

BLUE MODEL DECAY

## Study Illuminates Workings of Teacher Pension Ponzi Scheme

When critics of the blue model civil service system argue against the defined-benefit teacher pension structure that is bleeding state and local governments dry, defenders usually counter that a more flexible, 401(k)-style system would be unfair to teachers, who deserve an especially generous benefits package. But as it turns out, according to a recent study from the right-leaning Fordham Institute, defined-benefit plans in most states actually operate as a *financial penalty* for the bulk of teachers, who need to contribute more than they will ever take out. The system primarily exists to benefit the minority of teachers who have spent their entire career in the same profession and the same state.

The median crossover point of the fifty-one districts is twenty-five years (Figure ES-1). That means teachers in more than half of these districts will wait two-and-a-half decades before their retirement benefit is worth more than what they've put in themselves. For the thirty-nine traditional defined benefit (DB) plans, the median is twenty-seven years. Only five DB plans have a crossover point of fewer than twenty years—which means that, in the thirty-four other districts with DB plans, nearly three in four teachers will leave the profession before they reach the crossover point. 6 Or phrased another way: Since the average experience of a teacher who leaves the profession is fifteen years—and fewer than one out of four stays more than twenty years—many teachers will never see a “benefit.”

Why do teachers lobby for, and why do legislators acquiesce to, a system that undermines the interests of so many teachers? One answer is that unions are hierarchical organizations where veteran and sometimes even retired teachers—those who have the best deal under defined-benefit pension plans—hold the most sway. Another is bad information—many teachers probably think that they will get more out than they are putting in even though the data show otherwise.

Finally, teachers' union bosses are politically ruthless—just look at the way they forced the Democratic Party to go to the wall to try to block Betsy DeVos. Many policymakers and much of the public have been convinced that a defined-contribution retirement system that shares benefits more equitably and sustainably amounts to a war against teachers and students, even though it could actually raise the compensation of new teachers and help improve student outcomes by raising teacher quality. Unfortunately, the result of all this is a Ponzi scheme-like apparatus that

is undermining American education and busting public budgets for the benefit of a well-organized interest group that doesn't even represent the interest of vast swathes of its own membership.

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