



Pension System's Generous Benefits Come from the Pockets of Others

Published on *Show-Me Institute* (<https://showmeinstitute.org>)



By: James V. Shuls

Teachers love their pension system. And why not? A teacher can retire at age 55 with 30 years of service and draw 75% of their final average salary for the rest of her life. For a teacher who becomes a principal or superintendent, this benefit could easily be six figures annually. But have you ever stopped to ask yourself how the plan manages to achieve this? There is no magic. The plans do not have wizards for fund managers. The answer is much more straightforward—the system redistributes wealth from some individuals to others.

Logic tells us that when people receive benefits that far exceed the value of their contributions and interest, the funds must come from somewhere . . . and they do. They come from teachers who work for fewer years, from teachers with relatively low pay, and from future generations of teachers. The same characteristics of Missouri's teacher pension system that enable some teachers to enjoy a comfortable retirement also create several forms of inequity that could undermine these plans.

Currently, teachers in Missouri (except in Kansas City and Saint Louis City) contribute 14.5 percent of their salary to the pension system. The district matches that amount, for a total equal to 29 percent of the teacher's salary. A teacher who leaves before the five-year vesting period ends forfeits the district's match. But even vesting doesn't guarantee a teacher will receive full value for their contributions, let alone the district's match. Because the benefits accrue slowly at the start of a teacher's career and then rapidly as they approach retirement, a

teacher must work more than 20 years just to recoup their own contributions. The teacher who works 15 years and moves because of a spouse's job in another state, for example, will be leaving money behind that helps fund the generous benefits of others. This is known as *intra-generational* inequity—within a cohort of teachers, some benefit and others lose.

Another form of intra-generational inequity is the cross-subsidization that occurs between workers with different earnings trajectories. Some teachers (generally in wealthier districts) get very large raises over the course of their careers, but others do not. Teachers who become administrators make even more money. Since pension payouts are based on salary earned in just the final three years of employment, these individuals receive retirement benefits that exceed the amount of their own contributions to the system over the course of their careers.

Others have to make up the difference. These “others” come, in part, from poorer districts and districts with relatively flatter salary schedules. Teachers in these districts pay more into the system than they will get out. Their “excess” contributions go to fund the pensions of the former superintendent making \$150,000 a year in retirement.

Even though the pension system shortchanges many teachers, it still does not have enough funds to cover all its expected obligations. Therefore, the system must rely on new teachers to fund the benefits of retired teachers. This is the third type of inequity—inter-generational inequity. As generations of teachers contribute less than they receive in benefits, unfunded liabilities grow. In turn, future generations are asked to contribute more to the system. We have already seen individual contributions to PSRS grow from 10 percent in 1995 to 14.5 percent today.

Defenders of Missouri's teacher retirement system will be quick to tell us that the system is well-funded, over 80%. (We can quibble about this calculation another time.) They will reiterate that the system is well-liked by teachers and claim that retirees are doing well in this system. To make that argument is to miss the point of this entire article: unless we tie benefits to contributions, the pension system will continue to favor some at the expense of others.

About the Author



James Shuls
Distinguished Fellow of Education Policy

James V. Shuls is an assistant professor of educational leadership and policy studies at the University of Missouri–St. Louis and Distinguished Fellow in Education Policy at the Show-Me Institute.

Read Online

<https://showmeinstitute.org/blog/public-pensions/pension-system%E2%80%99s-generous-benefits-come-pockets-others>

Links

[1] <https://showmeinstitute.org/blog/public-pensions/pension-system%E2%80%99s-generous-benefits-come-pockets-others>

Mission Statement

Advancing liberty with responsibility by promoting market solutions for Missouri public policy.

Show-Me Institute

5297 Washington Place 3645 Troost Avenue
Saint Louis, MO 63108 Kansas City, MO 64109
Phone: (314) 454-0647 Phone: (816) 287-0370
Fax: (314) 454-0667

Email: info@showmeinstitute.org

Support Our Work

The Show-Me Institute is a tax-exempt 501(c)(3) nonprofit organization. Make your tax deductible contribution today: <http://ShowMeInstitute.org/donate>