
Contradictory Pension Reports.

Two groups published studies this week looking at whether traditional pensions or 401(k) plans are better for teachers and came up with … exactly opposite conclusions.The University of California at Berkeley looked at the state's teacher pension system (CalSTRS) and found that for the "vast majority" of California teachers (six out of seven), a defined-benefit pension provides more secure retirement income than a 401(k)-style plan.

The study also concluded that pensions reduce teacher turnover, "which is better for students, reduces costly and time-consuming training, and increases teacher effectiveness." It portrayed 401(k) and cash balance plans as bad for teachers because they place more risk on the retiree as their final benefit is not defined. Such plans also decrease the incentive for early and mid-career teachers to stay on the job, the report said.

Separately, TeacherPensions.org ran an analysis of teacher pensions in Illinois. It found that traditional pensions are not a good deal for teachers because they disproportionately favor those who stick around for 30 or 35 years, "at the expense of everyone else. The state plan assumes, and depends upon, the fact that the majority of teachers will not stay long enough to collect full benefits." The report recommends considering other retirement plan options, such as the 401(k)-type plan offered to full-time staff at Illinois' state universities.

Maybe this seeming contradiction isn't that great a surprise. Consider the sources. It's worth pointing out that TeacherPensions.org produces lots of reports that spell out the shortcomings of traditional pensions, while the Berkeley study was funded by CalSTRS.

Still, one lesson worth thinking about is that no two pension plans are alike. A key difference between the plans in Illinois and California is the so-called withdrawal penalty, which occurs when a teacher quits and opts out of the retirement system before reaching retirement age.

All states let teachers withdraw at least the automatic contributions taken from their paychecks, sometimes with interest — as is the case with California teachers. But Illinois has one of the most punitive withdrawal policies of any public retirement plan in the country. Illinois teachers who withdraw early don't even get all their own contributions back in full. The state charges withdrawal tax, meaning they only get 89 cents back for each dollar taken out of their paychecks. No wonder the TeacherPensions.org authors conclude these pensions are a bad deal for most teachers.

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