California's School Pension Crisis Is Also About Benefits

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While most of the attention is on the *cost* of CalSTRS, it also has problems in the way it delivers *benefits* to teachers

- A number of studies have found that California teachers must serve many years before qualifying for decent retirement benefits
  - For example, a CalSTRS-funded paper found that, for a 30-year-old entrant, cost-neutral alternative plans would outperform the current pension formula for the teacher's first 18-25 years of service
  - All told, about 2/3rds of teachers who enter California schools qualify for benefits worth less than the plan's "normal" cost
- These findings are exacerbated by the fact that California does not offer its teacher Social Security benefits

Is CalSTRS a recruitment or retention incentive?
Evidence suggests other factors are much more powerful

Early-Career Teachers

- Rising employee contribution rates **have not reduced** the supply of new teachers
- Vesting periods are not acting as a retention incentive
- Factors like **salary, geography, and working conditions** are more likely to drive retention patterns

Veteran Teachers

- A "**pull**" **effect** helps retain teachers nearing their retirement age, but this effect occurs late in a teacher's career
- A much larger "push" effect **nudges veteran teachers out of the classroom** and into retirement
- Benefit enhancements enacted in the 1990s **barely changed** teacher behavior

If retirement plans are **not much of a retention incentive**, they should be designed to **meet the needs of workers**, not employers

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There are a variety of ways California could better meet the needs of workers and employers

- CalSTRS' Cash Balance plan could be expanded and improved
- As another example, UC employees hired post-2016 are placed in a defined contribution plan
    - Employees contribute 7% and UC contributes 8% of salary
    - Employer contributions vest after 1 year
    - Contributions default into low-fee, age-appropriate funds

➢ **Given the lack of Social Security, state leaders should ensure CalSTRS provides *ALL* workers with adequate retirement benefits**