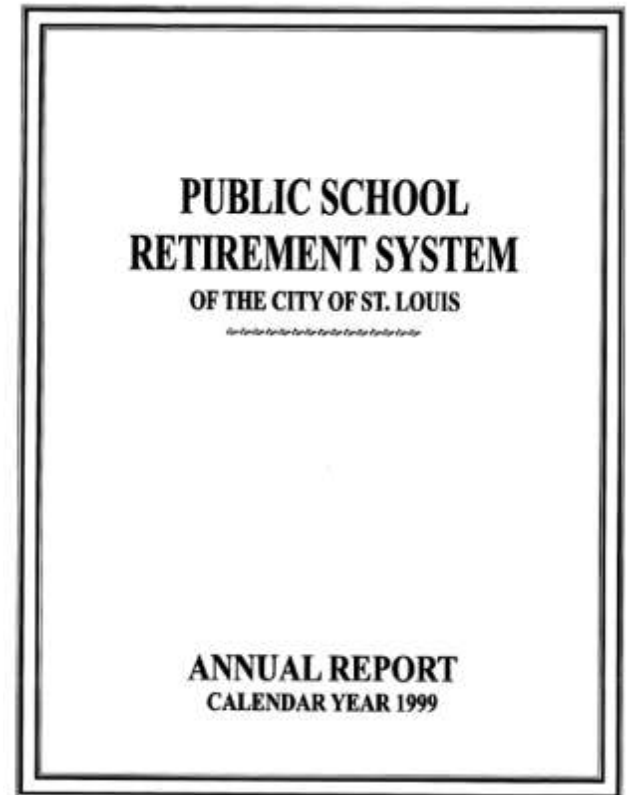


Notes: The labels on the horizontal axis indicate school years by the spring year (e.g., 1996 indicates the 1995-1996 school year). Bin 1 teachers are represented by the solid line, bin 2 teachers by the dashed line, bin 3 teachers by the dotted line, bin 4 teacher by the line with x's, and bin 5-6 teachers by the line with circles.



St. Louis Teachers Fully Funded after Pension Benefits Improved

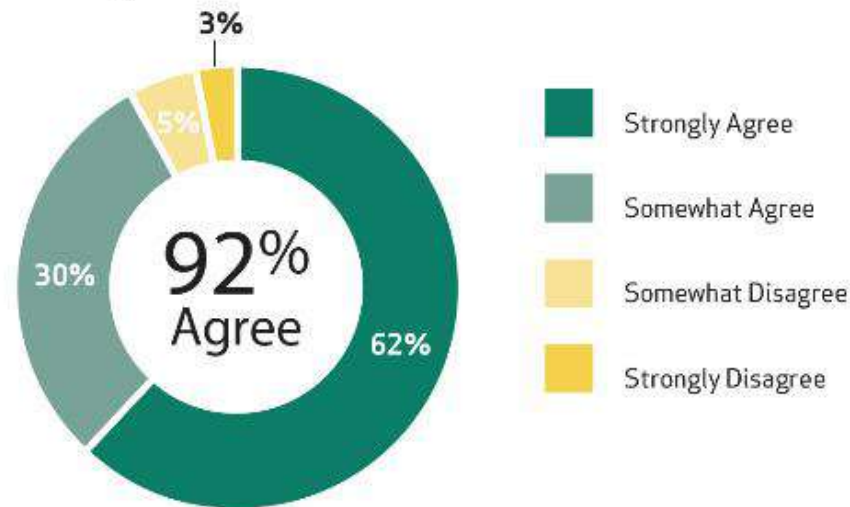
- After recognizing the new liabilities for benefit change, 2000 actuarial valuation – STLTRS was funded at 100% actuarially and 120% on a market basis.
- Employee and employer contributions contributed to overfunding status in 1999.
- Teacher contributions increased going forward and employer contributions continued.



92% of Americans see pensions as public pensions as recruitment tool.

Figure 35: **92 percent of Americans say pensions help recruit and retain qualified employees.**

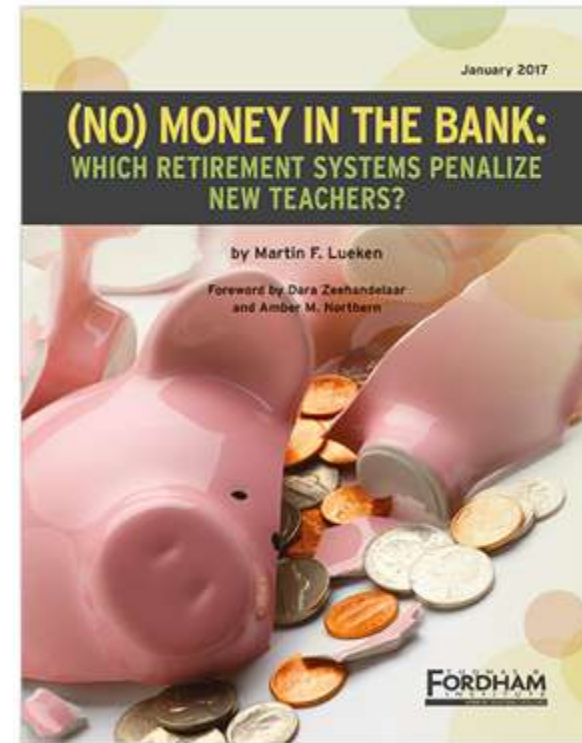
Please tell me whether you (agree/disagree): Pensions are a good way to recruit and retain qualified teachers, police officers, and firefighters.



Pension Crossover for New Teachers

Pension benefit more than accumulated contributions

- Seek to undermine support of pensions among new teachers
- Claim most new teachers get nothing more than own money
- Misleading: The median crossover point is 25 years before benefit is greater than accumulated contributions.
- New teachers revenue for plan



Critics Grade Teacher Pensions

Retirement Reality Check:

Grading State Teacher Pension Plans

F

Doing the Math
on Teacher Pensions

C-



C



What is on Their Retirement Test?

TeacherPensions.org – 6 Factors

- The percent of salaries going toward retirement
- The percent of pension contributions going toward pension debt
- The percent who qualify for employer-provided benefits
- The percent who earn retirement savings worth at least their own contributions plus interest
- The percent of teachers covered by Social Security
- Existence of a portable retirement savings option



Questions?



National Institute on Retirement Security
www.nirsonline.org



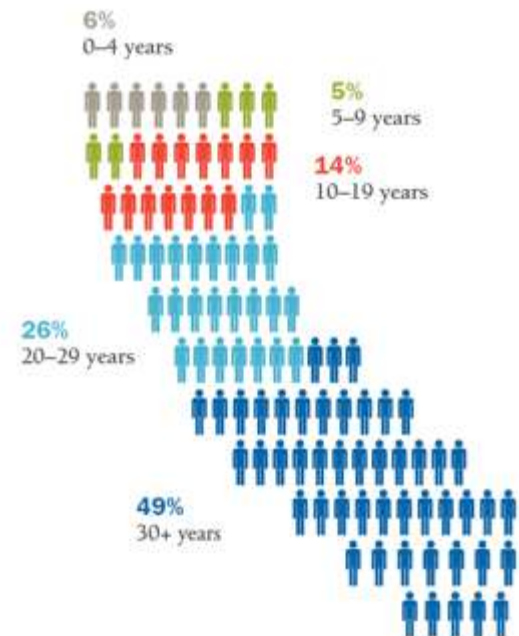
NATIONAL INSTITUTE ON
Retirement Security

UC Berkeley: Are California Teachers Better Off with a Pension or a 401(k)?

Findings:

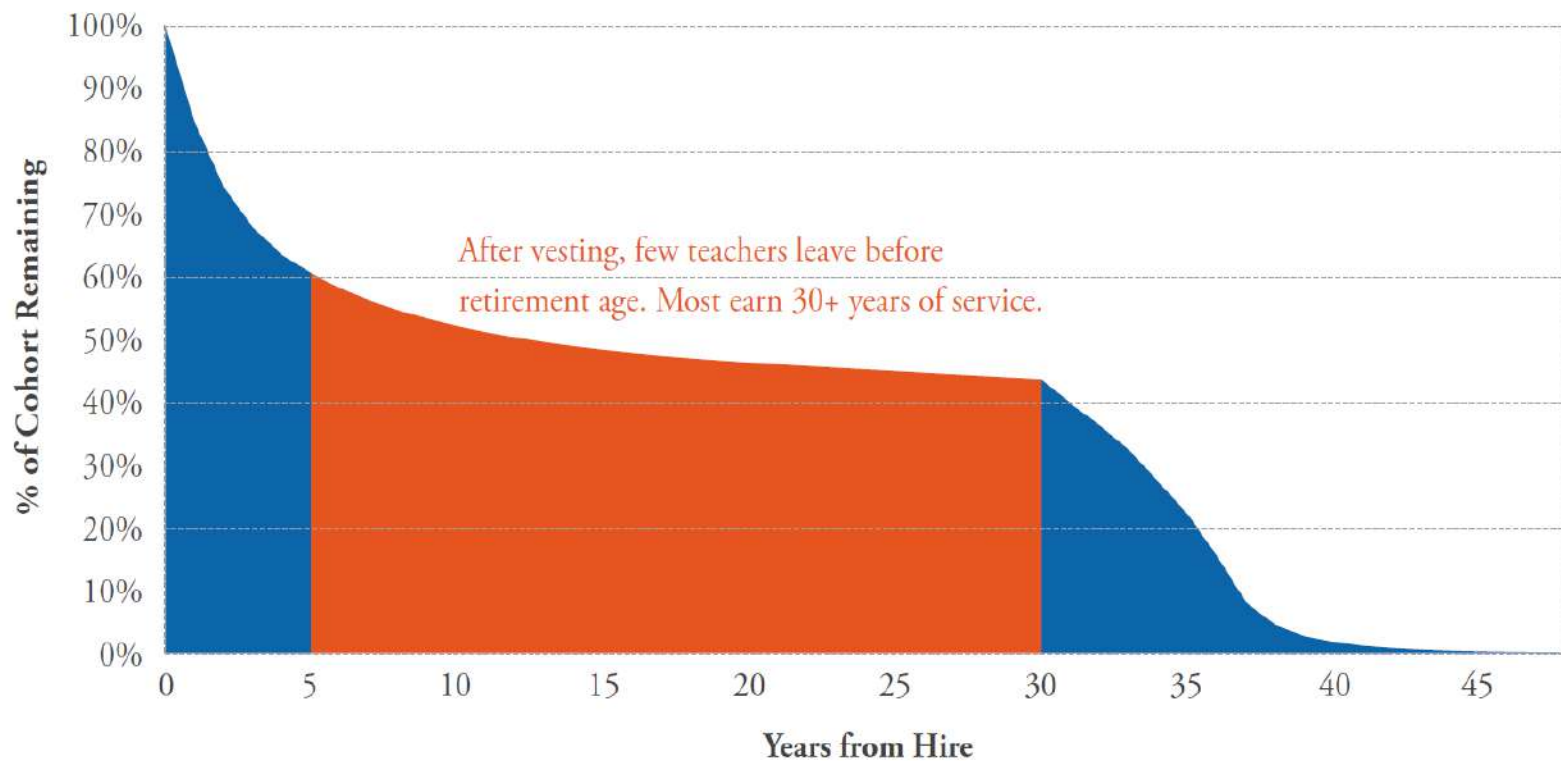
- It is misleading to use young, new-hire turnover to represent the majority of the educational workforce as a whole.
- While CalSTRS has four out of 10 new hires leave before vesting in any given year they represent less than 6 percent of the classroom teachers.

Projected Tenure of Current California Teachers



UC Berkeley: Attrition Is Concentrated in First 5 Years After Hire

Cumulative Retention for Teachers Hired at Age 25



UC Berkeley: Are California Teachers Better Off with a Pension or a 401(k)?

2) For the vast majority of California teachers (6 out of 7), the CalSTRS defined benefit pension provides greater, more secure retirement income compared to a 401(k)-style plan.

» 4 out of 5 (79%) better off compared to a generous Cash Balance Plan.

Share of California Teachers Who Are Better Off With CalSTRS Defined Benefit Pension



Compared to Idealized Defined Contribution Plan



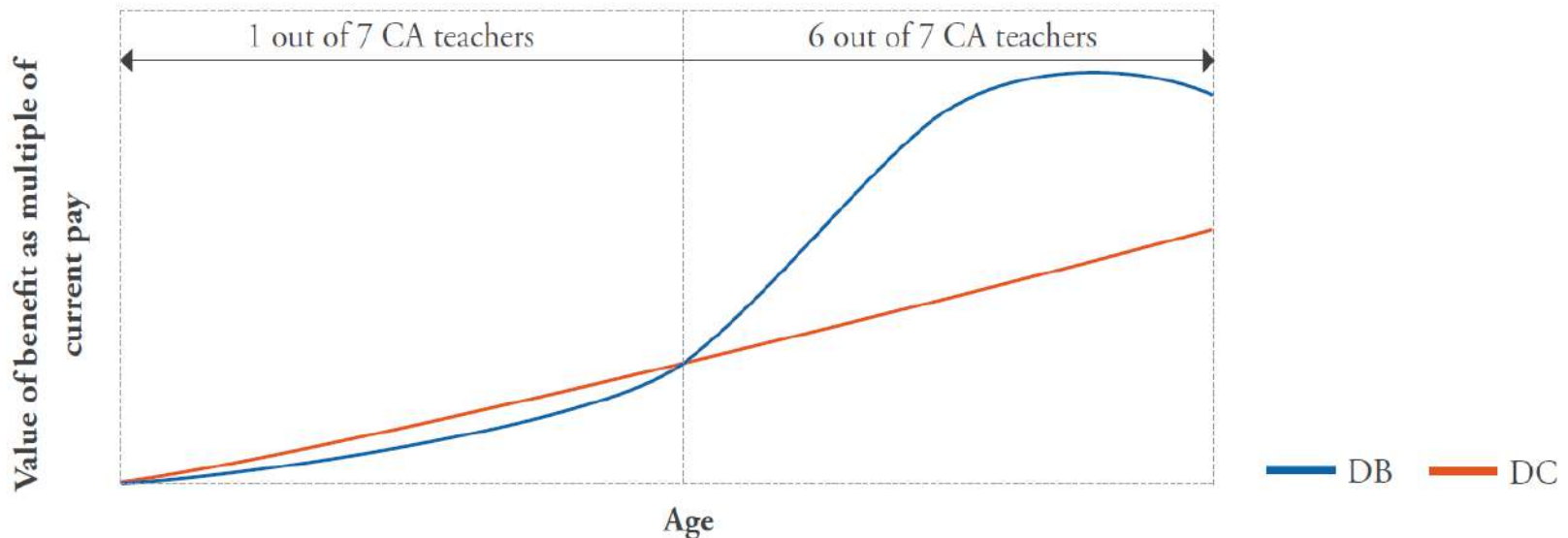
Compared to Generous Cash Balance Plan



UC Berkeley: Tenure and Benefit Accrual Patterns then Better with DB

When Tenure Is Considered in Tandem with Benefit Accrual Patterns, Vast Majority of CA Teachers Are Better off with CalSTRS Pension

Benefit Accumulation under CalSTRS Defined Benefit Pension vs. Idealized Defined Contribution Plan



UC Berkeley: Are California Teachers Better Off with a Pension or a 401(k)?

- For six out of seven CA teachers, CalSTRS provides a greater retirement income compared to a 401(k) plan.
- CalSTRS DB benefit is greater than a generous cash balance plan at age 56, when 79% of active educators are still teaching.

