



NATIONAL COUNCIL ON TEACHER RETIREMENT

NCTR STATEMENT ON NCTQ 2008 “STATE TEACHER POLICY YEARBOOK”

The National Council on Teacher Quality (NCTQ) is to be commended for its interest in the vitally important goal of increasing the number of effective teachers in America’s classrooms. However, the 2008 edition of its *State Teacher Policy Yearbook* is careless in its conclusions about retirement security for teachers and represents a great disservice to this valued component of society.

At this critical juncture in our nation’s economic history, America’s continued success in an intensely competitive global economy is directly linked to ensuring the best possible education for our citizens. Furthermore, in order to accomplish this goal, our educational system must be able to attract and keep the best and the brightest teachers possible. Representing as we do 73 state, territorial, local, and university pension systems serving more than 19 million active and retired teachers, non-teaching personnel, and other public employees, NCTR is therefore very disappointed with the NCTQ’s failure to accurately assess the importance of pensions in this process. The Yearbook’s conclusions related to the fairness and flexibility of current State pension systems are not supported by the facts, and its recommendations related to pensions and teacher retirement reflect neither the documented desires of the very teachers who are the targets of any retention efforts, nor the best interests of the taxpayers who are ultimately their employers.

Teachers prefer traditional defined benefit (DB) pension plans. There is ample evidence to demonstrate that teachers prefer DB plans to other defined contribution (DC) approaches. NCTQ may believe that it is important that teachers have a choice between a DB and a DC plan as their “primary” pension, citing as unfortunate the fact that only three states (Ohio, Florida and South Carolina) offer such an opportunity. However, NCTQ fails to note that, when given this option, teachers in these three states have overwhelmingly selected the DB option. Furthermore, two states (Nebraska and West Virginia) which previously offered only DC plans recently replaced them with DB plans, and Alaska, the only state which now offers only a DC plan, is already researching a switch back to the DB model.

DB plans help attract and retain teachers. Despite NCTQ claims that educators, particularly younger teachers, do not see traditional DB pension plans as a meaningful part of their compensation package, this is simply not supported by the research in hand. For example, the Center for American Progress recently reported that younger employees, when exposed to the pros and cons of each type of pension plan, prefer the traditional pension model with investment professionals making investment decisions instead of employees. Furthermore, economists have repeatedly demonstrated that DB pension plans provide strong incentives for employee retention. The most recent study on DB plans, retention and employee commitment, published in the *Journal of Pension Economics and Finance* a little over a year ago, found that employees with a DB plan tended to report higher levels of commitment than those with only a DC plan, and that this result was strongest among younger workers.

DB plans are a good deal for taxpayers. Because of their group nature, DB plans are much more efficient at delivering retirement benefits than individual account-based DC plans. In fact, a recent study by the National Institute on Retirement Savings (NIRS) shows that a DB plan can provide a target level of retirement income at almost half the cost of a DC plan. Professionally managed, pooled assets offered by DB plans help assure greater returns and

reduced investment risks, and have served to keep taxpayer costs to only about one-fourth the total cost of existing teacher pensions.

NCTR believes that pensions are important tools in attracting and keeping qualified teachers in order to maintain America's economic strength and keep our workforce competitive in the global economy. In particular, traditional DB pensions have been shown to be overwhelmingly and consistently preferred by teachers, to offer a proven track record in helping in their recruitment and retention, and to provide a better deal for taxpayers when compared with other DC-based models.

NCTQ states that one of its goals is to develop a research agenda that has direct and practical implications for policy to help increase the number of effective teachers. However, the new NCTQ report provides no new data to suggest that a DC retirement option or the replacement of existing teacher DB plans with a DC model is either sought by teachers themselves, preferable as a means for retaining them, or any more efficient than the existing DB system in providing adequate financial security at a fair cost to taxpayers. Finally, given the recent unprecedented declines in the value of individual retirement savings plans that have borne out the long-held fears of many that such 401(k)-type plans alone cannot be depended on to provide for adequate, reliable retirement security, the impact of promoting such accounts as a replacement for the existing DB model simply makes no sense whatsoever as a means of improving teacher recruitment and retention.

As an organization committed to providing guidance in the development and management of financially sound and equitable retirement plans for qualified career public employees in the education arena, NCTR hopes that it will be consulted in the development of future NCTQ reports, and offers its assistance in this regard.

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