Defined benefit pensions best for California teachers, study shows

By Kathleen Maclay, Media relations | FEBRUARY 4, 2016

A study from University of California, Berkeley, shows that for the vast majority of teachers, the California State Teachers’ Retirement System (CalSTRS) defined benefit pension provides a higher, more secure retirement income compared to a 401(k)-style plan.

The study, conducted by Nari Rhee, manager of the Retirement Security Program at UC Berkeley's Center for Labor Research and Education, and William Fornia of Pension Trustee Advisors, shows that switching to an account-based retirement system – such as a 401(k) or cash balance plan – would sharply reduce the retirement income security of teachers who account for a majority of the educational workforce in California.

“The security of a defined benefit plan encourages teachers to stay in the profession despite relatively low salary levels for a degreed career,” said Rhee. “Yet it has the additional effect of encouraging retirement among older teachers to allow for new ones to enter the field.”

The report is available online.

The researchers found that most classroom teaching in California is performed by long-career teachers who are well positioned to benefit from a traditional pension.
The study (Are California Teachers Better off with a Pension or a 401(k)) shows that overall, the CalSTRS pension structure, which is designed to benefit teachers who stay until at least early retirement age, better matches the needs of the active teaching workforce than either 401(k) or cash balance plans.

The research was conducted for CalSTRS, the world’s largest educator-only pension fund, which serves California’s 429,000 active public school educators, from the state’s 1,700 school districts, county offices of education and community college districts.

Study findings include:

- For six out of seven teachers, or 86 percent of CalSTRS active members, the defined benefit pension provides a greater, more secure retirement income than a 401(k)-style plan.
- A typical classroom teacher today can expect to retire from their career at approximately age 61, and 49 percent of teachers will retire with 30 or more years of service.
- Three-quarters of classroom teaching is performed by teachers who will have been covered by CalSTRS for at least 20 years by the time they retire.
- The defined benefit pension becomes more valuable than a 401(k) at age 51 for vested teachers hired before age 35, and earlier for those hired at older ages.
- Some 86 percent of active teachers in the state will stay in California schools until at least age.
- Forty percent of new hires leave before the five-year vesting period and do not return to the education system covered by CalSTRS, and many leave the profession altogether. These early leavers account for just 6 percent of teaching positions.

“This study rebuts the myth put forward in several studies that seek to show that teachers will not benefit, or even vest, in a defined benefit retirement plan,” said CalSTRS chief executive officer Jack Ehnes. “Since California educators do not receive Social Security benefits for their CalSTRS-covered employment, a modest but secure retirement income is essential for their future well-being.”

Rhee and Fornia will present their research today to CalSTRS in a program that will be webcast live, beginning about 10:30 a.m. at www.calstrs.com.

The UC Berkeley Center for Labor Research and Education is a public service and outreach program that links academic resources with working people. Established in 1964, it conducts research on issues related to labor and employment.