TEACHER RETIREMENT SAVINGS ACCOUNTS

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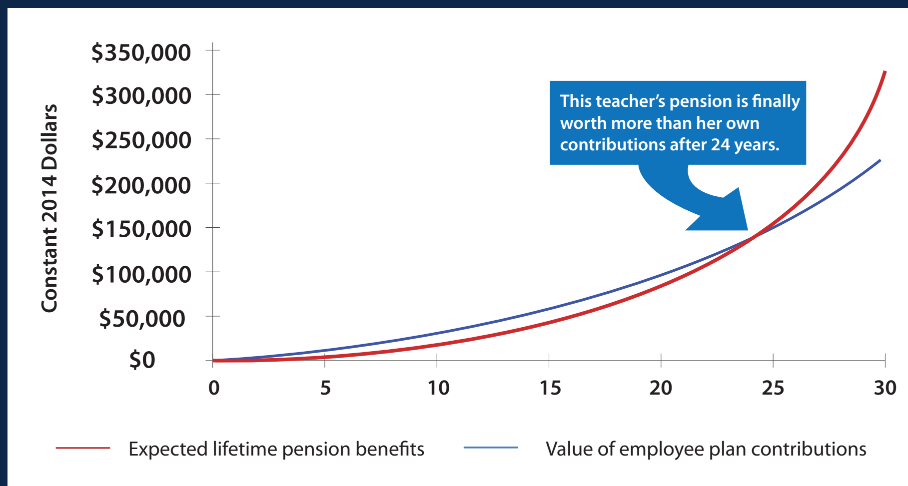
THE PROBLEM: Missouri has three separate teacher pension plans—one for the City of St. Louis, one for Kansas City, and one for the rest of the state. These plans face many problems. The plans in St. Louis and Kansas City both have assets that are less than 70 percent of what is owed to future retirees. Kansas City's plan has more retirees than active members. The statewide plan appears to be more financially sound but is using an unrealistic assumption for future investment returns. Attempts to right the financial ship of these plans usually target the youngest teachers—or even future teachers. Further, a Missouri teacher must teach for at least 24 years before her pension is worth more than what she has contributed to it.

THE SOLUTION: *Teacher retirement savings accounts.*

Missouri's next generation of teachers should be able to decide at the time that they're hired whether they want to join one of the three current pension plans or choose a transportable defined-contribution plan. The defined-contribution plan, or teacher retirement account (TRA), would be similar to a 401(k) and could include a matching contribution from the school system. Teachers could be fully vested within a year and would be able to take their accounts with them if they change jobs.

WHO ELSE DOES IT? Seventeen states and the District of Columbia offer teachers plans other than traditional defined-benefit pensions. Seven states allow teachers to select between plan types. In addition, 19 states allow charter schools to opt out of their state plans and offer their own retirement benefit package to teachers—typically 401(k) or 403(b) plans.

Example of How Pension Benefits and Employee Contributions Grow Over Time



Notes: The figure displays the value of lifetime pension benefits and required employee contributions for employers hired at age 25 earning average salaries and enrolled in a traditional plan that provides annual benefits equal to 2 percent of final average salary times years of service. Benefits vest after 5 years, and retirees may begin collecting at age 60. The required employee contribution rate is 7 percent. Calculations assume 8 percent nominal interest and 3 percent inflation.

Source: Author's calculations from the Urban Institutes State and local Employee Pension Plan database.

THE OPPORTUNITY: Missouri could support its next generation of teachers by giving them retirement options rather than forcing them into plans that are becoming more financially unhealthy. Teachers who prefer the current system could still take that option. If not, they could open a TRA and have their district match their contributions.

KEY POINTS

- Missouri's three teacher pension plans have made promises that are becoming financially unsustainable.
- We can better support our next generation of teachers by giving them portable retirement benefit options.

SHOW-ME INSTITUTE RESOURCES

Blog Post: "A Retirement House of Cards"

Blog Post: "Public Employee Pensions: Time to Get Our Heads out of the Sand"