Last week, Bellwether Education Partners issued a fallacious report on teacher pensions. Far from the distorted picture painted by the report’s authors, the teacher pension system is actually a win-win for participants, working people and the American economy at large. Teachers who vest receive a guaranteed retirement income, and teachers who leave before vesting get all their own contributions back, with interest. The system provides real retirement security for participants, which the authors want to dismantle.¹

The reality is that if you break the current social contract—a modest pension after a lifetime of service, in exchange for a modest income—you add to the retirement crisis engulfing this country.

The median family of retirement age in America has just $12,000 in savings. Half of all Americans have saved less than $24,000 for retirement and half of working Americans—78 million—work for employers that do not offer a retirement plan. Social Security accounts for 90 percent of retirement income for a third of all recipients and half of retirement income for minorities.

By pauperizing teachers, the retirement burden will shift increasingly to taxpayers. And the billions that public pension funds invest in the real economy will be stripped away.

¹ In order to see how well defined benefit pension plans serve the teaching profession, Nari Rhee, manager of the Retirement Security Program at the UC Berkeley Center for Labor Research and Education, studied CalSTRS data to determine if most California classrooms were staffed by long-term teachers or by short-term teachers. Defined benefit plans are typically designed to reward long-term workers and defined contribution plans are designed to reward short-term workers. Also, California is one of 15 states where teachers are barred from participating in Social Security, so the pension is the major source of retirement income. Her analysis showed that:

- 72 percent of young new California teachers who commit to the profession for more than five years stay for 30 or more years, until at least they are eligible for early retirement at age 55;
- 75 percent of California teachers will have worked 20-30 years or more by the time they leave public education; and
- The CalSTRS defined benefit pension plan, designed to benefit long-term educators, provides a significantly higher and more secure benefit to most classroom teachers than an idealized 401(k) (with low fees and a low annuity conversion factor).
The assumptions underpinning Bellwether’s report are erroneous. The firm develops its model in a vacuum, where the impact of wages, working conditions, new job opportunities, and family income and responsibilities is suspended, and only pension rules are used to determine whether a teacher vests and when she retires.

The report misrepresents the impact of defined benefit pension plans on those who leave teaching, omitting the fact that there isn’t forfeiture of contributors, and it fails to explain the positive impact of defined benefit pension plans on those who stay. In addition, it tends to ignore the fact that about half of all teachers are excluded from Social Security and therefore rely on the pension as their main source of retirement income.

Furthermore, Bellwether’s state pension fund sample includes several funds that have commingled data for a variety of employees, making it impossible to separate teachers from other education employees. Teachers have an average turnover rate much lower than noncertificated employees, and higher average years of service. Using commingled data in the sample is a fundamental flaw.²

Bellwether’s four recommendations are also wide of the mark:

- **Lowering vesting standards to no more than three years.** This would provide an incentive for more teachers to leave the profession earlier rather than later.
- **Offering graded vesting.** This also provides an incentive to leave early and hurts taxpayers.
- **Moving to a more gradual accumulation of benefits.** States maintain their pension formulas to account for both productivity gains and inflation over a teaching career, and to provide a meaningful benefit to a career teacher. Other models that base the final benefit on average wages do not provide educators with retirement security, especially for educators in non-Social Security states.
- **Not using pension plans to help retain teachers.** Pension policy and design can and should follow a workforce policy that is aimed at attracting and retaining a high-quality workforce for the long term.

² Examples of commingled data systems include the Colorado Public Employees’ Retirement Association PERA’s education division, which includes nonteachers; the Texas TRSTeacher Retirement System, in which a majority of active members are nonteachers; and the Oregon PERSPublic Employees Retirement System, which includes all school employees.
Thomas B. Fordham Institute. These groups want to undermine confidence in the pension system and place teachers’ retirements at the whim of the market. But why? Probably because their friends on Wall Street stand to reap billions in management fees by converting guaranteed benefits into 401(k)-type accounts.

Instead of working to undermine retirement security for teachers, firefighters, cops, nurses and other public workers, we invite Bellwether to look at the report we released last week that reveals how billions in Wall Street fees—not overly generous retirement benefits—are harming public pensions and putting state government balance sheets at risk. The authors should follow our lead by urging pension funds to divest from risky hedge funds and demanding fee limits and fee transparency.

The savings could go a long way toward solving underfunding, while providing a modest income stream for participants would permit dignity in retirement and contribute to the economic health of communities.\(^3\) Pension investments in roads, bridges and the electricity grid not only give a good rate of return for investors, they help rebuild our country and our economy.

\(^3\) The National Institute on Retirement Security has found that every dollar paid out in public employee benefits generates $2.36 in economic activity; any additional investments, such as rebuilding bridges and repairing the energy grid, boost that margin.