



Teacher Knowledge and Preparedness for Retirement: Results from a Nationally Representative Teacher Survey

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Retirement planning is important

- How to plan for retirement can depend on employer-sponsored retirement plans and projected Social Security benefits
- There are three/four main types of employer-sponsored retirement plans for teachers:
 - Traditional teacher pensions are **Final Average Salary (FAS)** plans
 - **Defined Contribution (DC)** plans; 401(k) or 403(b) plans are DC plans
 - **Cash Balance (CB)** plans; these are similar to DC plans but with a minimum guarantee
 - **Hybrid** retirement plans combine elements of multiple plans. The most common hybrid plans combine FAS and DC plans



There are two key differences between FAS and alternative plan designs that impact retirement planning

- **Risk** (Costrell, 2019; Costrell & Podgursky, 2009):
 - FAS Plans: benefits are guaranteed for life
 - Relatively risk-free for employees
 - Employers may have to increase payments to plans
 - DC & CB: benefits based on investment returns
 - Employees may not see their contributions grow and could see them shrink
 - Relatively risk-free for employers
- **Benefit Accrual** (Aldeman & Johnson, 2015; Costrell & Podgursky, 2009):
 - FAS Plans: heavily backloaded and benefits may not accrue substantially until near the retirement age
 - DC & CB: “smooth” benefit accrual



FAS plans and Social Security might not be enough for most teachers to retire on

- 80 percent of teachers participate in Defined Benefit (DB) plans (U.S. Bureau of Labor Statistics, 2020)
 - Most of the teachers in DB plans participate in FAS plans
- FAS plans only work well for *career* teachers because of backloading
 - In the median state, only 44 percent of teachers last long enough to qualify for any retirement benefit (Aldeman & Rotherham, 2014)
 - In the median state, 80 percent of teachers will not last long enough to qualify for full retirement benefits (Aldeman & Rotherham, 2014)
- 40 percent of teachers are not covered by Social Security (Kan & Aldeman, 2014)



This paper

- Evaluates:
 - What teachers are doing to prepare for retirement
 - How much teachers know about their employer-sponsored retirement plans
- Summary of Results:
 - Teachers report taking helpful steps in retirement planning
 - Teachers' knowledge about their retirement plans could be improved



We conducted a 15-minute survey through RAND's American Teacher Panel (ATP)

- ATP is a nationally representative panel of public K-12 schoolteachers
 - Respondents are compensated \$1 per minute of expected time to complete
- 5,464 respondents completed the survey (response rate 55 percent)
 - Analytic sample is approximately 5,200 given non-response patterns
 - Oversampled in 6 states and New York City
- Survey included questions about retirement plan knowledge and retirement planning
 - Additional questions about financial literacy, personality, numeracy, risk tolerance, and retirement plan preferences



Retirement Preparation



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Teacher Knowledge and Preparedness for Retirement

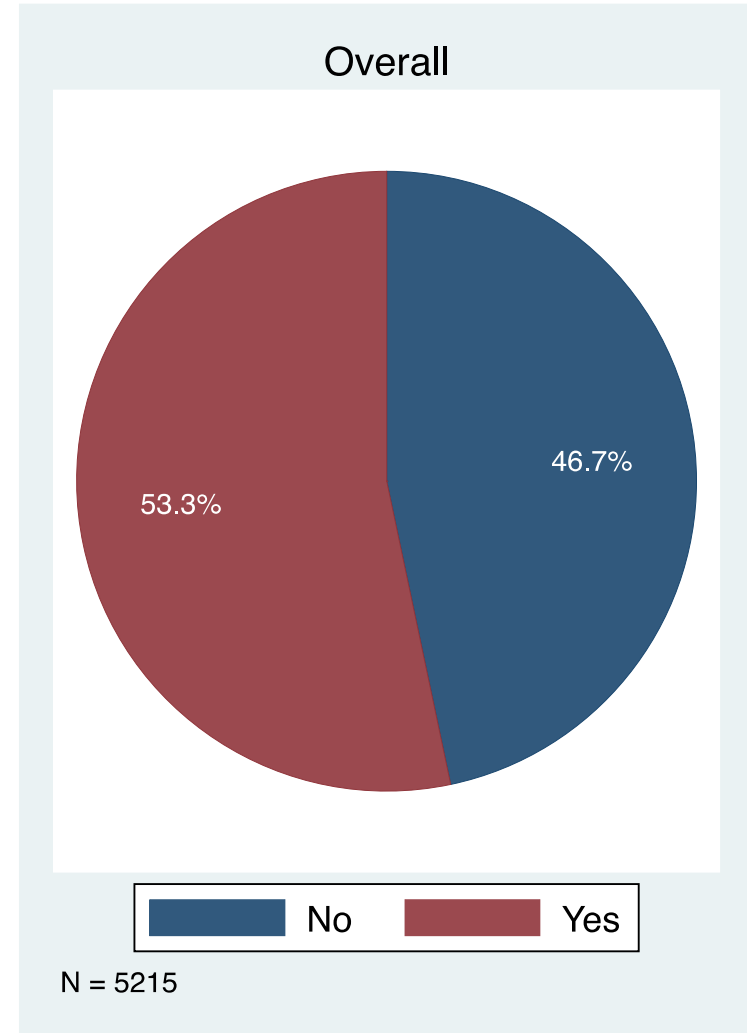
Tried to Develop a Retirement Plan

Question Text

Have you ever tried to develop a plan for your retirement?

Answer Text

- No
- Yes



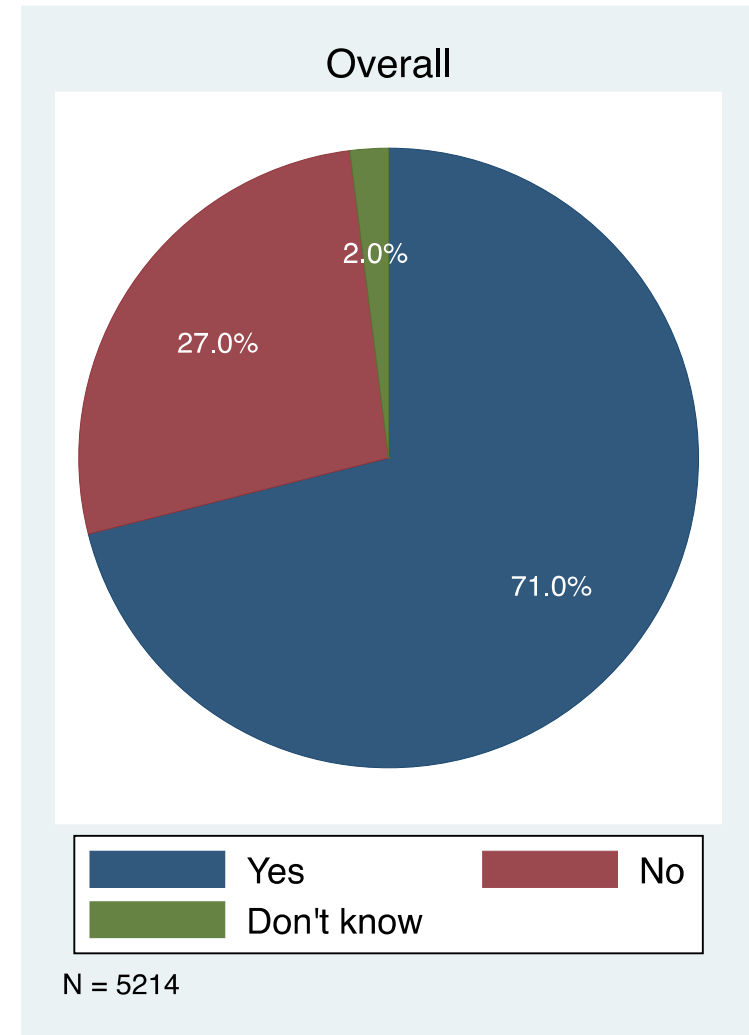
Separate Retirement Savings

Question Text

Do you have any money set aside for retirement separately from your employer-offered retirement plan?

Answer Text

- Yes
- No
- Don't know



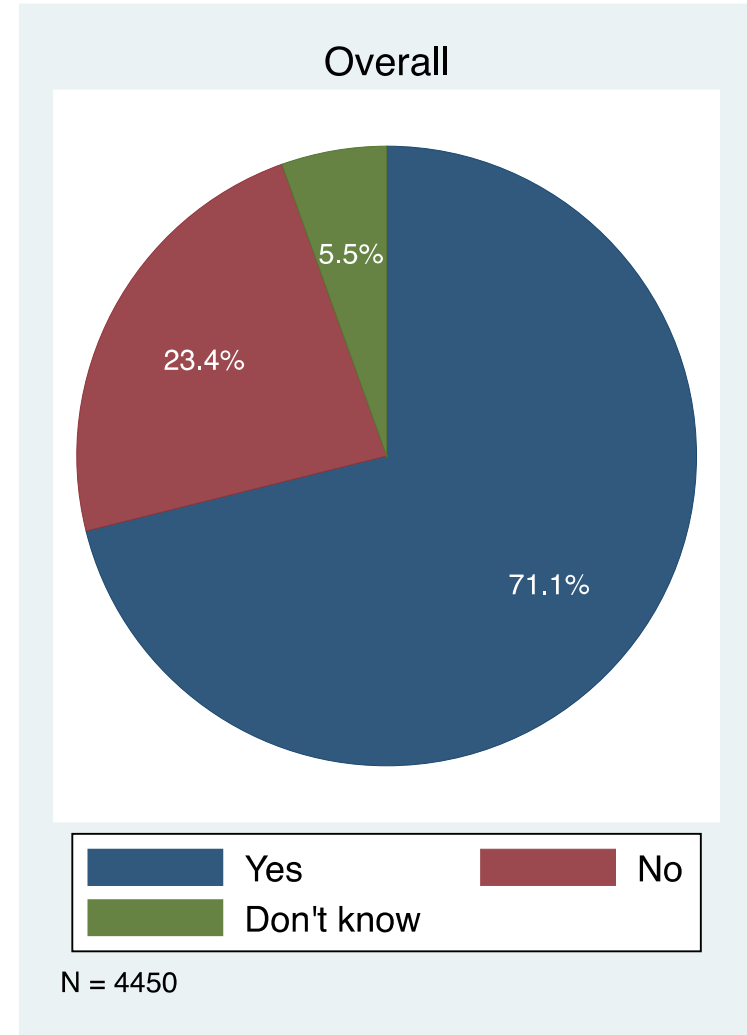
Spouse's Retirement Plan

Question Text

Does/did your partner participate in a separate retirement plan offered through their employer?

Answer Text

- Yes
- No
- Don't know



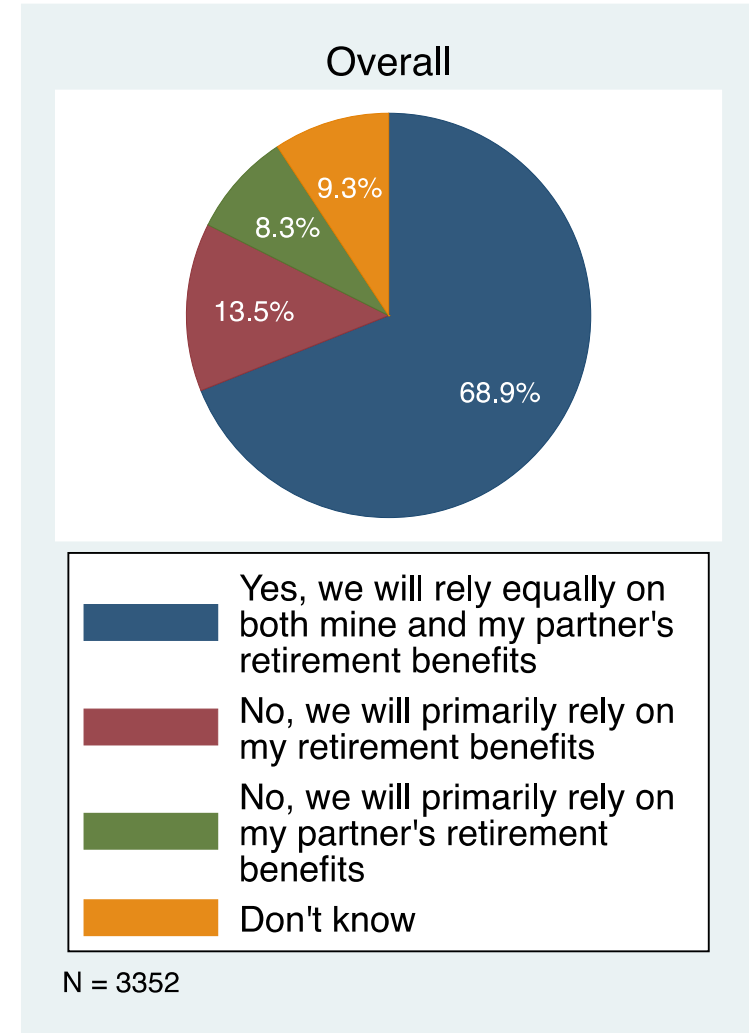
Benefit Reliance in Retirement

Question Text

Will you rely equally on both your and your partner's retirement benefits during your retirement years?

Answer Text

- Yes, we will rely equally on both mine and my partner's retirement benefits
- No, we will primarily rely on my retirement benefits
- No, we will primarily rely on my partner's retirement benefits
- Don't know



Retirement and Pension Plan Knowledge



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Many states have more than one retirement plan, thus we use two grading schemes for our knowledge questions

“Most Lenient”

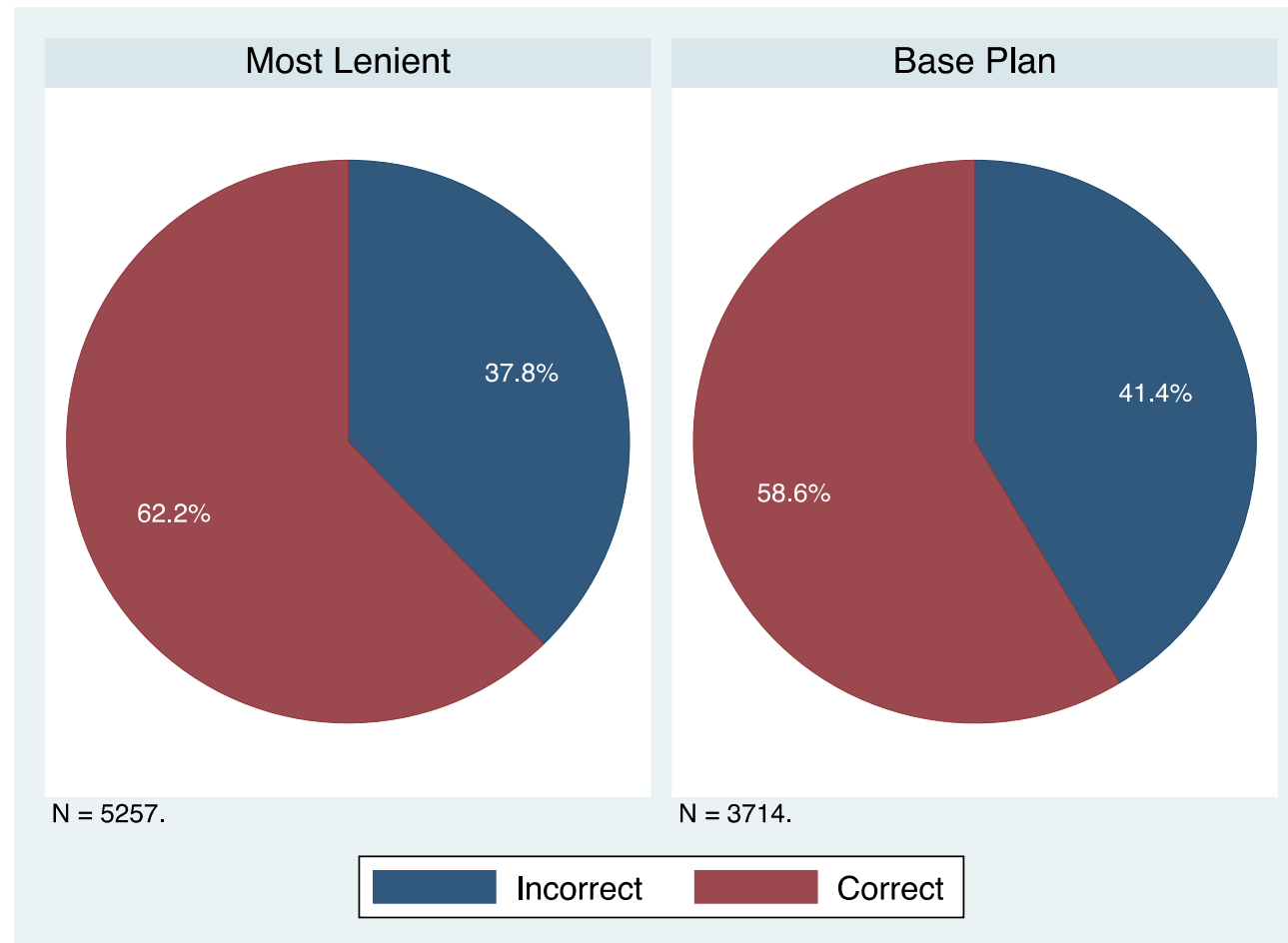
- Compare a response to the universe of potential responses for each teacher’s state
- Grade as correct if the response is possible for a teacher in that state
- For example, Florida teachers can be enrolled in a FAS or DC plan, so either response is correct

“Base Plan”

- Use reported experience in state to identify the approximate year of hire
- Assign to plan based on imputed hire year
- Exclude teachers in option states, states with municipal teacher plans, and teachers hired in transition years



Share Correctly Identifying Plan Type



Share Correctly Identifying Employee Contribution Rate

	Most Lenient	Base Plan
Responding with the exact contribution rate	2.1%	2.5%
Responding within		
+/- 1 percentage point	28.3%	26.5%
+/- 2.5 percentage points	42.0%	39.8%
+/- 5 percentage points	60.3%	58.3%
+/- 10 percentage points	81.8%	79.8%

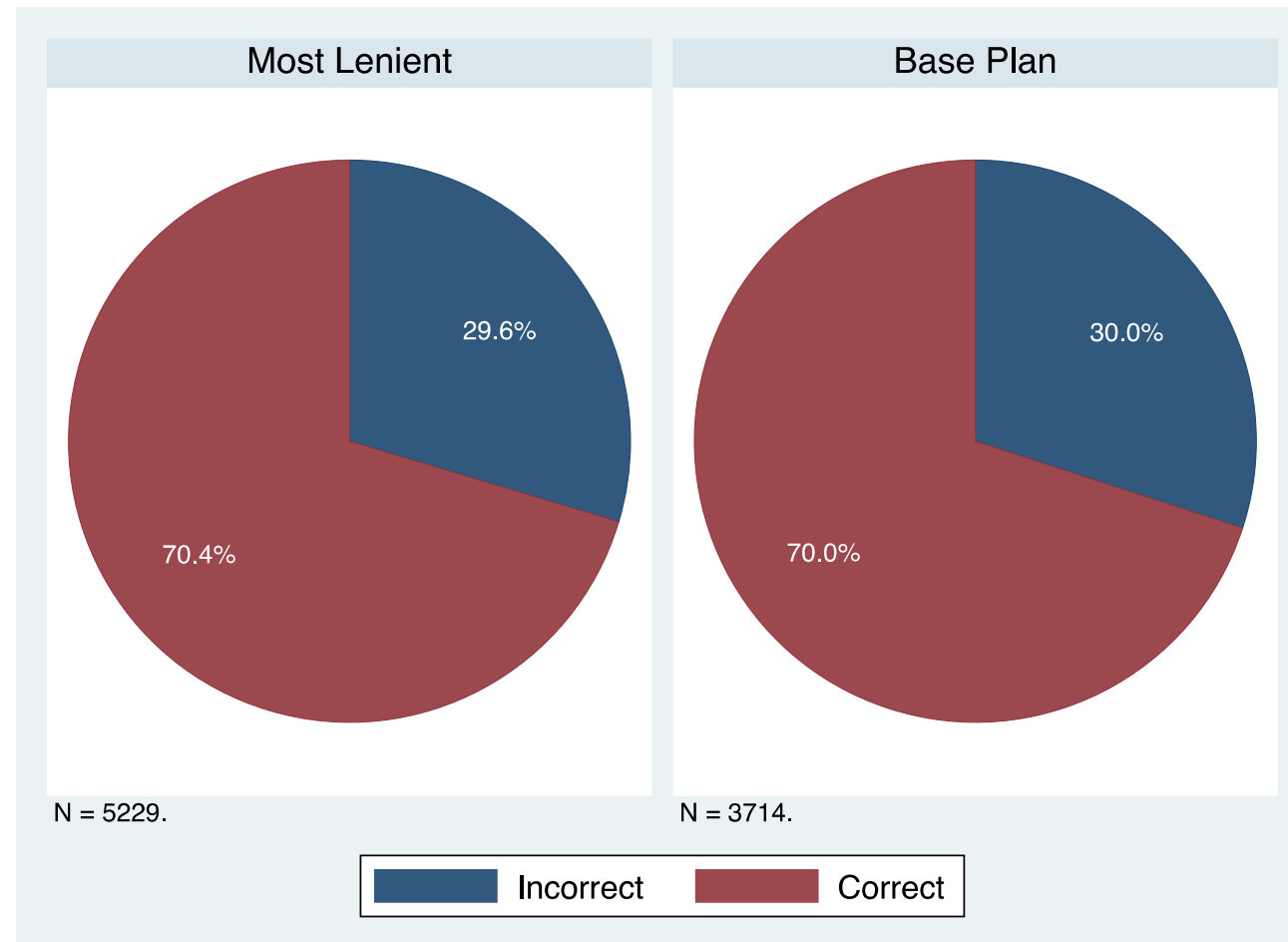


Share Correctly Identifying Normal Retirement Age

	Most Lenient	Base Plan
Responding with the exact retirement age	28.2%	20.0%
Responding within		
+/- 1 year	45.1%	34.5%
+/- 3 years	69.5%	57.5%
+/- 5 years	82.0%	72.2%



Share Correctly Identifying Retirement Benefit Duration



A note on Social Security

Question Text

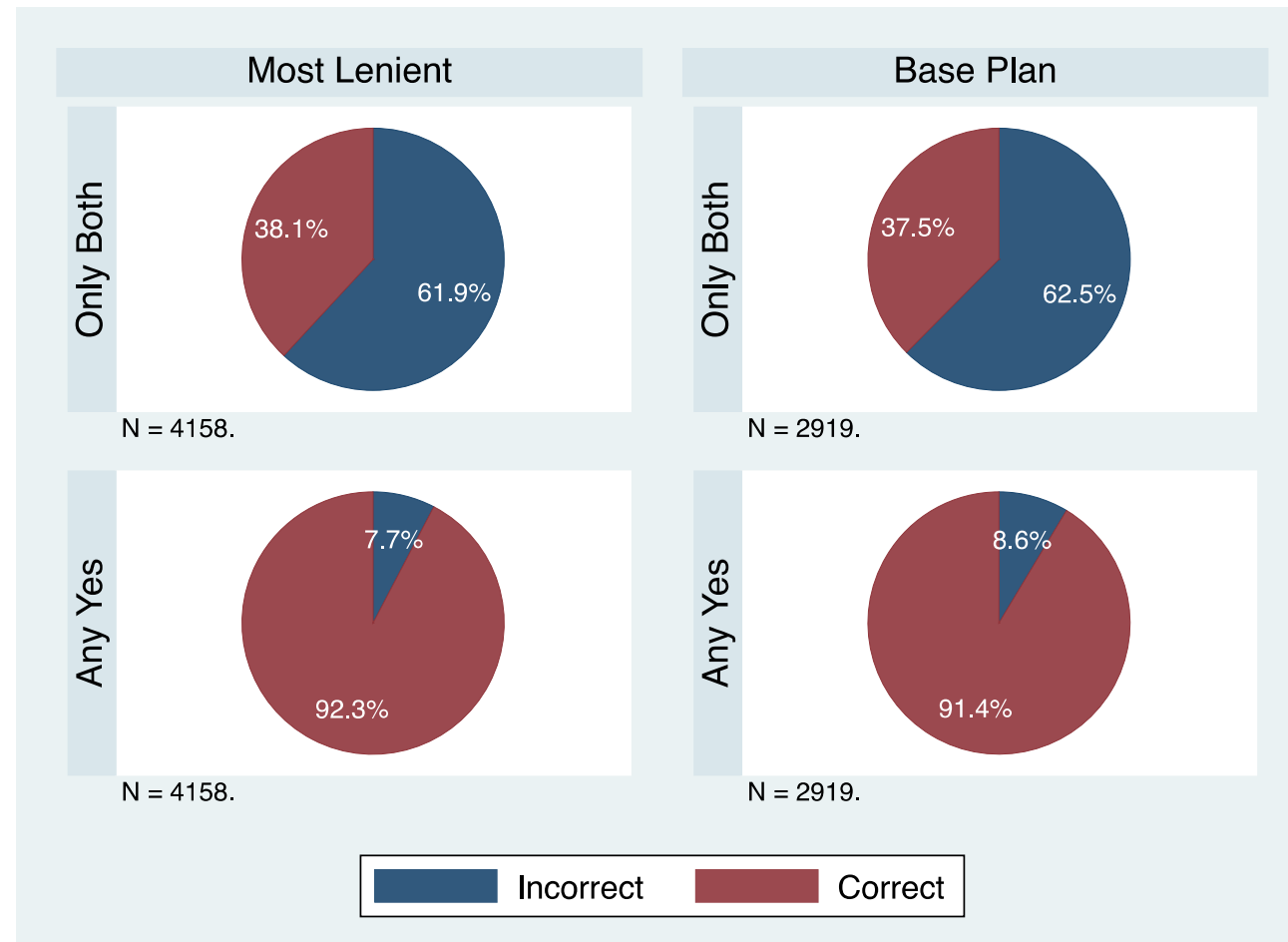
Do you currently contribute part of your teaching salary to Social Security or does your school district contribute on your behalf?

Answers

	Yes			No
	I do	My school district does	Both my school district and I do	
Only Both	Incorrect	Incorrect	Varies by State	Varies by State
Any Yes	Varies by State	Varies by State	Varies by State	Varies by State



Share Correctly Identifying Social Security Enrollment



Concluding Remarks



Teachers appear to be preparing for their retirement, but their knowledge of retirement plans is lacking

Preparation

- 7 out of 10 have a personal savings account for retirement
- 7 out of 10 teachers with a spouse report that their spouse also has an employer-sponsored retirement plan

Knowledge

- Most teachers know their plan type
- Teachers have difficulty identifying how much they contribute and when they can retire
- Teachers do not seem to understand that employees and employers both contribute to Social Security



States should provide clear retirement plan information to teachers

- Given lacking knowledge of retirement plans, policy should work to provide information to teachers
- Benefit guides currently provided to new hires tend to focus on the minutiae of defining service credit and designating beneficiaries
 - Most do not mention if the employee participates in Social Security
- Policymakers should make it easy for teachers to determine their contribution rates and their retirement ages
- Colleges of education and alternative certification programs can do more educate pre-service teachers about retirement benefits





Thanks!

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