CALIFORNIA TEACHERS ASSOCIATION

Where We Stand

The TRUTH about TEACHERS' RETIREMENT

As the fiscal crisis deepens in California and throughout the nation, teachers and other public employees have increasingly been scapegoated as a large part of the problem — specifically because they have earned pensions as part of their compensation package. It's time to set the record straight.

The economic collapse is the result of many factors, including the subprime mortgage crisis, Wall Street banking scandals, the deregulation of financial institutions, high corporate and consumer debt levels, a high unemployment level, and unbridled corporate greed. It is an epic global crisis, and it affects all of us. It was not caused by middle-income teachers and education support professionals who worked hard and contributed part of their pay toward their pension throughout the years so they could live modestly during their retirement. It was caused largely by Wall Street bankers, who, instead of going to prison, continue to receive outrageous pay raises and $100 million bonuses.

In California, most educators belong to the California State Teachers' Retirement System (CalSTRS), the second-largest public retirement fund in the country. The retirement fund is not a taxpayer giveaway, as critics have charged. Over the span of their careers, CalSTRS members contribute 8 percent of their monthly pay to help finance their retirement. Employers kick in an equal 8.25 percent of monthly pay, the state contributes a little more than 2 percent (which previously was 4.7 percent but was reduced a decade ago, saving the state over $3 billion), and the returns garnered by CalSTRS investments do the rest.

Unlike most workers, educators in California do not earn any Social Security benefits, and teachers who previously worked in the private sector often see their Social Security benefits reduced or eliminated from federal Social Security offsets, despite the fact that they paid into the Social Security system.

Teachers' retirement benefits, secured over nearly three decades of service, replace about 62 percent of their working income. As such, the CalSTRS pension represents the only source of reliable monthly income a retired teacher receives. In addition, most public school educators in the state retire without employer-sponsored health care after age 65.

Teachers are not the only ones to gain from having a secure retirement. California gains as well. Here's why:

- Retiree spending from CalSTRS and CalPERS, the California Public Employee's Retirement System, benefits create more than $34.5 billion in economic output for the state each year.

- As recently as 2007, almost 61,000 jobs were created due to the economic activity of retirement benefit plans.

- Each $1 in taxpayer contributions to California's state and local pension plans creates $7.91 in total economic output for the state.

Defined benefit payments to retired educators have been a powerful economic engine in California's 58 counties and have a trickle-down effect on the local, state and national economies as well.

Without question, CalSTRS, like pension funds worldwide, has taken a hit due to the global recession, but it is not bankrupt, nor will it bankrupt the state. CalSTRS has historically been a sound system, and until the market collapse had consistently met or exceeded its assumed rate of return. Even under current economic conditions, CalSTRS is 71 percent funded and has sufficient assets and projected contributions to pay benefits until 2045.

Why the attack on public employee pensions? Who really benefits by their elimination? Again, the answer is Wall Street and those who seek to undermine the middle class. The elimination of public pension systems would be a huge boon for financial planners and companies that stand to invest that money while making profit off of the fees they can charge each individual. But Wall Street will also gain in an even bigger way. Institutional investors, like CalSTRS, have been the biggest champions of executive compensation reform and regulatory reform of the financial industry. Without institutional investors, no one would be keeping watch over bad corporate behavior, and there would be no guarantee that the money would go back into the state and national economies as it does now.

Some critics claim that CalSTRS is heading toward insolvency, and therefore should be eliminated. Although it is true that CalSTRS has a $56 billion shortfall, this does not have to be paid overnight. Like a mortgage, this is an amount that will need to be closed over a 30-year period. The shortfall has to be addressed, and teachers are committed to partnering with CalSTRS in finding a long-term funding solution, as they have since the system's inception in 1913.

All Californians should have a safe and secure retirement system, just like teachers and other public servants. The real problem is not that teachers, firefighters and other public servants have defined benefit plans, but that many private-sector workers do *not*. That's because the private sector systemically eliminated defined benefit pension plans in favor of risky 401(k) plans to reduce costs to corporate America at the expense of the American worker.

Instead of attacking teachers over their modest retirement benefits, we should be having discussions about how to create better retirement options for everyone. Eliminating the retirement options for teachers and public employees will not add to anyone's retirement security and will not balance the state budget.