

Pension benefits may not be effective tool for teacher retention

October 26 2016

Fifteen years ago, in an effort to improve teacher benefits, St. Louis Public Schools enacted a change to the defined-benefit pension plan that resulted in an immediate and dramatic increase in the incentives to remain teaching in St. Louis. Similar enhancements also occurred across the country. Now, a study from Cory Koedel, associate professor of economics and public policy in the College of Arts and Science and the Truman School of Public Affairs at the University of Missouri, found that pension enhancements may not be a cost-effective or productive way to increase employee retention. Koedel says that these findings will be useful for informing pension policy as states attempt to address pension shortfalls while retaining effective teachers.

"Improving teacher retention is of value to schools because it reduces turnover and can increase the experience of the workforce, both of which provide value to students," Koedel said. "Many have argued that generous defined-benefit plans help to retain high-quality teachers. Understanding whether and how much pension enhancements impact teacher retention is critical as states continue to grapple with pension issues."

Koedel and Brett Xiang, a graduate student in economics at MU, studied the cost-effectiveness of the St. Louis pension enhancement, which retroactively provided a 60 percent benefit increase for all workers. For example, a teacher who had accumulated 30 years of experience under the previous rules had the new, higher pension replacement rate legislated by the enhancement applied to those 30 years. The retroactive

implementation of the enhancement created a situation where some teachers—those closer to retirement eligibility—had much more to gain than others from remaining in the workforce until full retirement eligibility. However, Koedel and Xiang found that the pension enhancement did not cause higher retention among these teachers.

"There are several explanations for why the pension enhancement was not an effective way to increase employee retention. A possibility supported by other research is that teachers do not greatly value or fully understand the values of their pensions. The policy also was poorly targeted in important ways," Koedel said. "Regardless of the reason, all indications from this study point toward teachers not valuing these benefits as much as they cost to provide. Funds currently devoted to support defined-benefit plans could likely be spent in a more strategic manner to promote the highest quality workforce for students."

"Pension enhancements and the retention of public employees," will be published in *Industrial and Labor Relations (ILR) Review*.

More information: [ipp.missouri.edu/wp-content/up ... cy-Brief-10-2016.pdf](http://ipp.missouri.edu/wp-content/uploads/2016/10/cy-Brief-10-2016.pdf)

Provided by University of Missouri-Columbia

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