EDUCATION FINANCE AND POLICY

EFP Takeaways

Reforming Teacher Pension Plans: The Case of Kansas, the First Teacher Cash Balance Plan

Background

Rising costs for teacher pensions have led states to consider alternatives to traditional benefit formulas, based on age and years of service. One promising reform is a cash balance (CB) plan, which mimics 401(k)s, but with a guaranteed minimum return and matching employer contributions. Robert M. Costrell explores how the first CB plan for teachers, implemented in Kansas, affects system costs and the level and distribution of individual benefits, as compared to the previous plan it replaced. His work is published in vol. 17 issue 4 of *EFP*.

The Study

In 2015, Kansas became the first state to introduce a CB plan for teachers, replacing its traditional final average salary plan. This study closely examines Kansas's CB plan, using a measure of annual cost as a percentage of earnings, including both out-of-pocket costs and hidden costs of risk.

For more details:

- View the full issue.
- See the full article in *Education Finance and Policy*.
- Sign up here to receive future *EFP Takeaways*.
- Summary of:
  Costrell, R. (2022) Reforming Teacher Pension Plans: The Case of Kansas, the First Teacher Cash Balance Plan. *Education Finance and Policy, 17 (4): 666-692.*

Findings

The author finds that employer-funded benefits were modestly reduced, despite the surface appearance of more generous employer contribution matches. Moreover, the hidden cost of bearing risk for the pension guarantee was reduced quite substantially from that of traditional plans.

The key to the plan's cost reduction is that the guaranteed return approximates a low-risk market return, considerably lower than traditional plans' assumed return on risky assets. Given this, the author suggests that CB plans offer the potential for successful reform by reducing the cost of risk.