MU research on teacher retirement systems timely for reform efforts

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A number of states are trying to deal with huge unfunded pension liabilities that threaten to absorb large shares of K-12 education budgets. Because this fiscal crisis may force policymakers to consider teacher retirement benefit system reform, the authors of a newly published journal issue suggest now is the opportune time to examine the consequences of these systems on school staffing and educator quality.

Michael Podgursky, a professor of economics in the University of Missouri College of Arts and Science, co-edited, with University of Arkansas Professor Robert Costrell, a special issue of the journal *Education Finance and Policy*, the official journal of the Association for Education Finance and Policy, which focuses on teacher retirement benefit systems. The volume, available online and in print, was based on a 2009 academic conference held at Vanderbilt University and is the main source of research to date on teacher retirement benefit systems for state policymakers and researchers. The conference brought together scholars from a variety of disciplines – including economics, political science, law and public policy – from major research universities and research institutions ac! ross the country, to analyze the design and implications of teacher retirement systems used in the American K-12 public education system.

"Some economists estimate the unfunded liabilities of educator pension systems to be one trillion dollars or more," Podgursky said. "In this issue of the journal, we've gathered leading economists, finance experts and political scientists and asked the simple question, 'Is this money well

spent?'"

Unlike teacher salaries, retirement benefits have been studied little until recently, despite their importance in school budgets, according to the journal. Retirement benefit systems have important effects on the teacher work force, school staffing and school finance. While states and districts face rapidly rising costs for their existing retirement benefit systems, districts also are looking for ways to recruit and retain high-quality teachers in their continuing efforts to raise student achievement and decrease achievement gaps.

Other papers published in *Education Finance and Policy* discuss whether existing retirement benefit systems are sustainable and whether there are better ways to spend the money to recruit, retain and motivate a high-quality teaching work force. Teacher retirement systems offer defined-benefit pensions, a structure that guarantees the participant a certain monthly payment after retirement, based on years of service and final salary. The private sector has moved away from the defined-benefit system in recent years in favor of defined-contribution plans that tie benefits to contributions by employee and employer or to hybrid systems such as cash-balance plans, which also tie benefits to contributions, but do not shift risk to employees.

Previous research by Costrell and Podgursky shows that teacher pension plans provide strong incentives to teachers who follow a specific career path that may be well-suited to some teachers but not others. Benefits are typically structured to "pull" teachers to work until their early or mid-50s and then "push" them into retirement. Some teachers in their 40s may find themselves better suited to a career change but hang on for their pensions, while some in their 50s may still have good years to offer but retire prematurely, Costrell and Podgursky wrote.

In their contribution to this special issue, Costrell and Podgursky show

that the distribution of pension benefits is highly unequal: approximately half of an entering cohort's pension wealth is often redistributed from those who leave prior to their 50s to those who retire in their 50s, as compared to the uniform distribution under cash-balance plans. In addition, current systems impose large penalties – worth hundreds of thousands of dollars – on teacher mobility between states.

"The simple fact is that educator pay and retirement benefits are the chief expenditures of school districts nationwide," Podgursky said. "No one has done the type of analysis we've done on pension benefits, and until we re-examine these policies, our school districts will face increasingly severe fiscal challenges."

Education Week recently announced that Podgursky was number 38 out of 54 on the list of most influential education public policy scholars in its first annual edu-scholar "Public Presence" rankings. The 2009 conference was organized by Costrell and Podgursky and hosted by the U.S. Department of Education's National Center on Performance Incentives at Vanderbilt, with additional support from the University of Arkansas department of education reform.

Provided by University of Missouri-Columbia

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