California’s School Pension Crisis Is Also About Benefits

Chad Aldeman

BELLWETHER
EDUCATION PARTNERS

TeacherPensions.org
FIXING AN UNFAIR AND INSECURE SYSTEM
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

<table>
<thead>
<tr>
<th>Early-Career Teachers</th>
<th>Veteran Teachers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising employee contribution rates <strong>have not reduced</strong> the supply of new teachers</td>
<td>A “pull” effect helps retain teachers nearing their retirement age, but this effect occurs late in a teacher’s career</td>
</tr>
<tr>
<td>Vesting periods are not acting as a retention incentive</td>
<td>A much larger &quot;push&quot; effect <strong>nudges veteran teachers out of the classroom</strong> and into retirement</td>
</tr>
<tr>
<td>Factors like <strong>salary, geography, and working conditions</strong> are more likely to drive retention patterns</td>
<td>Benefit enhancements enacted in the 1990s barely changed teacher behavior</td>
</tr>
</tbody>
</table>

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