Researchers find that experienced teachers reap the benefits of pension spikes, then retire

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Teacher shortages and requirements associated with the No Child Left Behind Act combine to make experienced teachers valuable assets. However, despite their high demand, an increasing number of seasoned educators are retiring. Economic researchers have found the structure of many teacher pension plans is the primary reason that many elect to retire.

Likewise, the researchers said those plans have the effect of locking younger teachers, who may want to leave or are better suited for another job, into "putting in time" so as to receive a large spike in pension wealth.

In their study, Robert M. Costrell, professor of education reform and economics at the University of Arkansas, and Michael Podgursky, professor of economics at the University of Missouri-Columbia, found that teacher pensions don't have a smooth, uniform trajectory of wealth accumulation. Rather, the plans are typified by sharp peaks and valleys caused by changes in the annual annuity payment (determined by a benefit formula) and the number of years a teacher can expect to collect it.

Costrell and Podgursky said that arrangement entices teachers to stay on the job until they reap the benefits of sharp pension spikes and then pushes them to retire early – often in their early to mid-50s.

The researchers said that for those who want to leave the profession, working just a few more years can mean a difference of several hundred thousand dollars.

Not surprisingly, they said, many teacher pension systems are allowing educators to continue to teach and collect their pensions at the same time, which is referred to as “double-dipping.” Those provisions, such as part-time employment, employment in areas with shortages and returning to full-time duty after a specified break in service, seem to be expanding, they said.

In Arkansas, one of the five states in their study, Costrell and Podgursky noticed that for a teacher who entered the profession at age 25, a particularly sharp spike occurs at age 50 – when that teacher’s pension wealth increases by almost five times his or her salary. Pension wealth accrual drops off precipitously the following year and by age 54 has turned negative. Similarly, teachers in Missouri, California, and Massachusetts experience pension spikes in their early to mid-50s, followed by much slower growth and ultimately shrinking pension wealth.

They said state legislatures often enhance the benefit formula when the stock market is up and the value of pension funds is high. Then, when the market falls, state officials find themselves saddled with large, unfunded liabilities. Costrell and Podgursky point to benefit enhancements enacted by the legislatures in California and Massachusetts that have created spikes where none previously existed.

In Arkansas, benefit enhancements over the years have shifted the spike to benefit those who retire early, they said. Likewise, Ohio’s multi-spiked system reflects its history of legislative benefit enhancements: the state once had a single pension spike for teachers at age 60; it now has three spikes, beginning at age 50.

Source: University of Missouri-Columbia

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