National Council on Teacher Quality

For Immediate Release
December 13, 2012

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PRESS RELEASE

TEACHER PENSION SYSTEMS IN U.S. CLOSE TO $325 BILLION IN DEBT

National Council on Teacher Quality releases *No One Benefits: How Teacher Pension Systems Are Failing Both Teachers and Taxpayers*

Report finds pension funding levels are down in 44 states; states are squeezing teacher benefits while increasing teacher contributions; few signs of systemic reform in the states

December 13, 2012 (Washington DC) – The National Council on Teacher Quality today released *No One Benefits*, a comprehensive report on state teacher pension policy. The report finds that the structure of teacher pension systems in the United States is, by and large, untenable. Not only are these systems costly to states, school districts and taxpayers, but the carefully guarded retirement benefits are being squeezed and distributed unfairly in ways that are costly to teachers as well.

The report expands NCTQ's *State Teacher Policy Yearbook* coverage of the health of teacher pension systems in the 50 states and the District of Columbia to provide a detailed picture of the pension policy landscape, connect the dots among a number of complicated teacher pension policies, and make a forward-looking case for pension reform.

Key findings:

- **Pension systems are severely underfunded.** According to the most recent data available, NCTQ estimates that teacher pension systems in the United States have almost *$325 billion* in unfunded liabilities; pension systems in just 10 states are, by industry standards, well-funded. *See figure 8 below.*

- **Most retirement eligibility rules are burdensome and unfair.** In 38 states, retirement eligibility rules for teachers are based on years of service, rather than on age, which is costly to states and taxpayers as it allows teachers to retire relatively young with full lifetime benefits. The 10 states that no longer allow teachers to begin collecting a defined benefit pension well before traditional retirement age save about $450,000 per teacher, on average.

- **Costs to teachers and school districts are on the rise.** Since 2008, 40 states have raised employer contribution rates, at an average cost of *$1,200* more per teacher each year. Over the same time period, 27 states have raised teacher contributions, costing the average teacher almost *$500* more per year.

- **The squeeze is on teachers in numerous other ways.** Fifteen states (up from nine in 2009) now make teachers wait for 10 years to vest in their pension plans. In addition, 40 states have reduced benefits including reducing cost of living increases, raising retirement eligibility age, increasing teacher contributions and fiddling with benefit formulas; 21 states have reduced benefits while increasing teachers' contributions. In some cases, these changes are necessary corrections for past over-promising, but these small adjustments are no replacement for systemic reform, and they have a real impact on teachers' wallets.

NCTQ President Kate Walsh said, "Teacher pension systems in the vast majority of states are not set up for the modern professional. Attention has turned recently to better measuring teacher performance and trying to ensure that all students have teachers who are effective – how we compensate teachers is an important piece of the equation, and that includes retirement benefits. Comprehensive pension reform is necessary for both states' and districts' fiscal health and the health of the teaching profession."

The pension crisis is real and systemic. An uptick in the economy may ameliorate some of the immediate consequences, but states' pension woes can't be fixed by tinkering, the path that most states have taken to date. The financial crisis in pension systems across the United States provides an unprecedented window of opportunity for reform.

The report recommends that states take action to secure the financial health of teacher pensions – for the sake of teachers, taxpayers and students alike. Systemic reform of teacher pensions requires states to make tough decisions that are right for the long term, including:

- Every state should offer teachers the option of a flexible and portable defined contribution pension plan.
- State formulas for determining benefits should preserve incentives for teachers to continue working until conventional retirement ages.
- Every state's pension system should ensure that teachers: vest no later than in the third year of employment; have the option of a lump-sum rollover to a personal retirement account upon termination of employment that includes the teacher's contributions and accrued interest at a fair interest rate; have options for withdrawal from either defined benefit or defined contribution plans that include funds contributed by the employer; and purchase time for previous teaching experience and leaves of absence.
- States must stop making politically expedient but financially costly pension decisions. Unfunded liabilities and unrealistic assumptions on rates of return make pension systems houses of cards that are bound to collapse.

For a copy of the report see: www.nctq.org/p/publications/docs/nctq_pension_paper.pdf
For questions about the report, please contact Laura Johnson at (202) 393-0020 x117 or ljohnson@nctq.org**.**

Principal funding for this report comes from The Bill and Melinda Gates Foundation and the Joyce Foundation.

About NCTQ
The National Council on Teacher Quality is a non-partisan research and policy organization working to ensure that every child has an effective teacher. NCTQ is available to work with individual states to improve teacher policies.

Figure 8. Teacher pension funding liabilities in the states[9]

	Unfunded pension liability ($)
Alabama	$8,167,000,000
Alaska[1]	$2,747,113,000
Arizona	$3,626,000
Arkansas	$4,375,000,000
California	$196,315,000
Colorado	$12,720,089,000
Connecticut	$9,066,000
Delaware	$119,841,000
District of Columbia[2]	None
Florida	$9,258,000
Georgia	$9,062,621,000
Hawaii	$2,297,854,000
Idaho	$539,129,000
Illinois	$43,529,992,000
Indiana	$11,091,661,000
Iowa	$3,630,652,000
Kansas	$8,264,125,000
Kentucky	$11,060,600,000
Louisiana	$10,810,459,000
Maine	$1,381,159,000
Maryland	$9,401,092,000
Massachusetts	$11,773,000
Michigan	$17,633,000,000
Minnesota	$5,039,110,000
Mississippi	$4,849,294,000
Missouri	$4,995,944,000
Montana	$1,792,100,000
Nebraska	$1,772,248,000
Nevada	$3,892,647,000
New Hampshire	$2,192,308,000
New Jersey	$16,278,021,000
New Mexico	$5,650,800,000
New York	None
North Carolina	$1,581,105,000
North Dakota	$927,200,000
Ohio	$40,655,709,000
Oklahoma	$7,600,200,000
Oregon	$3,221,019,000
Pennsylvania	$19,698,600,000
Rhode Island	$1,386,013,000
South Carolina	$8,214,125,000
South Dakota	$77,368,000
Tennessee	$361,877,000
Texas	$24,062,000,000
Utah	$3,756,036,000
Vermont	$845,108,000
Virginia	$8,610,888,000
Washington	$1,800,000,000
West Virginia	$4,760,772,000
Wisconsin	$50,641,000
Wyoming	$625,223,000
TOTAL	**$324,313,370,000**

Figure 8.

1 Alaska has no unfunded liability for its current defined contribution plan. The state has a closed defined benefit plan that still has a shortfall.

2 While included in this analysis, the District of Columbia's pension system is unique. The federal government is responsible for paying benefits attributable to service performed by District of Columbia Public School teachers on or before June 30, 1997. The District of Columbia Retirement Board (DCRB) is responsible for paying benefits attributable to teacher service performed after that date.

9 Figures are from the most recent actuarial valuations included in annual financial reports. For systems that include members other than teachers, the total reported unfunded liability was adjusted to reflect the percentage of teachers in the system (see Appendix D). In some cases, the percentage of teachers was not published by the system and other approximations were used. Several states, including Alaska, Indiana, Utah and Washington, have closed systems and opened new ones. Where applicable and reported, the unfunded liabilities for those closed systems are included.