Teacher pension plans plagued by debt

October 3 2016, by Sheena Rice

Most public school teachers are enrolled in defined benefit (DB) pension plans, in which retirement income is determined by a complicated formula. Currently, states across the country are facing significant shortfalls in DB plans due to unfunded liabilities—effectively debt. 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, on average, nearly 11 percent of current teacher earnings is required to pay for pension debt rather than benefits for current workers. Koedel says that changes are needed to reduce the accumulation of debt.

"Funds that are supposed to be used to compensate today's teachers are being used to pay for debt from previous pension plan operations," Koedel said. "Unfunded liabilities require schools and states to make tradeoffs elsewhere in the system, whether in the form of lower salaries and benefits for teachers, less resources for students or higher taxes for local residents. Without a shift in policy the tradeoffs will become more pronounced as debt costs continue to rise."

As a solution to the pension debt problem, Koedel suggests that states could absorb pension burdens from past generations, which cannot be avoided, and explicitly reserve some of the resources freed up by the debt transfer for current teacher salary increases. At the same time, states could reform teacher retirement plans to prevent the current situation of large and growing pension debts from reemerging. Reforming pension plans could involve:

- Shifting new teachers to defined contribution plans, similar to 401k plans,
- Replacing DB plans for new teachers with cash-balance plans, which offer a guaranteed rate of return and have been shown to facilitate more responsible long-term funding decisions,
- Aligning DB payments with pension fund health within the existing framework, thereby internalizing the value of maintaining financially healthy pension plans for members.

Koedel and other researchers analyzed national pension funding data from plan reports as well as administrative "microdata" from four states: Missouri, North Carolina, Tennessee and Washington. The microdata allowed the researchers to visually document the effects of pension debt costs for newly entering teachers on pension contributions and benefits over the career.

"Our findings show that substantial debts have accrued in educator pension plans across the U.S. United States," Koedel said. "Without addressing this issue, debt costs will continue to rise and their influence on public education services will become more pronounced."

"Benefit or Burden? On the Intergenerational Inequity of Teacher Pension Plans," recently was published in *Educational Researcher*. Koedel co-authored the study with MU researchers Shawn Ni, chair of the department of economics, Michael Podgursky, professor of economics and P. Brett Xiang, a doctoral candidate in economics. Researchers from the American Institutes for Research and the University of Washington also contributed to the study.

Provided by University of Missouri-Columbia

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