The Pension Pac-Man:

How Pension Debt Eats Away at Teacher Salaries

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TeacherPensions.org

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Teacherpensions.org provides high-quality information and analysis to help stakeholders—especially teachers and policymakers—understand the teacher pension issue and the trade-offs among various options for reform. We believe there is a need for additional analysis of and communication about teacher pensions—an issue that has not yet gained sufficient traction nationally, despite its seriousness and immediacy. We aim to make the issues around teacher pensions more accessible and relevant to the general public, more compelling to policymakers, and more understandable for current teachers.

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Introduction

Why aren't teacher salaries rising?

It's not for lack of money. Even after adjusting for inflation and rising student enrollment, total school spending is up by about 29 percent over the last 20 years.[1]

It's not for lack of money spent on *teachers*, either. Instructional costs, including salaries, wages, and benefits for teachers, make up slightly more than 60 percent of all district spending today, just like it did 20 years ago.[2]

So overall expenditures are up, but teacher salaries are actually down slightly over the same period. Today, the average public school teacher earns $56,689 annually, a couple hundred dollars less than the average teacher salary 20 years ago (in constant dollars).[3]

Why is this happening? This puzzle can be explained by three trends eating into teachers' take-home pay: rising health care costs, declining student/teacher ratios, and rising retirement costs.

Rising insurance costs have affected all American workers, but they've hit teachers even harder. For all civilian workers, insurance costs consume 8.9 percent of compensation, up from 7.5 percent in 1994. Insurance costs are rising even faster for teachers, and they now eat up 10.2 percent of total teacher compensation, up from 7.3 percent in 1994. The good news is that insurance costs have begun to moderate. In the wake of the 2010 passage of the Affordable Care Act, insurance costs, as a percentage of total compensation, began to decline for all civilian workers including for teachers.[4]

The effects of declining student/teacher ratios are well documented in the education literature but are often forgotten when discussion turns to teacher salaries. Student/teacher ratios have been falling for decades, from 27:1 in 1955 to 17:1 in the 1990s and all the way down to 16:1 in recent years.[5] Either spending must rise significantly to compensate, or declining class sizes will compress the amount of money *each* individual teacher can receive. In effect, when teachers or their unions advocate for smaller class sizes, they are choosing smaller class sizes in lieu of higher salaries. The 2007–09 recession slowed the long-term trend somewhat, but if that ratio were allowed to rise even modestly back up to the level it was at in the mid-1990s, districts could afford, on average, to give teachers an immediate raise of 6 percent.

Retirement costs are the most hidden of these three factors. Teachers may not see or think about retirement costs the way they experience the effects of class sizes. Unlike visits to the doctor, retirement comes only once in a lifetime. But, as this brief will illustrate, teachers have by far the highest retirement costs of any group of workers. Today, teachers' retirement costs are at all-time highs both in dollar and percentage terms.

If states didn't face large pension debts, they could afford to give teachers higher salaries—an average of $6,801 for every public school teacher in America.

It's counterintuitive, but rising teacher retirement costs have not translated into better teacher retirement *benefits*. That's because 90 percent of public school teachers are enrolled in defined benefit pension plans where a teacher's retirement benefit is based on a formula, not on contributions into the plan. In fact, at the same time retirement contributions are at an all-time high, states are actively cutting benefits, and the majority of contributions into teacher pension plans today are going to pay down existing debt. Today, states are paying an average of 12 percent of each teacher's salary just for debt costs. If states didn't face these large debts, they could afford to give that money back to teachers in the form of higher salaries—an average of $6,801 for every public school teacher in America.

Unless states adopt alternative retirement models, teachers will likely see retirement costs eat further and further into their take-home pay.

The result is that most teachers are getting the worst of both worlds. Teachers are told they're accepting lower base salaries in exchange for higher future retirement benefits, but because existing pension plans backload benefits to the end of a teacher's career, that trade only works well for the small minority of teachers (about one in five) who remain teaching in the same retirement system for 25 or 30 years.[6] Even these teachers may have preferred higher salaries at all stages of their career over waiting until retirement for a disproportionately large reward.

Rather than face some hard choices, state policymakers are allowing retirement costs to eat up ever-larger shares of teacher compensation. Unless states adopt alternative retirement models, teachers will likely see retirement costs eat further and further into their take-home pay.

Teacher Salaries Are Stagnating While Benefit Costs Rise

To compare teacher salaries with other forms of compensation, and to compare teachers with other professions, we looked at historical data from the Bureau of Labor Statistics (BLS). For each category of worker, the BLS tracks the employer's per-hour costs for salaries, paid leave, supplemental pay, retirement benefits, health insurance, and legally required benefits like Social Security and Medicare. The BLS began disaggregating the data for teachers in 1994.

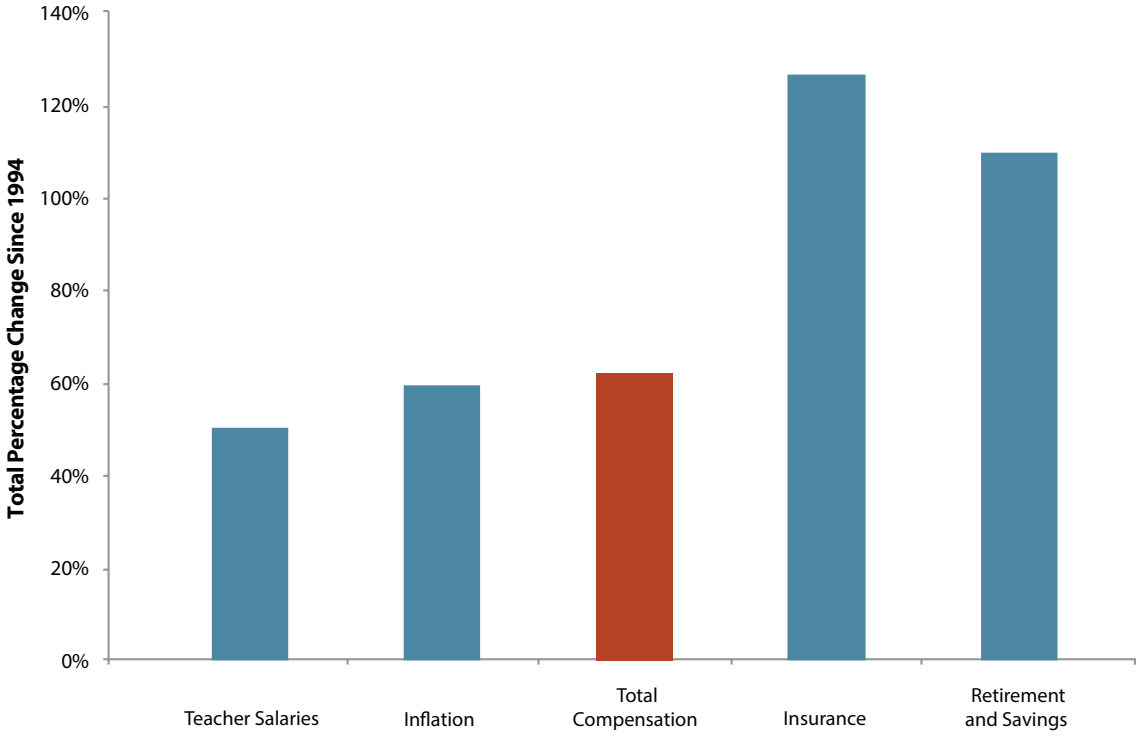
Unlike salaries, total compensation for teachers has kept up with inflation.

As **Figure 1** shows, teacher salaries have not kept up with the pace of inflation.[7] These data confirm what's commonly known about teacher salaries being flat. But salaries alone tell an incomplete story; as the red bar in the graph shows, *total compensation* for teachers *has* kept up with inflation. Teachers aren't seeing it in their paychecks, but schools have significantly increased their contributions for insurance and retirement, and steep increases in those areas have more than made up for comparatively flat salary increases.

While rising insurance and retirement costs cut into salary growth throughout the entire American economy, public-sector workers are an exception in both. State and local government employees (including teachers) receive a disproportionate share of their compensation in the form of in-kind benefits: 20.6 percent of their compensation comes in the form of insurance and retirement benefits compared to 14.2 percent for all civilian workers.

What's most extreme, however, are retirement costs for public school teachers. Not only are they higher than those paid to the average worker, but retirement costs for public school teachers are the highest of all types of workers, including other public-sector employees

Figure 1 Total Teacher Compensation Is Rising Faster Than Inflation, Mainly Because of Insurance and Retirement Costs

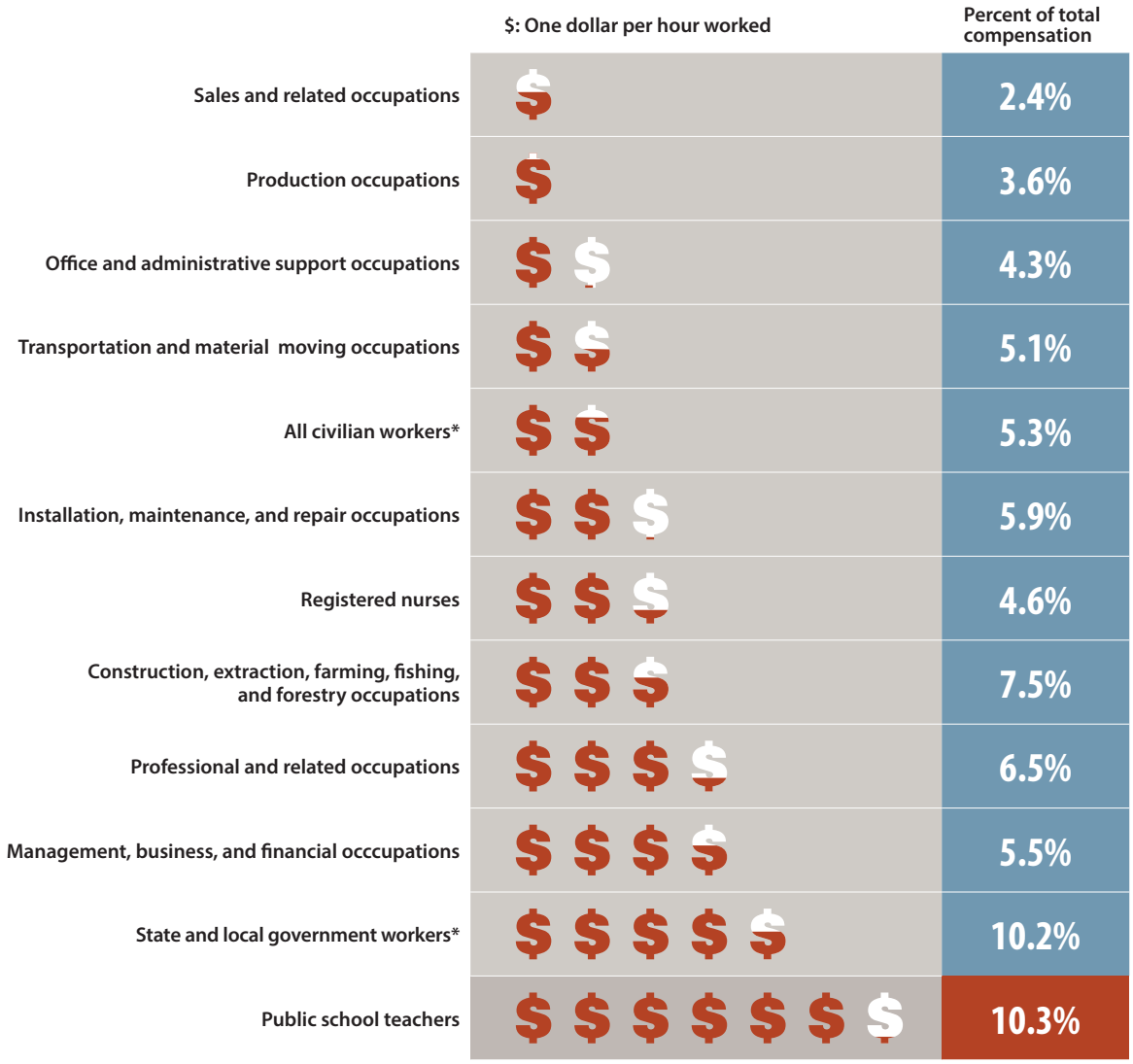


Source: Author's analysis of data from the Employer Costs for Employee Compensation from the Bureau of Labor Statistics.

(Figure 2). While the average civilian employee receives $1.78 for retirement benefits per hour of work, public school teachers receive $6.22 per hour in retirement compensation. As a percentage of their total compensation package, teacher retirement benefits eat up twice as much as other workers (10.3 versus 5.3 percent).

Figure 2 Public School Teachers Have the Highest Retirement Costs of Any Occupation

Retirement Contributions Per Hour Worked, By Profession



Source: Author's analysis of data from the Employer Costs for Employee Compensation from the Bureau of Labor Statistics.

**Note:* This category also includes public school teachers.

Teacher Retirement Costs Are Rising, but Actual Benefits Are Not

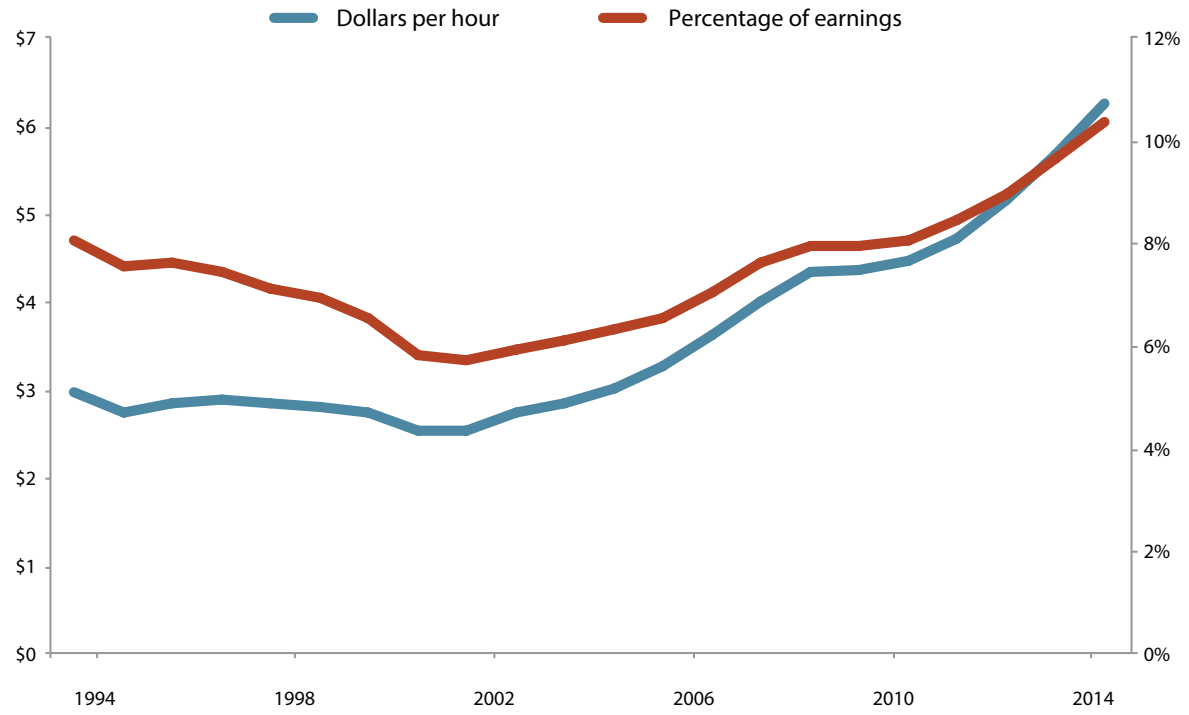
Not only are retirement costs for teachers high compared to other professions, they're also high compared to historical trends. Going back to 1994, teacher retirement costs have never been higher, in either dollar or percentage terms **(Figure 3)**. In just the last decade alone, teacher retirement costs have more than doubled. At the end of the dot-com era in the late 1990s, as pension fund assets ballooned in tandem with rising stock prices, states briefly substituted investment gains for a portion of the normal annual contributions. As a result, teacher retirement costs per hour briefly dipped as a share of teachers' total compensation package. But with two large stock market crashes since then, pension funds needed an infusion of new money. Today, retirement costs eat up more than 10 percent of a teacher's total hourly compensation.

Under most retirement plans, rising employer contributions would mean better benefits. For workers covered under 401k plans, for example, any increase in employer contributions would be an increase in benefits, because 401k balances are directly tied to contributions.

The increase in contributions to teacher pension plans have not translated into better benefits for workers.

But defined benefit pension plans, like the ones serving 90 percent of public school teachers, work differently. In these, a worker's actual retirement benefit is unrelated to how much was contributed on his or her behalf. Instead, benefits are calculated through formulas based on the worker's salary, years of service, and age. Those benefit formulas are divorced from contribution rates, which rise or fall depending on how much the plan estimates it needs to save today to pay benefits in the future. As a result, any increases in employer retirement contributions to defined benefit pension plans do not necessarily translate to better benefits for workers.

Figure 3 Teacher Retirement Costs Are at All-Time Highs



Source: Author's analysis of data from the Employer Costs for Employee Compensation from the Bureau of Labor Statistics.

In fact, in the wake of the recent recession, states accelerated a trend of offering newly hired employees less generous benefits than what was provided to their older peers. Even as employer contributions toward teachers' retirement plans are at all-time highs, those same employers are actually offering new teachers worse benefits. After all those cuts, today is the worst time to become a teacher in decades, at least in terms of net retirement benefits.[8]

This situation can be explained by the fact that rising teacher retirement costs are primarily a function of debt, not improved benefits. Within pension systems, there are two types of contributions: the cost needed to provide benefits (called the "normal cost") and the cost of paying down debt (called "amortization costs"). The normal cost is the amount of money a pension plan projects it needs to contribute now to pay benefits in future years. The amortization cost is the amount required to pay down any accrued debt.

For every $10 states and districts contribute to teacher pension plans, $7 goes toward paying down past pension debt, and only $3 goes toward benefits for current teachers.

If pension costs were rising because normal costs were rising, that would reflect an improvement in teacher benefits. But that's not what's happening: Today, amortization costs, not normal costs, make up the biggest proportion of employer retirement costs (See Table 1). Nationally, the gap between what states have saved for and what they have promised to teachers totals $499 billion.[9] And now, for every $10 states and districts contribute to teacher pension plans, $7 goes toward paying down past pension debt, and only $3 goes toward benefits for current teachers.

This presents a losing situation for both employers and workers. Employers are increasingly burdened with rising benefit costs while they're simultaneously offering worse benefits for new workers. Meanwhile, teachers rarely see or understand the full costs of retirement benefits because those costs do not show up on their paychecks. The fact that school districts have less money to pay teachers is mostly invisible to the teachers themselves.

Pensions Aren't Serving All Teachers Equally Well

Most teachers get the worst of both worlds—they earn lower salaries while they work and forfeit retirement savings when they leave.

It's commonly accepted that public-sector workers such as teachers trade lower salaries for higher job security and more generous benefits. But that trade only works well for workers who actually stick around until retirement. Most teachers get the worst of both worlds—they earn lower salaries while they work *and* forfeit retirement savings when they leave.

The trade may be tolerable if all teachers received equitable benefits from their pension plans; that is, if all teachers received the benefits from higher retirement contributions, it might be a sign that teachers *want* more of their compensation in the form of retirement benefits. But that's not the way pensions work. Teacher pension benefit formulas and contribution rates are mostly decided by state legislators and unelected accountants; they're not negotiated at the local level.

Pensions also don't deliver equitable benefits to all workers. Because pension benefits are delivered through back-loaded formulas that reward longevity, the benefits accrue unevenly, disproportionately benefiting teachers with very long careers. While school districts contribute the same retirement costs to two teachers with the same salary, the teachers themselves may receive very different benefits depending on how many more years they remain in their positions.

Many teachers won't qualify for a pension at all. About half of all new teachers leave the classroom before meeting minimum vesting or service requirements.[10] They and their employer will contribute to the pension system, but they'll get no pension in return. In most states, they won't get any of their employer's contribution either, and they won't earn any interest on their own contributions. By forfeiting these funds, teachers lose out on thousands or tens of thousands of dollars in compensation.

Another group of teachers will qualify for a pension benefit, but they won't stay long enough to truly benefit from the back-loaded pension system. In addition to the half who don't quality for a pension at all, another 25 percent of teachers fail to "break even" from the pension system—their contributions and interest are worth more than the pension for which they qualify. All told, about 75 percent of teachers will be net losers from their pension plan.[11]

Finally, about 25 percent of teachers stick around long enough to see more substantial retirement benefits. But these teachers have lost out in other ways. They've been trading years of lower salaries in exchange for these disproportionately large retirement benefits. The rewards come only at the back end of a teacher's career, and they represent decades of lost income that could have been used at the teacher's discretion for things like buying a home or just broadly boosting the teacher's standard of living.

Research studies attempting to quantify this effect suggest that teachers may prefer higher base salaries and that pension plans may be "over-saving" on their behalf.[12]

In other words, looking at average pension costs hides a lot of nuance. The recent increases in pension plan contributions may help preserve the pension system as a whole, but it will penalize the majority of teachers in the process. And it means less discretionary money for teachers and districts. Higher pension contributions result in less money for teacher salaries or other school spending priorities.

Getting Pension Debt under Control Would Benefit Teachers

The public discussion of teacher pension plans often focuses on mind-bogglingly large financial numbers. While it's not easy for individual teachers to understand what billions of dollars in debt means for them, those costs do trickle down. Though these costs are not immediately visible on their paychecks, ultimately it is teachers who suffer the consequences.

In most states, the current underfunding problems took years to manifest. Poor investment returns, unrealistic investment assumptions, badly timed or ill-considered benefit enhancements, elected officials' failure to make the financial contributions they committed to, and other causes contributed to the current funding status.

State pension debts are not going away anytime soon, but they do reflect a set of choices that policymakers have made about what sort of retirement benefits to offer teachers and how to pay for them. They are offering teachers volatile retirement systems: In good economic times, stock markets rise, pension investments soar, and employer contributions fall accordingly. But in bad times, investments sour and contributions must rise to make up the difference.

This volatility is a feature of defined benefit pension plans like those offered to teachers, but it doesn't exist in other retirement models. Contributions to all other forms of retirement plans are made on an annual basis, and employers offering them never accrue debt. In these alternatives, what employers contribute to the retirement plan is what employees receive. While all investments carry the risk of volatility, pension plans like those offered to the majority of teachers are the only ones that can accrue debt.

It can be somewhat abstract for teachers to think about pension debt and how it affects them, but it means that their employer and their state have less money to spend on education generally or teachers more specifically. Regardless of other spending priorities, states, school districts, and individual schools must squeeze other areas of their budgets to pay for rising pension payments.[13] They must consider the full cost, not just the normal cost, when making tough budget decisions.

All teachers are affected by high and unpredictable pension costs.

One way employers have responded and will continue to respond to rising pension costs is to cut back on other things. Rising pension costs force districts to choose between reducing staffing levels, freezing salaries, increasing class sizes, and cutting spending on other programs like music, libraries, or foreign languages. Unbeknownst to them, teachers earn lower salaries while a significant portion of their compensation is siphoned off for the pension fund. In other words, all teachers are affected by the high and unpredictable cost of pension contributions, regardless of whether those teachers ever reap any real pension benefits.

To put this concept in more concrete terms, **Table 1** shows what teacher salaries might look like if districts were able to spend the money on salaries rather than debt. The numbers vary considerably by state, in part reflecting the fact that some states offer more generous benefits than others. Calculations also vary depending on state assumptions. Because pension costs are an estimate of how much money a state needs to put away today to pay pension benefits in the future, state assumptions around investment returns, longevity, and salary growth matter tremendously. If a state consistently underestimated how much benefits would cost in the future—which happens in some places—its costs would appear artificially low.[14]

Table 1 uses the National Education Association's figures for average salaries for classroom teachers in every state, ranging from a low of $40,023 in South Dakota to a high of $76,566 in New York. Column 3 reports the total contribution that employers put into their state's pension plan as a percentage of teacher salaries. The "employer" in this context includes both state and school district contributions. Total contributions range from a low of 6 percent of salary in Florida to a high of almost 50 percent in Alaska. Alaska is a unique case in that it officially closed its pension plan in 2006, but it is still paying off large accrued debts. Excluding Alaska (as I'll do for the rest of the paper), Illinois is the highest in total contributions at 33.6 percent of salary.

Table 1 Pension Debts Are Deflating Teacher Salaries

	Average Teacher Salary ($)	Total Employer Contribution (% of Salary)	Normal Cost of Benefits (% of Salary)	Salary Boost Teachers Could Receive if State Had No Debt Costs (% of salary)	Salary Boost Teachers Could Receive if State Had No Debt Costs ($)
Alaska	$66,739	49.7%	0.0%	49.7%	$33,169
Massachusetts	$73,736	28.9%	2.1%	26.8%	$19,775
Illinois	$60,124	33.6%	8.0%	25.6%	$15,373
Connecticut	$70,584	24.1%	3.7%	20.4%	$14,374
New Jersey	$70,060	23.0%	3.8%	19.2%	$13,455
Rhode Island	$64,696	23.1%	4.6%	18.5%	$11,956
Louisiana	$52,259	27.7%	5.0%	22.7%	$11,841
West Virginia	$45,583	29.9%	4.4%	25.5%	$11,626
Kentucky	$50,705	29.2%	6.7%	22.5%	$11,401
Michigan	$61,866	22.3%	4.5%	17.8%	$11,009
California	$70,126	24.9%	10.3%	14.6%	$10,250
Pennsylvania	$64,072	23.8%	8.6%	15.2%	$9,759
Colorado	$50,651	21.9%	3.6%	18.3%	$9,251
Maryland	$64,868	17.4%	5.6%	11.8%	$7,630
Oregon	$58,597	18.9%	6.3%	12.6%	$7,398
Hawaii	$56,291	17.6%	5.5%	12.1%	$6,796
New Mexico	$45,727	17.5%	3.1%	14.4%	$6,602
Kansas	$48,221	16.0%	2.3%	13.7%	$6,597
Minnesota	$57,230	19.4%	8.6%	10.8%	$6,162
Mississippi	$42,187	15.8%	2.1%	13.7%	$5,792
Utah	$50,659	17.6%	6.2%	11.4%	$5,786
Vermont	$53,656	12.5%	1.9%	10.6%	$5,694
New Hampshire	$57,057	17.9%	9.2%	8.7%	$4,984
Montana	$49,893	11.0%	1.1%	9.9%	$4,961
Arizona	$51,109	11.5%	2.0%	9.5%	$4,867
Nebraska	$49,545	11.9%	2.1%	9.8%	$4,864
North Dakota	$48,666	10.3%	0.4%	9.9%	$4,812

Table 1 Pension Debts Are Deflating Teacher Salaries (continued)

	Average Teacher Salary ($)	Total Employer Contribution (% of Salary)	Normal Cost of Benefits (% of Salary)	Salary Boost Teachers Could Receive if State Had No Debt Costs (% of Salary)	Salary Boost Teachers Could Receive if State Had No Debt Costs ($)
Alabama	$48,413	11.1%	1.2%	9.9%	$4,777
Arkansas	$46,950	16.2%	6.9%	9.3%	$4,373
South Carolina	$48,425	10.9%	2.0%	8.9%	$4,286
Virginia	$49,233	15.0%	6.5%	8.5%	$4,165
Nevada	$57,391	13.4%	6.6%	6.8%	$3,930
Georgia	$52,924	13.2%	6.2%	7.0%	$3,724
Texas	$49,270	8.7%	1.6%	7.1%	$3,476
District of Columbia	$73,162	10.4%	6.3%	4.1%	$3,005
Wyoming	$57,910	8.9%	4.2%	4.7%	$2,747
Washington	$52,236	10.7%	5.7%	5.0%	$2,593
Missouri	$48,329	14.6%	9.5%	5.1%	$2,455
Iowa	$51,662	8.9%	4.5%	4.4%	$2,285
Oklahoma	$44,277	14.6%	9.8%	4.8%	$2,127
Idaho	$50,945	11.3%	7.3%	4.0%	$2,061
North Carolina	$45,355	8.8%	5.2%	3.6%	$1,644
Tennessee	$48,049	9.0%	5.6%	3.4%	$1,635
Delaware	$60,571	9.6%	7.0%	2.6%	$1,558
Florida	$46,691	6.1%	3.6%	2.5%	$1,191
South Dakota	$40,023	6.2%	3.7%	2.5%	$1,005
Indiana	$50,644	6.5%	5.7%	0.8%	$421
Wisconsin	$54,717	6.8%	N/A	N/A	N/A
Maine	$49,232	13.9%	N/A	N/A	N/A
Ohio	$57,270	14.0%	N/A	N/A	N/A
New York	$76,566	17.5%	N/A	N/A	N/A

Source: "Rankings and Estimates: Rankings of the States 2013 and Estimates of School Statistics 2014," National Education Association, March 2014. Kathryn M. Doherty, Sandi Jacobs, and Martin F. Lueken, "Doing the Math on Teacher Pensions: How to Protect Teachers and Taxpayers," National Council on Teacher Quality, January 2015. Contribution rates include total state and local contributions for normal and legacy costs.

Notes: Alaska is paying off a large legacy cost from the state's defined benefit pension plan that was closed in 2006. All of its pension expenses come in the form of legacy costs, so its teachers do not face a normal cost penalty. Four states—Maine, New York, Ohio, and Wisconsin—do not identify what portion of employer contributions go toward legacy costs and are given an "N/A" in the table.

As discussed above, these contribution levels only partly reflect the actual cost of teacher retirement benefits. Columns 4 and 5 break down those total contributions into actual benefit costs versus debt costs as a percentage of salary. Column 4, the benefit costs, would be comparable to looking at what an employer contributes toward a 401k plan. These costs range from 0.4 percent in North Dakota to a high of 10.3 percent in California. Altogether, states offer teachers retirement benefits worth an average of 4.9 percent of their salary.

For some comparison, a 5 percent employer contribution rate would be considered mildly generous in the private sector. (Most experts recommend workers save 12–15 percent of their salaries, including employer contributions, to secure a healthy retirement nest egg.) From an employer's perspective, it is the equivalent of offering a 5 percent match on a 401k plan, which is more than the typical private-sector employer offers but not significantly so.[15] For workers covered under 401k plans with a 5 percent match, all employees would receive that amount in an individual, completely portable retirement account.

This is different from how benefits accrue under defined benefit (DB) plans. Because DB plans rely on age- and service-based formulas, teachers receive very different amounts depending on their age, salary, and how long they work. Some teachers will eventually earn benefits worth far more than 5 percent of their salary, while many others will earn significantly less.

Worse still, teacher pension plans incur large debt costs that do not reflect the actual amount of benefits teachers receive. As discussed above, debt costs are now more than twice the amount of actual benefit costs. Columns 5 and 6 put those debt costs into percentage and dollar terms. These figures represent the amount of money the average teacher could receive in base salary increases if their state had a retirement system that did not accrue debt, or if the state had more responsibly dealt with debt in the first place. In the absence of such debts, states or districts could do something else with this money, but teachers are the largest expenditure in school budgets, so for the sake of simplicity, this calculation assumes the entire amount would go into raising teacher salaries.

Without the need to pay down pension debts, the average American teacher could receive an immediate, permanent raise of 12 percent.

In this hypothetical scenario, the average American teacher could receive an immediate, permanent raise of 12 percent. A handful of states have done a reasonable job of managing debt, and teachers in those states could only receive a raise of a few percentage points, but about half the states could give teachers immediate raises of 10 percent or more if they did not face debt costs. Teachers in Connecticut, Illinois, Kentucky, Louisiana, Massachusetts, and West Virginia are currently losing out on compensation equivalent to 20 percent of their salaries just to pay down pension debt. That's money that could be going to teachers but instead must be put into preserving inequitable pension systems.

Column 6 puts these figures in dollar terms. On average across the country, teachers could qualify for a salary boost of $6,801. These figures range from $421 in Indiana to more than $10,000 in California, Connecticut, Illinois, Kentucky, Louisiana, Massachusetts, Michigan, New Jersey, Rhode Island, and West Virginia.

These figures also do not include the amount that teachers themselves contribute toward their pension plan. In most states, even teachers placed into very different benefit tiers face the same costs, so newer teachers are, from the outset, paying more for less. These disparities have only grown in recent years.[16]

If and when state teacher pension funds can reduce their unfunded liabilities and debt costs begin to fall, employer contributions will also decline. In a world where all pension plans become fully funded, districts would then have additional flexibility to spend their budgets as they choose. In the meantime, teacher salaries will continue to face downward pressure from unfunded pension costs.

How to Actually Raise Teacher Salaries

There's broad interest in raising teacher salaries but too little discussion about what keeps them from rising.

There's broad interest in raising teacher salaries but too little discussion about what keeps them from rising. It isn't simply about pouring more money into the system; any serious debate about how to raise teacher salaries must consider what's been keeping them down in the first place. While there are at least three causes for stagnant teacher wages—rising insurance costs, falling student-to-teacher ratios, and increasing retirement costs—the increases in retirement costs are the least noticed. That's unfortunate, because retirement costs continue to rise dramatically for teachers, resulting in less discretionary money in school budgets. Meanwhile, state pension plans distribute benefits for teachers inequitably, leaving early- and mid-career teachers with minimal retirement savings. The result is a bad deal for teachers: lower salaries while they work plus worse benefits when they retire.

This is a choice that states have made; they could, however, deliver the same amount of benefits in a more efficient manner. There are several different options that could deliver more equitable benefits on a cost-neutral basis. Well-designed 401k-like plans, hybrid plans that combine traditional pension plans with a 401k-like component, or alternative models called cash balance plans that guarantee a moderate interest rate could all provide sufficient savings while giving teachers greater job flexibility.

Without a change, this situation is likely to get worse, not better. Policymakers must consider new ways to provide retirement benefits to teachers so states can reverse the slide. Regardless of the model chosen, teachers are better off if their retirement savings are tied directly to the contributions made on their behalf. If states continue to preserve the existing retirement systems at any cost, teachers will see rising pension costs eat further and further into their take-home pay.

Endnotes

[1] In constant 2013–2014 dollars, public school spending on current expenditures rose from $8,561 per student in 1993–1994 to $11,014 in 2011–2012. See: https://nces.ed.gov/programs/digest/d14/tables/dt14_236.55.asp

[2] These costs represented 60.6 percent of all school district expenditures in 2012–2013, up slightly from 60.0 in 1993–1994. Data for selected years come from: http://www.census.gov/govs/school/.

[3] Rankings and Estimates: Rankings of the States 2013 and Estimates of School Statistics 2014," National Education Association, March 2014.

[4] Author's analysis of data from the Employer Costs for Employee Compensation from the Bureau of Labor Statistics.

[5] U.S. Department of Education, National Center for Education Statistics, Statistics of Public Elementary and Secondary Day Schools, 1955–1956 through 1980–1981; Common Core of Data (CCD), "State Nonfiscal Survey of Public Elementary/Secondary Education," 1981–1982 through 2012–2013; Private School Universe Survey (PSS), 1989–1990 through 2011–2012; Schools and Staffing Survey (SASS), "Public School Teacher Data File" and "Private School Teacher Data File," 1999–2000 through 2011–2012; Elementary and Secondary Teacher Projection Model, 1973 through 2024; and New Teacher Hires Projection Model, 1988 through 2024. (This table was prepared March 2015.).

[6] Chad Aldeman and Andrew J. Rotherham, "Friends without Benefits," TeacherPensions.org, 2014, http://www.teacherpensions.org/sites/default/files/Bellwether_PensionPaper_070814_Web.pdf.

[7] Figures 1-3 rely on author's analysis of data from the Employer Costs for Employee Compensation from the Bureau of Labor Statistics. All years are based on March payroll data.

[8] Chad Aldeman and Leslie Kan, "Eating Their Young: How Cuts to State Pension Plans Fall on New Workers," TeacherPensions.org, 2015, http://www.teacherpensions.org/sites/default/files/TeacherPensions_EatingTheirYoung_FINAL-070715.pdf.

[9] Kathryn M. Doherty, Sandi Jacobs, and Martin F. Lueken, "Doing the Math on Teacher Pensions: How to Protect Teachers and Taxpayers," National Council on Teacher Quality, January 2015.

[10] Aldeman and Rotherham, "Friends without Benefits."

[11] Chad Aldeman and Richard Johnson, "Negative Returns," TeacherPensions.org, 2015, http://www.teacherpensions.org/sites/default/files/TeacherPensions_Negative%20Returns_Final.pdf.

[12] For example: http://www.nber.org/papers/w20582 and http://www.caldercenter.org/publications/pension-enhancements-and-retention-public-employees-evidence-teaching.

[13] Some states pay all or part of the employer contribution rather than forcing districts to pay. Regardless of who pays, high pension contribution rates narrow the possibilities for other uses of the funds.

[14] Michael J. Sabin, "Backtested Pension Math: An Empirical Look at the Causes of CalPERS Underfunding," Journal of Retirement 2, no. 3 (2015): 40–54, http://ssrn.com/abstract=2558377.

[15] My calculations from a large-scale analysis of more than 35,000 private-sector defined contribution plans suggests that about 25–30 percent of employers offer a 401k contribution of at least 5 percent. See Exhibit 2.3 here: https://www.ici.org/pdf/ppr_14_dcplan_profile_401k.pdf.

[16] Kan and Aldeman, "Eating Their Young: How Cuts to State Pension Plans Fall on New Workers."