



Retirement Reality Check:

Grading State Teacher Pension Plans

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About TeacherPensions.org

Teacherpensions.org provides high-quality information and analysis to help stakeholders—especially teachers and policymakers—understand the teacher pension issue and the trade-offs among various options for reform. We believe there is a need for additional analysis of and communication about teacher pensions—an issue that has not yet gained sufficient traction nationally, despite its seriousness and immediacy. We aim to make the issues around teacher pensions more accessible and relevant to the general public, more compelling to policymakers, and more understandable for current teachers.

Teacherpensions.org focuses on questions affecting public policy choices; it is not personal or institutional investment advice. You should consult a qualified financial professional before making consequential financial decisions.



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Introduction

There's a growing disconnect between retirement plans in the private and public sectors.

In the private sector, retirement plans have improved considerably. Federal regulation has forced employers to gradually lower the time an employee must wait to begin earning matching contributions from their employer, and the spread of low-cost mutual funds has sharply reduced the fees workers pay on their retirement accounts.

On the other hand, retirement plans for public-sector workers, including teachers, are mostly getting worse. Due to a series of cuts made in the wake of the last recession, now is the worst time in at least three decades to become a teacher in terms of retirement benefits. Those cuts fall hardest on new and future teachers, particularly teachers who do not plan to teach in the same state for their entire careers.¹ In pursuit of higher returns, large public pension funds have been pouring money into high-fee investments like private equity. And, due to rising unfunded liabilities, teacher retirement costs are eating into state and district budget monies that could be going toward teacher salaries.

While teacher pensions have received a lot of attention for their financial problems, the issues are more complicated than just budgetary issues. Current teacher retirement systems are often designed in ways that systematically disadvantage young and mobile teachers and impair the ability of schools to recruit, hire, retain, and compensate high-quality teachers. Those plans may work well for the fraction of teachers who qualify for full benefits, in this case those who never switch jobs or move out of state, and work consistently without interruption for 30 years—but not necessarily for most teachers, students, or schools, let alone the public at large.

We set out to grade states on how well they deliver retirement benefits to their teachers. What we found is a mostly depressing picture: States are enrolling teachers in expensive, debt-ridden retirement systems that fail to provide most teachers with adequate retirement savings. Without reform, states will continue to place teachers in unfair, financially unsustainable retirement systems.

Grading Teacher Retirement Plans

We believe all teachers deserve a portable and financially secure retirement plan. Our grades are based on how close states get to this ideal, and each variable included in our grading scale helps further these two goals.

But we're not the first organization to attempt to grade teacher pension plans. Other organizations, notably the Urban Institute and the National Council on Teacher Quality, have done yeoman's work of collecting details on the specific policies states have put in place and illustrating how those policies affect teachers. Our rankings build upon those efforts in an important way, by adding in details reflecting how many teachers in each state reach important pension milestones. Our operating premise is that states should design retirement plans that support and reflect the needs of their particular teacher workforce.

In today's world, workers are likely to have multiple jobs over the course of their lives, and they need to be able to build enough savings at each stage along the way in order to afford a secure retirement. Many workers change fields or cross state lines to pursue job opportunities or make other personal decisions that affect their ability to save. Teachers are no exception, and states should build retirement plans accordingly. Teachers should be able to take their savings with them no matter why they elect to leave the classroom, whether for personal reasons, as a career change, or to continue teaching in a different state.

Today's teacher retirement plans are not suited to this reality. Rather than improving plans to cover all teachers, state lawmakers have reacted to budgetary pressures by tilting their retirement plans even more heavily in favor of the small group of teachers who remain for 25 or 30 years.²

Today, more than half of all beginning teachers will not qualify for any pension at all.

States have also made it more difficult for teachers to earn pension benefits at all. By imposing longer “vesting periods” and creating new, less generous plans for younger teachers, states ensure that fewer teachers will share in the promises of their pension plans. Today, more than half of all beginning teachers will not qualify for any pension at all.³

Pension problems do not just adversely affect people who choose to leave teaching altogether. Substantial penalties for mobility within the teaching profession affect thousands of teachers every year. Teachers lose out because current public-sector defined benefit (DB) pension systems (a retirement benefit based on years of service, age at retirement, and final compensation, to determine teacher benefits) are tied to the state or sometimes even the district where the teacher works, and those systems are heavily biased toward teachers with longevity in the same system. Teachers can lose more than half of their retirement wealth just by switching pension systems one time;⁴ if teachers move multiple times—if, for example, their spouse is in the military—the losses are even greater.

To measure the extent to which states have created retirement systems that match and adequately support all of their teachers, we created a grading rubric focused on two questions: 1. Are all of the state’s teachers earning sufficient retirement benefits? And 2. Can teachers take their retirement benefits with them no matter where life takes them? Our rankings use an equally weighted grading system comprising six variables that help answer our two guiding questions. Those variables are:

- » The percentage of teacher salaries going toward retirement
- » The percentage of teacher pension contributions going toward pension debt
- » The percentage of teachers who qualify for employer-provided retirement benefits
- » The percentage of teachers who earn retirement savings worth at least their own contributions plus interest
- » The percentage of teachers covered by Social Security
- » Whether or not a portable retirement savings option exists

We break down each of these variables below. For full state data, see the tables in the Appendix (p15). Appendix Table 1 (p15–17) compiles all the variables into our overall grades.

The Percentage of Teacher Salaries Going Toward Retirement

We believe states should help teachers save enough each year while they're working so that they can afford to live a comfortable, financially secure retirement once they're done working. Most financial experts recommend workers save 10 percent to 15 percent of their salaries each year, including employer contributions, to secure a healthy retirement nest egg. That general savings rule, combined with the power of compound interest and Social Security benefits, would be enough for most workers to live a comfortable retirement.

Nationally, states estimate that they're offering teachers retirement benefits worth an average of 5.2 percent of teacher salaries. For some comparison, a 5 percent employer contribution rate would be considered mildly generous in the private sector. From an employer's perspective, it is the equivalent of offering a 5 percent match on a 401(k) plan, which is more than the typical private-sector employer offers but not significantly so.⁵ For workers covered under 401(k) plans with a 5 percent match, all employees would receive that amount in an individual, completely portable retirement account.

Teachers receive very different retirement benefits depending on their age, salary, and how long they work.

This is different from how benefits accrue under defined benefit (DB) plans. Pension systems break down their costs between the contributions needed to provide benefits (called the "normal cost") and the contributions necessary to pay down any unfunded liabilities (called "amortization costs"); these go toward paying down the pension debt rather than benefits for current teachers. Because DB

plans rely on age- and service-based formulas, teachers receive very different retirement benefits depending on their age, salary, and how long they work. Some teachers will eventually earn benefits worth far more than 5 percent of their salary, while many others will earn significantly less.

Other parts of our ranking system help account for these distributional issues, but this variable is focused on the question of whether or not states are contributing a sufficient amount toward actual teacher retirement benefits. For our rankings, we gave states full credit if they contributed at least 5 percent of teacher salaries towards retirement benefits (that is, they had an employer normal cost of at least 5 percent). Some states contributed more than 5 percent toward retirement benefits, but we gave no additional credit for that choice. We consider 5 percent to be a reasonable floor for employer contributions, and with a 5 percent match, employees would be saving a total of 10 percent of their income. While we don't punish states for going above that floor, states with much higher rates may be over-saving or investing more in the future at the expense of the present. We considered saving rates below 5 percent as insufficient to lead to a comfortable retirement.

On average, states earned more points on this variable than on any other. On the positive side, 24 states contributed at or above the 5 percent level and received full points in this category. States and district employers in a few states, like New York, North Dakota, Oregon, and Utah, are contributing more than 10 percent of teacher salaries toward retirement. Although our ranking system doesn't penalize those states, research studies attempting to quantify this effect suggest that teachers may prefer higher base salaries rather than receiving such high retirement contributions and that pension plans may indeed be over-saving on their behalf.⁶

At the bottom end of the spectrum, a handful of states have appallingly low contribution rates. Alabama, Minnesota, Montana, Ohio, South Carolina, and Vermont are all providing meager contributions to teacher retirement. We believe those states are not contributing enough to help teachers save for retirement. See Appendix Table 2 for all state data on this variable.

The Percentage of Teacher Pension Contributions Going Toward Pension Debt

Unlike 401(k) plans typically offered in the private sector, defined benefit pension systems can create a disconnect between the benefits that are promised in the future versus the amount of money that states have saved to pay for those benefits. Nationally, the gap between what states have saved and what they have promised to teachers totals \$499 billion.⁷ This is a form of debt that's unique to defined benefit pension plans like the ones offered to most teachers. While teachers may not be aware of how these "pension debts" affect them, employers must factor them in when they're making budget decisions such as how many teachers to hire or how much to pay them.

Today, the majority of the contributions into teacher pension plans are going toward amortization costs to pay down existing debt, not to pay for benefits for teachers. States are paying an average of 11 percent of each teacher's salary just for debt costs.

If states didn't face such large pension debts, they could afford to give that money back to teachers in other ways.

That's more than twice what they're contributing toward actual teacher retirement benefits, and it's the equivalent of \$6,801 for every public school teacher in America.⁸ If states didn't face these large debts, they could afford to give that money back to teachers in other ways, such as higher salaries.

When grading states on their teacher retirement systems, we gave states points for managing their debt costs in relation to their benefits. Low debt costs are a sign of a well-managed plan that balances future promises with present contributions. We believe states have a responsibility to ensure that today's investments in schools pay the full cost for today's teachers, rather than asking new teachers to subsidize the retirements of previous generations.

Our ranking gives states credit for keeping debt costs low in relation to their promised benefits. New York, South Dakota, and Wisconsin all do well at keeping debt costs low. On the other hand, states like Ohio, where 100 percent of its contributions are going toward debt, and Vermont, at 90 percent, are the worst-performing states in terms of keeping debt costs low. Between these extremes, another 36 states are allocating between 50 and 90 percent of their pension contributions toward debt costs. See Appendix Table 3 for all state data on this variable.

The Percentage of Teachers Who Qualify for Employer-Provided Retirement Benefits

In order to qualify for at least a minimum pension, states require teachers to work for a certain number of years. This requirement is called "vesting." Currently, 24 states and the District of Columbia require a teacher to stay for five years before vesting, four states require 7- or 8-year vesting periods, and another 15 states require teachers to stay for 10. After a teacher stays the required number of years and reaches the vesting point, she becomes eligible to collect a minimum pension upon retirement. If she leaves the system prior to vesting, she can withdraw her own contributions, sometimes with interest. However, in nearly every state, teachers who leave the plan must forfeit any contributions their school or state made on their behalf.

States with shorter vesting periods tend to have higher percentages of teachers who qualify for retirement benefits.

That makes vesting an important milestone, but the percentage of teachers who qualify for a pension varies from state to state. Nationally, less than half of all new

teachers in public schools will qualify for even a minimal pension benefit.⁹ Our grading system gives states more credit for having higher percentages of their teachers qualify for retirement benefits (ideally, all teachers would qualify). We use the state's own actuarial assumptions to estimate what percentage of teachers will reach its vesting requirement.¹⁰ While our approach is neutral on the actual vesting period chosen, states with shorter vesting periods tend to have higher percentages of teachers who qualify for a benefit. We give states credit on a sliding scale for providing retirement benefits to more of their teachers.

Arizona stands out as the only state with immediate vesting, where 100 percent of teachers qualify for a retirement benefit. Idaho, Alaska, and California all do well—approximately 70 percent of their teachers will qualify for some employer-provided retirement benefit. But other states come up short. Maine estimates that just 14 percent of its new teachers will qualify for a pension, and in Massachusetts, only 12 percent will. Only about 25 percent of teachers will qualify in Mississippi, Pennsylvania, New Hampshire, and Hawaii. These states are enrolling teachers in pension plans, but very few of their teachers will ever actually qualify for any pension benefits. See Appendix Table 4 for all state data on this variable.

The Percentage of Teachers Who Earn Retirement Savings Worth at Least Their Own Contributions Plus Interest

Even once teachers qualify for a minimal benefit through vesting, pension plans tend to offer meager benefits to short- and medium-term workers, even those who spend as long as 20 or 25 years teaching in one state. Virtually every plan requires participants to contribute toward the cost of their retirement benefits, and employees must work many years before their future benefits exceed the value of their own contributions plus interest. Those who leave before reaching that “break-even point” do not receive any employer-financed retirement benefits, despite their often lengthy careers.¹¹

Teachers must work many years before their benefits exceed the value of just their own contributions plus interest.

For our purposes, we assigned points based on the percentage of each state’s workforce that will reach the state’s break-even point. Alaska comes out on top again. In 2006, the state adopted a fully portable defined contribution (DC) retirement plan that ensures 100 percent of teachers are entitled to at least their own contributions plus interest. Behind Alaska are Oregon and

Utah, where 63 and 60 percent of their teachers, respectively, earn a retirement worth at least their own contributions plus interest. On the opposite end, we estimate that less than 4 percent of Vermont teachers and 2 percent of Maine teachers will break even on their own contributions. Worst of all, we find that Massachusetts is enrolling all new teachers in a retirement plan that is entirely subsidizing past debts. Under its current rules, new Massachusetts teachers will never qualify for benefits worth more than their own contributions. See Appendix Table 5 for all state data on this variable.

The Percentage of Teachers Covered by Social Security

State retirement plans can't match the national portability or progressivity of Social Security, yet approximately 1.2 million teachers (about 40 percent of all public K-12 teachers) are not covered by Social Security for their time in the classroom.¹² Our ranking system reflects our belief that Social Security offers a solid foundation for retirement upon which all states should build. State

Approximately 1.2 million teachers (about 40 percent of all public K-12 teachers) are not covered by Social Security.

workers were left out of the original Social Security Act in 1935, initially because of concerns over whether the federal government could tax state and local governments. Later, when states were given the opportunity to extend coverage to public sector workers in the 1950s, most states chose to extend coverage. A handful of states, however, chose not to.

Instead, these states continue to bet they can provide better coverage through state pension plans alone than through the combination of a state retirement plan *and* Social Security. While state pension benefits for full-career workers do have a higher rate of investment return than Social Security, this arrangement works well only for the small group of teachers who stay in a single retirement system for their full career. Moreover, states foregoing Social Security must compensate by offering more generous pension systems, and they take on more financial risk to do so. On average, states that do not offer Social Security tend to be in more financial trouble than states that are participating.¹³

Today, the majority of uncovered teachers work in 15 states. Those states—Alaska, California, Colorado, Connecticut, Georgia, Illinois, Kentucky, Louisiana, Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas, as well as the District of Columbia—received zero credit for this variable. Additional states have varied coverage where many teachers also remain left out. See Appendix Table 6 for all state data on this variable.

For our purposes, states earned full points if their teachers were covered by Social Security, and zero points if all their teachers were not.¹⁴

Whether or Not a Portable Retirement Savings Option Exists

While most of our grading system is focused on existing defined benefit (DB) pension systems, we also recognize the value of converting teacher retirement systems to more portable plans, or at least giving teachers the option to choose a portable plan. While a majority of states still enroll teachers in a traditional defined benefit pension plan, a few have created alternatives. Fourteen states offer some form of alternative retirement plan for teachers.

Not all alternatives are equal in our eyes, however. We give states full credit if their teachers have a mandatory defined contribution, cash balance plan, or hybrid plan, because we believe those types of plans are better suited to today's teacher workforce.

We gave states half credit on this indicator if they have a default defined benefit plan but offer an optional defined contribution, hybrid, or cash balance plan. Research suggests that default options have a powerful influence, and given the rapid turnover in the teacher profession, we believe the default should be a portable retirement plan.¹⁵ Moreover, we have doubts that states can responsibly manage DB plans or create parity between competing DB and DC plans. States that do not offer their teachers any portable option received no points.

States earning full points include Alaska, whose unique defined contribution plan automatically ensures all teachers have a portable option, and Kansas, who automatically enrolls new teachers in a cash balance plan.

Teachers in Florida, Michigan, Ohio, South Carolina, Utah, and Washington all offer their teachers a choice outside of a traditional defined benefit plan, whether that be a hybrid plan, like Washington's, or a defined contribution plan, like South Carolina's. These states all earned half credit. See Appendix Table 7 for all state data on this variable.

Overall Takeaways and National Trends

Our findings highlight areas for improvement in every state. Overall, while states tend to be contributing enough toward benefits, they haven't managed debt well, and they are failing to provide all teachers with adequate retirement benefits. Few states have adopted reforms that would give teachers portable retirement benefits with the freedom of mobility to make their own personal or career choices. Other states do not offer Social Security coverage to their teachers, depriving them of a solid base of retirement savings.

Just because a state has managed its debt costs reasonably well does not necessarily mean its plan is working well for teachers.

Our rankings also help illustrate an important distinction that's often left out of pension debates: Just because a state has managed its debt costs reasonably well does not necessarily mean its plan is working well for teachers. New York is one such example. The state does okay overall in our rankings, coming in ninth. Debt costs are low, at just 0.4 percent of teacher salaries (compared to

the national average of around 11 percent), but the state requires new teachers to stay 10 years before qualifying for retirement benefits, leaving 60 percent of the state's teacher workforce without any pension benefit at all.

Similarly, Wisconsin has negligible debt costs, but teachers are left out of Social Security coverage and must stay in the classroom 21 years before they qualify for a pension worth at least their own contributions plus interest.¹⁶ Both New York and Wisconsin have managed their finances reasonably well, but neither one is truly meeting the retirement needs of their teacher workforces. In fact, they're managing their pension finances on the backs of teachers, at least in part, by perpetuating heavily back-loaded systems that reward a few at the expense of most teachers.

Most states are struggling with both portability and financial sustainability. Massachusetts is at the extreme end of both scales, because it fails in multiple categories. Its current defined

Most states are struggling with both portability and financial sustainability.

benefit retirement plan is so expensive and so back-loaded that *none* of its new teachers will ever break even on their pension contributions. That is, Massachusetts is forcing its new and future teachers to enroll in a retirement system from which they'll never attain positive benefits. Worse, Massachusetts teachers do not receive Social Security benefits, so they're even more vulnerable

to their poorly designed, poorly managed state pension plan. Massachusetts is not alone in some of these challenges, but it stands out for being so bad for teachers on so many levels.

Recommendations

While action steps will vary state-to-state, we believe all teachers deserve a path to a secure retirement. In order to accomplish that objective, states must take the following steps:

1. **Get their finances under control**

States have accrued large debts through their pension systems, and these are harming teachers and schools. There's no magic cure for the debts that have already accrued; states need to commit to paying those down, rather than continuing the cycle of postponing payments and borrowing against pension funds. This means making regular payments into their current plans, as well as adopting retirement plans for new workers that won't keep adding to the debt.

2. **Make portable teacher retirement plans the default to provide all teachers with financially secure benefits**

We know that many teachers won't teach for their entire careers. They might leave the profession altogether, by choice or as the result of a life circumstance, or put their teaching career on pause to pursue other personal or professional goals.

If almost every teacher will transition into and out of state retirement plans, it makes sense to pay attention to how pension plans treat teachers at those transition points. The traditional defined benefit pension structure, which currently serves 90 percent of teachers, inherently penalizes employees for changing states or leaving the profession.

New teachers should not be subsidizing older teachers, as is too often the case today.

States can work to combat this by first creating portable, cash balance or defined contribution retirement plans, and then setting these plans as the default option for all teachers. And while those plans won't undo the ramifications of existing state pension debt burdens, they will prevent states from incurring future liabilities

and allow teachers more retirement planning flexibility.

New teachers should not be subsidizing older teachers, as is the case today in states' defined benefit plans. States should embrace shorter vesting periods for teachers and ensure that teachers earn at least some employer match on their own contributions.

If states do not want to abandon their defined benefit plans, they can consider cash balance options, like those in Kansas. A cash balance plan combines aspects of a defined contribution, 401(k)-style retirement plan within the format of a defined benefit plan. Individual employee retirement balances are stated in terms of an account balance, rather than a formula, but the employer takes responsibility for investing the assets and guarantees at least a minimal level of return on those investments. This effectively splits the risk between the employer and employee, and ensures a smooth, fair accrual of portable benefits.

3. Expand Social Security coverage to include teachers

Finally, 15 states do not extend Social Security coverage to teachers, leaving them particularly vulnerable to poorly designed state retirement plans. It doesn't have to be this way. States aren't locked into keeping their teachers out of Social Security. When Social Security coverage was extended to the states in the 1950s, each state entered into an agreement with the Social Security Administration, detailing the extent of coverage. Today, federal law allows any state or local retirement system to modify their agreement and join the program.

States that aren't already offering Social Security should reconsider their decades-old decisions. While not sufficient as a stand-alone benefit, Social Security could provide teachers with a floor of secure, inflation-protected, and nationally portable retirement benefits—something many teachers don't have and genuinely need.

Appendix

Table 1 Grading State Teacher Pension Plans: Overall Rankings by Score

Overall grades are made up of an equally weighted average of all six variables. To convert those scores into overall letter grades, we used a standard grading scale where 90-100 percent is worth an “A” grade, 80-89 percent a “B,” and so on.

	Letter Grade	Vest (% of pts earned)	Break-even (% of pts earned)	Social Security (% of pts earned)	Portable Option (% of pts earned)	Normal Cost (% of pts earned)	Debt Costs (% of pts earned)
Utah	C	52%	60%	100%	100%	100%	63%
Oregon	C	46%	63%	100%	100%	100%	44%
Tennessee	C	56%	22%	100%	100%	100%	62%
Alaska (DC)*	D	70%	100%	0%	100%	100%	40%
Virginia	D	50%	17%	100%	100%	100%	36%
Washington	D	55%	45%	100%	50%	100%	52%
Indiana	D	31%	33%	100%	100%	100%	18%
Idaho	D	70%	38%	100%	0%	100%	65%
New York	D	40%	33%	100%	0%	100%	97%
South Dakota	F	43%	45%	100%	50%	90%	100%
Michigan**	F	57%	37%	100%	0%	90%	20%
Arkansas	F	53%	11%	100%	0%	100%	48%
Kansas	F	47%	25%	100%	0%	50%	15%
North Carolina	F	44%	24%	100%	100%	100%	62%
Iowa	F	59%	50%	0%	100%	100%	56%
Delaware	F	36%	6%	100%	0%	100%	73%
Rhode Island	F	42%	26%	100%	0%	85%	18%
Wisconsin	F	64%	49%	0%	0%	100%	99%
Florida	F	28%	15%	100%	50%	57%	46%
Maryland	F	56%	30%	0%	100%	91%	29%

Table 1 Grading State Teacher Pension Plans: Overall Rankings by Score (continued)

	Letter Grade	Vest <i>(% of pts earned)</i>	Break-even <i>(% of pts earned)</i>	Social Security <i>(% of pts earned)</i>	Portable Option <i>(% of pts earned)</i>	Normal Cost <i>(% of pts earned)</i>	Debt Costs <i>(% of pts earned)</i>
Louisiana	F	43%	27%	100%	0%	86%	17%
Pennsylvania	F	56%	44%	100%	0%	100%	30%
West Virginia	F	36%	19%	100%	0%	89%	18%
New Jersey	F	39%	37%	100%	0%	69%	13%
Arizona	F	42%	12%	100%	0%	39%	17%
Hawaii	F	100%	16%	100%	0%	100%	32%
Wyoming	F	25%	12%	100%	0%	72%	42%
North Dakota	F	37%	19%	100%	50%	100%	89%
Missouri	F	58%	38%	0%	0%	100%	64%
California	F	69%	49%	0%	0%	100%	39%
South Carolina	F	31%	8%	100%	0%	33%	15%
Nevada**	F	57%	32%	0%	0%	100%	49%
Kentucky	F	67%	44%	0%	0%	100%	26%
Nebraska	F	33%	16%	100%	0%	47%	32%
District of Columbia	F	32%	12%	100%	0%	100%	59%
New Mexico	F	29%	22%	0%	0%	46%	14%
Georgia	F	33%	25%	0%	0%	100%	46%
Alabama	F	39%	29%	100%	0%	16%	11%
New Hampshire	F	44%	26%	0%	0%	41%	13%
Illinois	F	50%	20%	0%	0%	100%	21%
Connecticut	F	55%	40%	0%	0%	75%	16%
Mississippi	F	33%	4%	100%	0%	38%	13%
Vermont	F	50%	22%	0%	0%	27%	10%
Colorado	F	24%	6%	100%	0%	84%	19%
Oklahoma	F	56%	18%	0%	0%	60%	23%

Table 1 Grading State Teacher Pension Plans: Overall Rankings by Score (continued)

	Letter Grade	Vest <i>(% of pts earned)</i>	Break-even <i>(% of pts earned)</i>	Social Security <i>(% of pts earned)</i>	Portable Option <i>(% of pts earned)</i>	Normal Cost <i>(% of pts earned)</i>	Debt Costs <i>(% of pts earned)</i>
Texas	F	36%	21%	0%	0%	44%	29%
Maine	F	14%	2%	0%	0%	68%	26%
Massachusetts	F	59%	18%	0%	0%	73%	21%
Minnesota	F	34%	17%	0%	50%	21%	13%
Ohio***	F	34%	17%	0%	50%	0%	0%
Montana	F	35%	19%	0%	0%	21%	12%
National Average	F	46%	28%	59%	23%	76%	37%

*Alaska's normal cost was calculated using the state's DC plan's employer contribution; their debt costs were calculated by dividing the debt percentage remaining in their original DB plan divided by the state's total contribution rate.

**Normal cost data for Nevada and Michigan's were not available in their latest reports, so we used 2014 data instead.

***Ohio's normal cost is negative, meaning neither the state nor its school districts are contributing toward the retirement benefits of current teachers.

Table 2 Normal Costs as a Percentage of Teacher Salary by State
Percentage of teacher salaries going toward retirement

	Normal Cost		Normal Cost
Alabama	0.8%	Montana	1.1%
Alaska (DC)	8.0%	Nebraska	2.3%
Arizona	2.0%	Nevada	6.6%
Arkansas	6.8%	New Hampshire	2.1%
California	8.4%	New Jersey	3.5%
Colorado	4.2%	New Mexico	2.3%
Connecticut	3.7%	New York	11.3%
Delaware	7.0%	North Carolina	5.2%
District of Columbia	7.2%	North Dakota	11.6%
Florida	2.8%	Ohio	0.0%
Georgia	6.6%	Oklahoma	3.0%
Hawaii	5.8%	Oregon	13.7%
Idaho	7.6%	Pennsylvania	8.3%
Illinois	8.3%	Rhode Island	4.3%
Indiana	5.1%	South Carolina	1.6%
Iowa	5.0%	South Dakota	4.5%
Kansas	2.5%	Tennessee	5.2%
Kentucky	7.6%	Texas	2.2%
Louisiana	4.3%	Utah	14.8%
Maine	3.4%	Vermont	1.4%
Maryland	4.6%	Virginia	5.6%
Massachusetts	3.6%	Washington	7.7%
Michigan	4.5%	West Virginia	4.4%
Minnesota	1.1%	Wisconsin	6.8%
Mississippi	1.9%	Wyoming	3.6%
Missouri	9.4%	National Average	5.2%

Table 3 Debt Costs as a Percentage of Teacher Pension Contributions by State
Percentage of teacher pension contributions going toward pension debt

	Debt Cost		Debt Cost
Alabama	89.2%	Montana	88.0%
Alaska (DC)	60.0%	Nebraska	67.9%
Arizona	82.7%	Nevada	51.1%
Arkansas	52.4%	New Hampshire	87.0%
California	60.9%	New Jersey	87.0%
Colorado	80.9%	New Mexico	86.4%
Connecticut	84.2%	New York	3.5%
Delaware	27.3%	North Carolina	38.5%
District of Columbia	40.5%	North Dakota	10.8%
Florida	54.3%	Ohio	100.0%
Georgia	54.0%	Oklahoma	77.3%
Hawaii	67.8%	Oregon	55.6%
Idaho	34.7%	Pennsylvania	69.6%
Illinois	78.9%	Rhode Island	81.6%
Indiana	81.9%	South Carolina	85.2%
Iowa	44.2%	South Dakota	0.0%
Kansas	84.8%	Tennessee	37.9%
Kentucky	74.4%	Texas	70.6%
Louisiana	83.1%	Utah	36.5%
Maine	74.0%	Vermont	90.1%
Maryland	71.1%	Virginia	64.1%
Massachusetts	79.5%	Washington	48.0%
Michigan	79.8%	West Virginia	81.8%
Minnesota	87.5%	Wisconsin	1.0%
Mississippi	87.2%	Wyoming	58.4%
Missouri	35.6%	National Average	63%

Table 4 Vesting Requirements by State
Percentage of teachers who qualify for employer-provided retirement benefits

	Vesting Requirement	Percentage of New Teachers Who Will Vest
Alabama	10 years	39%
Alaska (DC)*	n/a	70%
Arizona	Immediate	100%
Arkansas	5 years	57%
California	5 years	69%
Colorado	5 years	36%
Connecticut	10 years	55%
Delaware	10 years	36%
District of Columbia	5 years	29%
Florida	8 years	28%
Georgia	10 years	33%
Hawaii	10 years	25%
Idaho	5 years	70%
Illinois	10 years	50%
Indiana	10 years	31%
Iowa	7 years or age 65	42%
Kansas	5 years	44%
Kentucky	5 years	67%
Louisiana	5 years	56%
Maine	5 years	14%
Maryland	10 years	43%
Massachusetts	10 years	12%
Michigan	10 years	43%
Minnesota	3 years	50%
Mississippi	8 years	24%
Missouri	5 years	58%

Table 4 Vesting Requirements by State (continued)

	Vesting Requirement	Percentage of New Teachers Who Will Vest
Montana	5 years	35%
Nebraska	5 years	32%
Nevada	5 years	57%
New Hampshire	10 years	31%
New Jersey	10 years	56%
New Mexico	5 years	33%
New York	10 years	40%
North Carolina	5 years	47%
North Dakota	5 years	56%
Ohio	5 years	34%
Oklahoma	5 years	44%
Oregon	5 years	46%
Pennsylvania	10 years	36%
Rhode Island	5 years	59%
South Carolina	8 years	37%
South Dakota	3 years	53%
Tennessee	5 years	56%
Texas	5 years	59%
Utah	4 years	52%
Vermont	5 years	33%
Virginia	5 years	50%
Washington	5 years	55%
West Virginia	10 years	39%
Wisconsin	5 years	64%
Wyoming	4 years	42%
National Average	6.6 years	46%

*Although Alaska enrolls all new teachers in a defined contribution plan, it imposes a five-year vesting period on that plan. To determine the percentage of teachers who meet that vesting requirement, we used the closed DB plan's assumptions on teacher turnover rates.

Table 5 Percentage of Teachers Who Will Break Even From Their Retirement Plan
Percentage of teachers who earn retirement savings worth at least their own contributions plus interest

	Percentage of Teachers Who Will Break Even From Their Retirement Plan		Percentage of Teachers Who Will Break Even From Their Retirement Plan
Alabama	29%	Montana	19%
Alaska (DC)	100%	Nebraska	12%
Arizona	16%	Nevada	32%
Arkansas	37%	New Hampshire	8%
California	49%	New Jersey	44%
Colorado	21%	New Mexico	16%
Connecticut	40%	New York	33%
Delaware	6%	North Carolina	25%
District of Columbia	22%	North Dakota	18%
Florida	15%	Ohio	17%
Georgia	25%	Oklahoma	26%
Hawaii	12%	Oregon	63%
Idaho	38%	Pennsylvania	19%
Illinois	20%	Rhode Island	50%
Indiana	33%	South Carolina	19%
Iowa	26%	South Dakota	11%
Kansas	24%	Tennessee	22%
Kentucky	44%	Texas	18%
Louisiana	30%	Utah	60%
Maine	2%	Vermont	4%
Maryland	27%	Virginia	17%
Massachusetts	0%	Washington	45%
Michigan	45%	West Virginia	37%
Minnesota	22%	Wisconsin	49%
Mississippi	6%	Wyoming	12%
Missouri	38%	National Average	28%

Table 6 Teacher Social Security (SS) Coverage by State
Whether or not teachers are covered by Social Security

	SS Coverage
Alabama	Yes
Alaska (DC)	No
Arizona	Yes
Arkansas	Yes
California	No
Colorado	No
Connecticut	No
Delaware	Yes
District of Columbia	No
Florida	Yes
Georgia	Varies
Hawaii	Yes
Idaho	Yes
Illinois	No
Indiana	Yes
Iowa	Yes
Kansas	Yes
Kentucky	No
Louisiana	No
Maine	Varies
Maryland	No
Massachusetts	Yes
Michigan	Yes
Minnesota	Varies
Mississippi	Yes
Missouri	Varies

	SS Coverage
Montana	Varies
Nebraska	Yes
Nevada	No
New Hampshire	Yes
New Jersey	Yes
New Mexico	Yes
New York	Yes
North Carolina	Yes
North Dakota	Varies
Ohio	No
Oklahoma	Varies
Oregon	Yes
Pennsylvania	Yes
Rhode Island	Varies
South Carolina	Yes
South Dakota	Yes
Tennessee	Yes
Texas	No
Utah	Yes
Vermont	Yes
Virginia	Yes
Washington	Yes
West Virginia	Yes
Wisconsin	Varies
Wyoming	Yes





Table 7 Portable Retirement Plan Option Available by State
Whether or not a portable retirement savings option exists

	Portable Option		Portable Option
Alabama	No	Montana	No
Alaska (DC)	Yes	Nebraska	No
Arizona	No	Nevada	No
Arkansas	No	New Hampshire	No
California	No	New Jersey	No
Colorado	No	New Mexico	No
Connecticut	No	New York	No
Delaware	No	North Carolina	No
District of Columbia	No	North Dakota	No
Florida	Yes	Ohio	Yes
Georgia	No	Oklahoma	No
Hawaii	No	Oregon	Yes
Idaho	No	Pennsylvania	No
Illinois	No	Rhode Island	Yes
Indiana	Yes	South Carolina	Yes
Iowa	No	South Dakota	No
Kansas	Yes	Tennessee	Yes
Kentucky	No	Texas	No
Louisiana	Yes	Utah	Yes
Maine	No	Vermont	No
Maryland	No	Virginia	Yes
Massachusetts	No	Washington	Yes
Michigan	Yes	West Virginia	No
Minnesota	No	Wisconsin	No
Mississippi	No	Wyoming	No
Missouri	No		

Endnotes

- ¹ Leslie Kan and Chad Aldeman, "Eating Their Young: How Cuts to State Pension Plans Fall on New Workers," TeacherPensions.org and Bellwether Education Partners, July 2015, <http://www.teacherpensions.org/resource/eating-their-young>.
- ² Chad Aldeman and Richard W. Johnson, "Negative Returns: How State Pensions Shortchange Teachers," TeacherPensions.org, Urban Institute, and Bellwether, September 2015, http://www.teacherpensions.org/sites/default/files/TeacherPensions_Negative%20Returns_Final.pdf.
- ³ Chad Aldeman and Andrew J. Rotherham, "Friends Without Benefits: How States Systematically Shortchange Teachers' Retirement and Threaten Their Retirement Security," TeacherPensions.org, The Joyce Foundation, and Bellwether, March 13, 2014, <http://www.teacherpensions.org/resource/friends-without-benefits>.
- ⁴ Robert M. Costrell and Michael Podgursky, "Distribution of Benefits in Teacher Retirement Systems and Their Implications for Mobility," *The Association for Education Finance and Policy Journal* 5, No. 4 (Fall 2010): pp. 519-57.
- ⁵ Our calculations from a large-scale analysis of more than 35,000 private-sector defined contribution plans suggests that about 25 percent to 30 percent of employers offer a 401(k) contribution of at least 5 percent. See Exhibit 2.3 here: BrightScope and Investment Company Institute, "The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans" (San Diego, CA: BrightScope and Washington, D.C.: Investment Company Institute), 2014, https://www.ici.org/pdf/ppr_14_dcplan_profile_401k.pdf.
- ⁶ For example: Maria Donovan Fitzpatrick, "How Much Are Public School Teachers Willing to Pay for Their Retirement Benefits?," *American Economic Journal* 7, No. 4 (2015): pp. 165-88, <http://www.nber.org/papers/w20582>; and Cory Koedel and P. Brett Xiang, "Pension Enhancements and the Retention of Public Employees: Evidence from Teaching," National Center for Analysis of Longitudinal Data in Education Research, October 2015, <http://www.caldercenter.org/publications/pension-enhancements-and-retention-public-employees-evidence-teaching>.
- ⁷ Kathryn M. Doherty, Sandi Jacobs, and Martin F. Lueken, "Doing the Math on Teacher Pensions: How to Protect Teachers and Taxpayers," National Council on Teacher Quality, January 2015.
- ⁸ Aldeman, "What Do Pac-Man and Pensions Have in Common?," TeacherPensions.org, May 2016, <http://www.teacherpensions.org/resource/what-do-pac-man-and-pensions-have-common>.
- ⁹ Aldeman and Rotherham, "Friends Without Benefits," <http://www.teacherpensions.org/resource/friends-without-benefits>.
- ¹⁰ For a longer description of this methodology, see the Appendix in Aldeman and Rotherham, "Friends Without Benefits," <http://www.teacherpensions.org/resource/friends-without-benefits>.
- ¹¹ For a longer description of the methodology used to calculate state grades on this variable, see: Aldeman and Johnson, "Negative Returns: How State Pensions Shortchange Teachers," http://www.teacherpensions.org/sites/default/files/TeacherPensions_Negative%20Returns_Final.pdf.
- ¹² For more background, see Kan and Aldeman, "Uncovered: Social Security, Retirement Uncertainty, and 1 Million Teachers," TeacherPensions.org and Bellwether, December 2014, <http://www.teacherpensions.org/resource/uncovered-social-security-retirement-uncertainty-and-1-million-teachers>.
- ¹³ "... states with governmental pension plans that have greater levels of underfunding tend also to have a smaller proportion of [state and local government workers] workers that are covered by Social Security." David C. John, Sarah E. Holmes, and William G. Gale, "Social Security Coverage for State and Local Government Workers: A Reconsideration," Brookings Institution, October 2015, <https://www.brookings.edu/research/social-security-coverage-for-state-and-local-government-workers-a-reconsideration/>.
- ¹⁴ There are nine states that defer to individual school districts to decide if they want to offer Social Security. We gave those states zero points, because that puts the onus on individual teachers to shop around across districts to determine if they offer Social Security or not, rather than operating under the assumption that all teachers are automatically covered.
- ¹⁵ See, for example, James J. Choi et al., "Defined Contribution Pensions: Plan Rules, Participant Decisions, and the Path of Least Resistance" (NBER Working Paper No. 8655, December 2001, JEL No. J320, H550, G110, D910).
- ¹⁶ Aldeman and Johnson, "Negative Returns: How State Pensions Shortchange Teachers," http://www.teacherpensions.org/sites/default/files/TeacherPensions_Negative%20Returns_Final.pdf.

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