EQUABLE

RETIREMENT SECURITY REPORT
Teacher Edition (2022)

SPECIAL REPORT #3

Important Elements of Quality Teacher Retirement Plans

What Retirement Benefits Scores Tell Us are the Most Critical Factors for Providing a Path to Retirement Income Security

JONATHAN MOODY, ANTHONY RANDAZZO, AND PAULINA DIAZ AGUIRRE

Table of Contents

ABOUT THIS REPORT

This report is one of three special reports expanding upon our summary report, "The National Landscape of Teacher Retirement Benefit Security," that evaluates adequacy and quality of the 78 retirement plan classes of benefits currently offered to new teachers, as well as 186 "legacy" plans for teachers. In some analyses we have also included data from 52 plans that are exclusively for non-instructional public school employees (27 currently open, 25 legacy). All four reports are part of our on-going **Retirement Security Report (RSR)** initiative, which is outlined on page 13. To read other special reports in this series, visit our RSR research hub.

The RSR analyzes the quality every public sector retirement system and provides a Retirement Benefits Score for each retirement plan overall and broken down for plan members based on their duration of service.

- **SHORT-TERM WORKER (STW-TEACHER):** A teacher enrolled in a public retirement plan in the same state for 10 years of service or less.
- **MEDIUM-TERM WORKER (MTW-TEACHER):** A teacher enrolled in a public retirement plan in the same state for 10 to 20 years of service.
- **FULL CAREER WORKER (FCW-TEACHER):** A teacher enrolled in the same public retirement plan in the same state for their entire career.

Plans that earn 75% or more of available Retirement Benefits Score points are considered to be "serving members well," those scoring between 50% and 75% of available points are serving members "moderately well," and those plans scoring less than 50% of available points are "not serving members well."

ABOUT EQUABLE INSTITUTE

Equable Institute is a bipartisan nonprofit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions.

ABOUT THE AUTHORS

Anthony Randazzo (Executive Director) is a national expert on public sector pension policy and has provided technical assistance to more than a dozen states and cities on ways to improve retirement plan sustainability.
Jonathan Moody, PhD (Vice President for Research) has developed a wide range of academic and policy research on municipal finance subjects, including state budgeting and reserve funds, state credit ratings, state fiscal management, and public retirement benefits.
Paulina Diaz Aguirre is a business economics consultant who has woven together a career of public service and philanthropy, focused primarily on public finance, retirement policy, and economic research.

ACKNOWLEDGMENTS

This report is modeled on the first edition of "The National Landscape of Public Employee Retirement Benefits" (2021) and it reflects all of the research support, modeling work, data collection, and peer review that went into that paper. Some portions of this paper are taken from the original paper about all public workers when the underlying information is the same for teachers.

Key Findings and Insights | Special Report #3

01 Teachers who work a full career in the same state are served well by all plan types — including pension, defined contribution, guaranteed return, and hybrid plans. Teachers are highly likely to accumulate adequate retirement income if they spend their entire career covered by the same benefit plan in the same state.

- Measured against one another, one plan design might be preferable to another based on the absolute size of retirement income provided, the availability of guarantees, or the ability for teachers to have some control over their plan.
- When measured against the benchmark of achieving 70% replacement of pre-retirement income, four out of five (82.3%) teacher benefit tiers are serving the Full Career Worker well. Across entry ages and worker profiles, there are four hybrid design plans, four traditional pension plans, and two DC plans that serve all teachers well on average.

02 Most public K–12 educators and public school employees are not being served well by their retirement plans.

- Over 63% of new teachers are expected to leave the classroom before they reach a decade of service in the same state. And very few of these individuals are on a path to adequate retirement income. Teachers who work up to 10 years in the same state are only served well by 2 out of all 264 teacher retirement plans — including current and legacy tiers of benefits. (One of these two is a defined contribution plan in South Carolina; the other, a hybrid plan in Tennessee.)

Introduction: What Factors Ground a High Quality Retirement Plan?

What factors lead to a quality teacher retirement plan that will put an individual on a path to adequate retirement income? In our paper "The Landscape of Teacher Retirement Benefits" we provide an assessment of whether different teacher retirement plans are working well for teachers across all benefit design types, worker profiles based on career duration, and entry ages. Using the results of that analysis, we can draw insights about the kinds of benefit provisions for different plan designs by looking at the best performing retirement plans offered to teachers.

There are 10 retirement plans with a class of benefits that earns 75% or more of available Retirement Benefits Score points when averaged across all worker profiles: Short-Term Workers (STW-Teachers), Medium-Term Workers (MTW-Teachers), and Full Career Workers (FCW-Teachers). Each of the 10 is detailed in Table 1 below; legacy plans are marked with an asterisk.

Among those 10 classes that, on average, serve all teachers well are: 4 hybrid plans (40%), 4 traditional pension plans (40%), and 2 defined contribution plans (20%). Half of these are legacy plans, half are plans open to new members as of the 2022-23 school year. Two of the retirement plans in the list — South Carolina "Optional Retirement Plan" (a DC plan) and the Tennessee Teacher Retirement Plan (a hybrid plan) — serve teachers well at all stages of their careers. As in they score 75% or more of available points for each STW-Teachers, MTW-Teachers, and FCW-Teachers, when each worker profile is analyzed independently.

These 10 plans are the basis of this special report's data on what grounds high quality retirement plans:

- **Part 1** reviews the overall key value drivers for quality teacher retirement plans.
- **Part 2** looks closer at the specific qualities that stand out for pension plans, DC plans, and hybrid plans, respectively.
- **Part 3** considers the role that guaranteed return plans have with respect to teacher retirement benefits.
- **Part 4** offers a concluding thought on to translate these findings into more adequate retirement benefits for teachers.

TABLE 3: BEST AND WORST PERFORMING TEACHER PLANS, AVERAGED ACROSS ALL WORKER PROFILES AND PLAN TYPES

Rank	Plan Name	Benefit Class/Tier Name	Plan Type	Benefits Score
1	**South Carolina Optional Retirement Plan**	SC RS Teachers ORP	DC Plan	94.2%
2	**Tennessee Teacher Retirement Plan**	TN TRP Hybrid	Hybrid	88.2%
3	**Employees' Retirement System of the State of Hawaii**	ERSHI Teachers Hybrid Pre-2012*	Hybrid	79.2%
4	**South Dakota Retirement System – Generational Plan**	SD RS Generational Plan Teachers	Hybrid	78.7%
5	**Oregon Public Employees' Retirement System**	OR PERS School District OPSRP	Hybrid	78.6%
6	**Washington Teachers' Retirement System – Plan 1**	WA TRS Pension Plan 1*	Pension	77.6%
7	**New York City Teachers Retirement System**	NY NYC Teachers Tier 2*	Pension	75.7%
8	**New York City Teachers Retirement System**	NY NYC Teachers Tier 1*	Pension	75.4%
9	**Michigan Public School Employees' Retirement System – Defined Contribution Plan**	MPSERS DC Teachers	DC Plan	75.3%
10	**Employees' Retirement System of the State of Hawaii**	ERSHI Teachers Pre-1984*	Pension	75.1%

Note: The "Benefits Score" shown is the average percentage of available Retirement Benefits Score points earned by the class or tier of benefits. For a complete list of retirement plans in the Retirement Security Report, see the reference to Appendix E at the end of this special report.

Part 1: The Key Drivers for High Quality Teacher Retirement Plans

Five legacy classes of benefits and five open plans are among the 10 plans that are serving K–12 teachers well. There are a mix of pension, hybrid, and DC plans and span across the country. In short, there is no clear evidence that one specific plan design is better than another, and no relationship between geographic region and having the best teacher retirement plans.

This echoes findings from our topline assessments in "The Landscape of Teacher Retirement Benefits" that conclude there is no one-size-fits-all retirement plan for teachers. Pension plans can work for some teachers (mainly those serving a full career), but among the pension plans that work for those with 20-years of experience or less, few (if any) are still available for incoming educators.

Looking closely at the plan provisions for these 10 tiers of retirement benefits for teachers, we've found at least four "value drivers" that appear to be key reasons for the quality of the retirement plan: total contributions, crediting interest rates, defined benefit multipliers, and cost-of-living adjustments.

- **Total contributions.** Regardless of plan design types, total contribution rates north of 12% of payroll (even higher for most cases) are consistent trademarks of high-quality plans.
    - For the two defined contribution (DC) plans, total contributions from members and employers are at 14%, which fits most expert recommendations for DC plan contribution rates where individuals are also enrolled in Social Security. South Carolina splits its rates at 9% member + 5% employer, while Michigan has members contribute 7% to get a 7% employer match.
    - For the pension plans, large normal cost contribution rates reflect an underlying actuarial recognition in the cost of a large benefit.
    - Large member contributions to pension benefits, whether on their own or part of a hybrid, also can contribute significantly to the "value" of a benefit for STW-Teachers when also paired with an above-average crediting interest rate. This is because non-vested teachers will be able to take larger dollar amounts with them when they leave, effectively because the pension benefit was a forced savings plan instead of a retirement plan.
    - For the hybrid plans, the typical member contribution to the DC plan or guaranteed return plan portion of the benefit was 5%.
- **The crediting interest rates.** The interest rate offered by a retirement system on refunded contributions in the event of a withdrawal is a key factor in determining the mobility of a plan's benefits, which helps the scores for STW-Teacher and MTW-Teachers.
    - The typical crediting interest rate for high-quality hybrid plans or pension plans is between 2.5% and 4.5%. The higher the interest rate (sometimes considered as more "generous" rates), the more it will ensure that the teacher will at least depart the system with some moderate savings (which could then help them continue saving for retirement).

- **Defined benefit plan multipliers.** For pension plans, whether on their own or part of a hybrid plan, the average multiplier factor for a quality retirement plan is 2%.[1] Naturally, a higher benefit multiplier translates into a more substantial benefit that can put a teacher onto a path toward a secure retirement income.

- **Cost-of-Living Adjustments.** Inflation protection is important for ensuring promised retirement benefits provide secure income over time, and as a valuable benefit financially. The highest-quality plans have COLA provisions with rates that are comparable to, if not in excess of, the underlying pension plan's inflation assumption.

Table 2 (next page) takes these key value drivers and shows what rates and provisions are common among the highest quality teacher retirement plans. The specifics for what create the best retirement plan depend on a number of factors, including the availability of Social Security, the prevailing wages offered to educators, and whether the objectives of policymakers include ensuring all teachers have a path to retirement income security. In this sense, the table does not provide the definitive "best" plan for teacher retirements — there is no one-size-fits-all retirement plan. Instead, the provisions in the table provide a guide for what kind of elements should be included in a high-quality retirement plan that provides a path to adequate retirement income security.

[1] A teacher's annual retirement benefit is determined by first multiplying their years of service in the system at retirement by the plan's benefit multiplier to their replacement rate (*i.e.*, the percentage of their pre-retirement salary that their benefit will replace).

TABLE 2: KEY FEATURES OF QUALITY TEACHER PLANS

Feature	DC Plan	Hybrid Design Plan	Pension Plan
EMPLOYEE CONTRIBUTION RATE	7% or higher (with SSA) 9% or higher (without SSA)	**Pension Portion***:* Variation, from 0% to 9%[2] **DC/GR Portion***:* Variation, from 0% to 6%[3]	6% or higher[4]
EMPLOYER CONTRIBUTION RATE (Normal Cost Only)	5% or higher (with SSA) 10% or higher (without SSA)	**Pension Portion:** Usually 8% or higher[5] **DC/GR Portion***:* Usually no contribution (with employees covering all of these costs). Among those that do, 5% or less.[6]	6% to 13%[7]
TOTAL CONTRIBUTIONS	14% (with SSA)	Variation ranging from 12.8% to 22%[8]	14% or higher[9]
NORMAL RETIREMENT AGE	There usually is no fixed retirement age beyond the IRS rules for DC plan withdraws.[10]	Four of the seven high quality plans accepting new entrants have a normal retirement age of 65 (plus a minimum number of service years).[11] Most of the legacy plans allow normal retirement between age 55 and 60, assuming a minimum number of years of service.	
# YEARS INCLUDED IN THE BENEFIT CALCULATION	N/A	Most of the high quality benefit plans have final average salary based on less than 5 years of service.[12]	
BENEFIT MULTIPLIERS	N/A	Variation, usually from 1.5% up to 2%	2% multiplier, or higher
COLA RATE	N/A	Variation, from 1.2% up to 2.6%. Most commonly COLAs are automatic and are linked to a measure of inflation.[13]	2.5% on average (ranging 2.25% to 3%)
CREDITING INTEREST RATE	N/A	4.5% or higher[14]	2.5% or higher (most cases over 4.5%)[15]
VESTING POINT	Immediate vesting, or Graded vesting up to no more than 4 years of service[16]	3 to 5 years of service	3 to 5 years of service
SSA ENROLLMENT	Notably, all 17 of the high quality teacher retirement plans that serve all members well on average have members that are also enrolled in Social Security. This means that members of these plans have additional retirement income (requiring less from the state plan) and a portable safety net via the federal retirement program.		

---

[2] **Lowest:** *Hawaii's legacy hybrid plan* with 0%. **Highest:** *Kentucky's new hybrid retirement plan* with 9%.

[3] **Lowest:** *South Dakota's Generational Plan* and *Utah's Hybrid Retirement Plan for Tier II Teachers* with 0%. **Highest:** *Hawaii's legacy hybrid plan* (which offsets its low employee contribution rate from the pension portion) and *Oregon's legacy hybrid plan tiers* with 6%. If we consider total member rate, the lowest is 6% with the only exception being *Utah's Hybrid Retirement Plan for Tier II Teachers*, where the total member rate appears to be 0%. While the highest appears to be 11% from *Kentucky's new hybrid retirement plan*.

[4] **Lowest:** *Washington's legacy pension plan pre-1977* with 6%, the only exception being *New York City's legacy pension plan* tiers starting rates at 3% that then drop to 0% after 10 years of service. Their low rates are offset by higher employer contribution rate (normal cost) of 13.1%. **Highest:** *South Dakota's legacy pension plan Class B tiers* with 8%.

[5] **Lowest***:* *South Dakota's Generational Plan* with 6.2%, with the only exception being *Tennessee's Hybrid Retirement Plan*, with an employer normal cost of only 2.02%). **Highest:** *Oregon's legacy hybrid plan tiers* with 13.4%. It is important to note that the employer is carrying a larger portion of the pension component than the members in nearly all cases (5 out of 8 with a difference of 7 to 11 percentage points).

[6] For the DC/GR portion, the trend we see is that the employer largely doesn't contribute to the DC component for the most part. Out of the 8 hybrids, 4 don't contribute to the DC portion at all. Among those that do, the employer contribution is small 5% or less, with the only exception being Utah's Hybrid Retirement Plan for Tier II teachers at 10% employer contributions into the DC portion. Which offsets the 0% employee contribution rate.

[7] **Lowest:** *South Dakota's legacy pension plan Class B tiers* with 6.2%, which is offset by the 8% employee contribution rate. **Highest:** *Washington's legacy pension plan pre-1977* with 8.4%, the only exception being *New York City's legacy pension plan tiers* starting rates at 13%. Which offsets the drop of the employee contribution rate to 0% after 10 years of service.

[8] **Lowest:** *Hawaii's legacy hybrid plan* with a total contribution rate of 12.8%. **Highest:** *Oregon's legacy hybrid plan tiers* with 22%.

[9] **Lowest:** *South Dakota's legacy pension plan Class B tiers* with total contributions rates of 14.2%. **Highest:** *New York City's legacy pension plan tiers* with 16.1%. It seems this is a departure from newer tiers where normal cost totals closer to 10% of salary.

[10] We assume in our modeling that individuals with DC plans will wait until their normal Social Security retirement eligibility at age 67.

[11] The four plans that have retirement at age 65 for these entrants: *Tennessee's Hybrid Retirement Plan*, *South Dakota's Generational Plan*, *Oregon's hybrid plan*, and *Utah's Hybrid Retirement Plan for Tier II teachers.*

[12] **Lowest:** *South Dakota's Generational Plan* with 1 year. **Highest:** Benefit classes with FAS years equal to 5: *Tennessee's Hybrid Retirement Plan, Utah's Hybrid Retirement Plan for Tier II teachers*, and *Kentucky's new hybrid retirement plan.*

[13] Out of the 308 plans that have some sort of COLA policy, 117 are automatic, linked to inflation, and another 21 are automatic, linked to inflation and funded status.

[14] **Lowest:** *Hawaii's legacy hybrid plan* with 4.5%, the only exception being *Kentucky's new hybrid retirement plan* with 2.5%. **Highest:** *Oregon's current and legacy tiers* with 7.2%. We see these crediting rates being mostly higher than those observed from the pension plans serving teachers well.

[15] **Lowest:** *South Dakota's legacy pension plan Class B tiers* with 2.5%. **Highest:** *Washington's legacy pension plan pre-1977* with 5.5%.

[16] One of the strongest ways to improve a DC plan's Retirement Benefits Score is to reduce the vesting period to as close to immediate as possible.

Part 2: The Qualities of the Best Retirement Plans for Teachers

2.1 QUALITIES OF THE BEST DESIGNED PENSION FOR TEACHERS

Pension plans can provide strong benefits for teachers who work their full career in the same state. Our analysis of the 264 classes of pension benefits for educators finds that the best-structured plans include: providing adequate contributions, benefit portability components like high crediting rates on the withdrawal of member contributions, short vesting periods, less than five years used in the calculation of final average salary (for benefit formula purposes), cost-of-living adjustments, and large benefit multipliers.

The vast majority of teacher pension plans today serve FCW-Teachers well, along with most other retirement plans. Often this is because if you spend a full career of 25 to 40 years in the same retirement plan, that there will be sufficient time to build up resources to provide adequate retirement income.

But the highest quality teacher pension plans are those that also provide larger than average benefits to those who will not work their full career covered by the same retirement system, STW-Teachers and MTW-Teachers. These are individuals who may work as a teacher for the first 7 to 10 years of their career before moving on to another industry, or individuals who may move between states for different teaching jobs, or who may move in and out of public and private school teaching, or who join teaching later in life as a second or third career move.

The pension plan provisions that are particularly important for these worker profiles are high member contribution rates (effectively turning the pension plan into a forced savings plan that members can take with them when they leave), high crediting interest rates on withdrawals, and short vesting periods (less than 5 years) that allow more individuals to qualify for a future pension if they want to take it.

While the funding levels of pension plans are not a primary focus of this analysis, it is worth noting that another feature of a quality teacher pension plan is being fully funded. The reason is that it reduces the underlying costs of funding the pension benefit, which reduces the incentives for legislators to reduce benefit values for future plan members. After the financial crisis there were a number of states that created new benefit tiers for their teacher pension plans, all of which had lower valued benefits.[17]

2.2 QUALITIES OF THE BEST DESIGNED DC PLANS FOR TEACHERS

Among states that have reformed their retirement systems in the past 15 years, introducing elements of a DC plan has been a favored strategy. Most of these adjustments have been via the creation of a hybrid plan with DC plan portions, but eight states have created DC only plans as a primary retirement plan. Unfortunately, several of these are not of very high quality with respect to benefit value.

The biggest shortcoming for primary retirement DC plans for teachers is with vesting rates. One of the key benefits that a DC plan is supposed to provide is the portability of employer contributions to the retirement plan. However, long vesting periods mean that participants are not able to fully take advantage of this portability benefit. As a result, DC plans for teachers with vesting periods 4 years or longer are not significantly more portable for STW-Teachers than pension plans. In fact, a pension plan with a 2-year vesting period and 5% crediting interest rate could very easily provide a larger amount via withdraw than a DC plan with a 5-year vesting period.

[17] The ironic exception to this are states that increased member contributions to pension plans as a way to manage growing costs, which has the effect of improving how that plan scores for STW-Teachers and MTW-Teachers because there is a larger amount in the "forced savings plan" element of the pension plan for those who will withdraw their benefits when leaving for another job.

While the South Carolina Optional Retirement Plan's immediate vesting period is the best possible design (from the perspective of benefit value), many others are not meeting the career mobility goals of teachers in the modern workforce. For instance, the MPSERS DC Plan in Michigan has the same contribution rates as South Carolina, but a much lower Retirement Benefits Score because it has four-year graded vesting for employer contributions.

Teacher DC plans currently available as a primary retirement benefit do typically have contribution rates near or above the 10% of salary minimum amount recommended by retirement experts, though several of these plans could improve. The top two DC plans for teachers (South Carolina ORP and MPSERS DC Plan) both have a total of 14% contributions as the default enrollment, which is strong for those who also have Social Security. Florida Retirement System's "Investment Plan" was recently only providing 9.3% in contributions before the state legislature increased this to 12.3% (through an additional 3% employer contribution), which is a notably better rate for building future retirement income.

Overall, our review of the primary retirement DC plans for teachers suggests that the common provisions among high quality plans include providing adequate contributions and benefit portability through short vesting periods.

There are other elements important for managing a high-quality primary DC plan, such as having a good default investment strategy for members (such as a target-date fund), the availability of education and advice for members, and the option of lifetime income products offered through the fund managers (such as annuities). While these elements do not directly factor into the Retirement Benefits Score of DC plans, they are still important provisions for policymakers and board trustees to keep in mind.

2.3 QUALITIES OF THE BEST HYBRID DESIGN PLANS FOR TEACHERS

Some teacher retirement plans mix and match elements of multiple retirement plan designs into a combined "hybrid" structure. A common example of a hybrid retirement plan is pairing a comparatively lower value pension plan (such as one with a 1% or 1.5% multiplier), with a DC plan that is typically primarily funded by member contributions.

Reviewing the highest quality hybrid plans for teachers, our analysis finds that key provisions include providing adequate total contributions, including employer contributions to the DC/GR plan portion of the benefit, high multipliers in the pension portion of the benefit, and some degree of inflation protection provisions.

The best-performing hybrid plan for teachers in the U.S. is the Tennessee Teacher Retirement Plan. While the pension benefit multiplier is actually relatively low at 1%, the total plan contributions add up to 14%. In fact, where many hybrid plans have no employer contribution to a DC plan portion, the Tennessee teacher hybrid plan has teachers contribute a minimum of 2% of salary, while employers contribute another 5%. This means that should members leave before serving long enough to build a large pension benefit, that they will have a much more portable benefit with respect to employer contributions. The hybrid plans also has a built-in 2.25% COLA for accumulated pension benefits to help protect against inflation. And the benefits of the plan are more flexible and mobile than a normal pension, as employees are immediately vested in the DC portion of the plan while needing to serve five years before vesting in the pension portion of the plan.

Part 3: What About Guaranteed Return Plans for Teachers?

Conspicuous in this review of teacher retirement benefits in America is the absence of many guaranteed return (GR) plans. While GR plans are not common generally in the U.S., the retirement plan design is notably well suited for the teaching profession. This makes the lack of such plan availability curious.

GR plans build retirement income for participants by creating notionally personal accounts for each employee (members and employer contribute to these individual accounts), with the investment of accumulated assets managed by the retirement system directly. In practice, GR plans are defined benefit plans like pension plans insofar as the benefit being defined is a guaranteed minimum rate of return on investments from the retirement system itself. In practice they are also like DC plans, the individual account balances that include employer contributions are portable to any job that a GR plan member moves to.

Where a common critique of DC plans is that public employees, including teachers, are not professional asset managers and might struggle to properly manage their own retirement investments, with GR plans members don't have to make any investment choices. The trade-off for this is that the retirement plan keeps a portion of the upside of the investment returns they do make as a way of creating a financial backstop for the minimum rates of return that they guarantee.

The only standalone GR plan that is currently available for teachers is the Kansas Public Employees Retirement Systems Cash Balance Plan (KPERS Cash Balance Plan). Our Retirement Security Report methodology finds this KPERS Cash Balance Plan Schools Division serves all worker profiles moderately well — not great, but not terrible. The main reason for the moderate performance is that contribution rates are not particularly high (teachers contribute 6% of their salary, plus 3% to 6% of salary in "credits" based on years of service), and the contribution rates from employers only vest once an individual is eligible for retirement.

The retirement system guarantees at least a 4% rate of return credited quarterly (which is a reasonable level to guarantee), plus some share of the upside on investment returns when the plan earns above that minimum threshold. The key downside to this approach (from the perspective of benefit values) is that the amount shared with members is determined by a board of trustees rather than having a fixed formula (such as the 4% guaranteed, plus 75% of returns above that mark, which is the formula used by the Kentucky Retirement System for state and municipal workers).

There is an optional, supplemental guaranteed return plan in California offered by CalSTRS or part-time educators, substitute teachers, and adjunct faculty, but the objectives this plan is trying to meet are not analogous to what a primary retirement income plan is trying to provide. Similarly, there are guaranteed return plan elements in Kentucky's new hybrid plan and Hawaii's ERS hybrid plan, but they are also not primary retirement plans.

Given that most people who enter the teaching workforce will not work their full career as an educator or in the same state, but since teachers also are among those who may be the most sensitive to avoiding investment risk, there are a lot of positive trade-offs about the guaranteed return plan model for teachers. GR plans also help provide a safety net (guaranteed minimum investment returns) that DC plans don't provide, which can be important in states where teachers do not have Social Security enrollment.

States like Texas that have a lot of experience with offering guaranteed return plans (two municipal GR plans plus a recently created GR plan for state workers) and don't enroll most teachers in Social Security are prime examples of places that could benefit from considering the GR plan model for teachers.[18]

---

[18] This was the finding of some early retirement benefit analysis that Equable published about Texas teacher benefits specifically, see "Are Texas Teacher Retirement Benefits Adequate?" by Chad Aldeman and Anthony Randazzo, December 8, 2020

Part 4: Conclusion

An important takeaway from the Retirement Security Report is that the majority of STW-Teachers are not being served well by their retirement plan. About 0.7% of the benefit classes are serving STW-Teachers well, and 10.3.% are serving them moderately well. Those numbers are *absolutely unacceptable* and suggest a systematic failure to support teachers who spend 10 years or less in the classroom with a path toward retirement income security.

MTW-Teachers are doing slightly better, with 5% of retirement plans serving them well, and 48.6% moderately well. These figures hold whether analyzing benefits based on a starting age of 25, or a mid-career entrant at age 40. Still, these figures are *also appalling* given the time of service for MTW-Teachers. There is no reasonable argument to say that someone who works for 15 or even 20 years in the classroom should get *all of their* retirement income from a single retirement plan. However, working as a teacher for 10 to 20 years is a significant level of service that deserves to at least be matched by a plan that puts the individual on a path to adequate retirement income. As it stands the status quo is not doing enough to serve MTW-Teachers well.

All types of retirement plans are working for FCW-Teachers, with only two benefit tiers not serving teachers well. Comparing each teacher retirement plan on its own against a common benchmark shows that most what is being offered today can work to provide retirement income security as long as the benefit provisions are designed appropriately, and a teacher works their full career covered by the same plan in the same state.

There are still other considerations with respect to pensions, DC plans, and hybrids (guaranteed return plans, too). Different plan designs offer trade-offs between the level of guarantees built into the retirement plan and the flexibility and mobility of benefits. Investment risks are distributed in different ways, and inflation protection can vary. But at a minimum, the RSR shows that there should not be a debate over whether only one type of retirement plan can offer retirement income security for teachers. They all can. The questions to ask are whether the retirement plan benefit provisions are designed appropriately and how a state wants to distribute costs and risks among taxpayers and teachers.

All of this evidence demonstrates that states can offer quality retirement benefits to teachers that offer a path to retirement income security while keeping costs and risks manageable and balancing the trade-offs of investment risk and portability of benefits. Most states don't do this, but the key factors identified in this special report point the way toward how they could if they wanted to improve the level of respect teachers are afforded with their overall compensation.

RELEVANT APPENDICES

- Appendix A: Measuring Retirement Security
- Appendix B: Methodology
- Appendix C: Retirement Systems Categories, by State
- Appendix D: Comparing Teacher Benefits with Public School Employee Benefits
- Appendix E: Ranking All Benefit Tiers

**TO READ THE APPENDICES RELATED TO THIS PAPER,
SEE "THE NATIONAL LANDSCAPE OF TEACHER RETIREMENT BENEFITS" AVAILABLE AT:
https://equable.org/category/rsr-research/**

FIND YOUR PLAN

The analysis in this paper focusing on averages and cohorts does not fully reflect the wide variance in plan designs and Retirement Benefit Scores for each individual plan. We encourage all readers to explore the digital tool to understand how different retirement plans function in practice. RetirementSecurity.Report allows readers to sort through plans according to their own aggregate rating within each section, letting users see which plans offer the best policy features, which plan designs reach a minimum standard for adequate retirement savings, what percentage of the workforce covered by a particular plan is likely to reach given retirement security benchmarks. From there, readers can reach conclusions about their preferred benefits for workers based on potential years of service and other factors.

VISIT RETIREMENTSECURITY.REPORT

to explore a digital tool that provides individual Retirement Benefit Scores for each state retirement plan.

If you are a researcher and want to explore the raw data outputs or code for modeling, contact us at info@equable.org to obtain copies of the data files.

KEY TERMS AND DEFINITIONS

- **Adequate Retirement Income**
  For the purposes of this report, we have defined adequacy as a 70% replacement of final average salary. See methodology for further details about how we define salary and incorporate Social Security.

- **Short-Term Worker (STW-Teacher)**
  A teacher or public school employee who is enrolled in a public retirement plan in the same state for 10 years of service or less.

- **Medium-Term Worker (MTW-Teacher)**
  A teacher or public school employee who is enrolled in a public retirement plan in the same state for 10 to 20 years of service.

- **Full Career Worker (FCW-Teacher)**
  A teacher or public school employee who works their entire career participating in a public retirement plan in the same state.

- **Pension Plan**
  A retirement plan design based on a formula that accounts for years of service and final average salary. The typical pension benefit formula is years of service (ex. 20 years) x benefit accrual percentage (ex. 2% multiplier) x final average salary (ex. $75,000). The example scenario would yield a 40% of final average salary benefit, or a $30,000 annual pension.

- **Defined Contribution (DC) Plan**
  A retirement plan design based on contributions from members and employers into an individual account, which is then usually invested through professionally designed and managed funds. DC plans are usually defined as 401k's or 403b's, typically default members into target date funds, and sometimes allow individuals to automatically convert their accumulated account balance to guaranteed income through annuities.

- **Guaranteed Return (GR) Plan**
  A retirement plan design that offers guaranteed investment returns on contributions from members and employers to an individual account managed by the retirement system. GR plans are often formally called "cash balance" plans. The typical GR plan accumulates contributions, minimum investment returns (ex. 4% guaranteed returns), and a share of returns when the plan's investments yield a return above the minimum threshold. Upon retirement, GR plans usually convert the accumulated account balance into guaranteed income, similar to annuities.

- **Hybrid Plan**
  A retirement plan design that mixes some combination of pension plan, DC plan, and GR plan. A typical hybrid plan provides a small pension plan (ex. using a 1% multiplier) and a small DC plan (ex. 3% employer contributions and 3% member contributions). Upon retirement, the income created by both elements of these retirement plans are combined for a single source of retirement income.

- **Retirement System**
  This is an umbrella organization authorized by a state or municipality to administer retirement benefits. A single retirement system could provide different retirement plan designs (e.g., pension, DC, GR, and hybrid plans). It might offer different retirement plans to different public sector workers depending on hire date and occupation.

- **Retirement Plan**
  This is a specific set of benefit provisions for a clearly defined group of public sector workers. The benefit provisions and rules determine whether the retirement plan is a pension, DC, GR, or hybrid plan. The plan may be offered to a narrowly tailored set of occupations, such as being only for public school teachers. The plan may be offered only to individuals hired on or after a particular date, with other retirement plans offered to those hired in other time frames.

About the Retirement Security Report

Retirement security is ultimately about *retirement income*. Families and individuals want to know that during their retirement years they will have enough weekly, monthly, or annual income to live comfortably and meet their basic needs. Of course, many people aspire to more than just the basics. Ask even a handful of individuals about how they want to live in retirement, and you'll hear a wide range of preferences. Expenses can vary from family to family, too, depending on housing, health care costs, and dependents. So exactly how much income is necessary will vary according to a particular person or family. But at the simplest level, the focus is still on *income*. And retirement security is ensuring that individuals have access to adequate income during post-working years (we define adequate retirement income as at least 70% replacement of pre-retirement income).

How secure are the retirement prospects for public K–12 educators? This is the focus of this report, and the answer depends on where in the country a teacher is working and how long that teacher plans to stay in that job.

The "Retirement Security Report" (RSR) is a comprehensive assessment of the quality of benefits being offered to public sector workers nationwide. This specific report is an analysis of the quality of benefits for teachers and public school employees. While there is reasonable cause to analyze the financial sustainability of public sector retirement systems and their costs, that's not what we are focused on in this study.[19] The RSR is principally focused on the *value of benefits* being offered to public sector workers, including educators.

RSR SCORING STRUCTURE

The objective of the RSR is to assess public sector retirement systems by measuring the quality of benefits offered against a standard benchmark path to retirement income security. We use a scorecard approach to grade each retirement system on its own terms. The benefit provisions of each retirement plan are measured against a common set of standards, benchmarks, and best practices. The result is a Retirement Benefits Score for each retirement plan and class of benefits.

The Retirement Benefits Score is made up of points scored on three sets of criteria: **Eligibility** (how long it takes a teacher to be fully vested in their retirement plan); **Income Adequacy** (how benefits stack up against the accumulation pattern necessary to reach a 70% pre-retirement income replacement rate by age 67 or the normal retirement age of a plan); and **Flexibility & Mobility** (how well a retirement plan's provisions support a worker being able to take employer contributions and accumulated benefits with them if they move to another job or to another state).[20]

RSR MEASUREMENT OF RETIREMENT PLAN QUALITY

The points scored on all of the criteria are added up into the Retirement Benefits Score for each plan. (If a pension plan earns 18 of 25 available points, then we will report that plan as scoring 72% in this report.) We assess the quality of these plans and their scores based on the following measurement definitions:

- Retirement plans that earn 75% or more of available points are defined as **"serving members well".**
- Retirement plans that earn between 50% and 75% of available points are **"serving members moderately well".**
- Retirement plans that earn less than 50% of available points are defined as **"not serving members well".**

See Appendix A for a summary of how we measure retirement security. For complete methodology of how Retirement Benefits Scores are calculated and for more on how the retirement scorecards should be used, see the introduction and appendixes of "The National Landscape of State Retirement Benefits: First Edition (2021)."

[19] Equable Institute's "State of Pensions 2021" report found that as of the end of 2020, state retirement systems had reported a $1.49 trillion funding shortfall and estimated that even after strong 2021 investment returns that the funding shortfall was still over $1 billion. Retirement systems covering public school employees account for 44.26% of all public pension unfunded liabilities.
[20] Retirement Benefits Score for DC plans: we grade the mobility of employer-funded contributions based on a more fine-grained measurement of vesting rules related to how much of those contributions a member can take with them in the event they leave their retirement plan. For guaranteed return plans: we grade the mobility of employer contributions in part on the size of the investment return guarantee offered.