Salaries, Pensions, and Retirement of Non-Covered Public-School Teachers

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In several US states some public-sector workers, and especially public-school teachers, are not covered by Social Security. Upon retirement the majority of these workers become entitled to a defined-benefits (DB) pension, paid out of state funds. The existence of these plans creates significant liabilities for states' budgets; In 2017 in 49 out of 50 states had unfunded public pension liabilities, for a total of almost 500 billion. For public-school teachers, the generosity of their DB pensions (whose replacement rate can reach 80 percent) contrasts with salaries that are much lower than those of workers in occupations with comparable skills requirements and hours. In light of this contrast, the proposed project seeks to answer the following question: Would these workers prefer higher salaries, as opposed to such generous pensions? And in which way would such a change in the structure of lifetime compensation affect the composition of the workforce?

To answer this question, I plan to take advantage of a recent reform of public-sector employment that affected teachers' salaries and pension benefits with a staggered timing. In March of 2011 the Wisconsin state legislature passed Act 10, a budget repair bill aimed at closing a projected $3.6 billion deficit. On one side, the reform increased teachers' contribution to the pension fund, and therefore cut teachers' net pay. On the other side, it gave districts the possibility of setting salaries more flexibly (as opposing to just basing them on seniority); this led to a decline in salary growth for older teachers close to the retirement margin, which in turn translated into a decline in future pension benefits (since these are calculated using a DB formula based on the last three annual salary figures). My plan is to analyze the retirement responses of teachers to the changes in salaries and pensions, and to use these responses to recover teachers' preferences for these two forms of compensation. Identification will rely on the staggered timing of activation of the two provisions across districts, driven by exogenous differences in the timing of expiration of collective bargaining agreements. My analysis will involve a combination of reduced-form, sufficient-statistics, and structural methods. After having established how different teachers reach to changes in salaries and pensions, I will simulate how teachers' retirement behavior would change under a set of counterfactual policies aimed at reducing the state's budgets, and how these responses would affect the composition of the teaching workforce.

The proposed project relates to the Focal Area #6 "State and Local Pensions for Non-Covered Workers." In particular, this project will explore the efficacy of proposed policies for improving the solvency of pension plans and investigate the additional effects of these policies on the composition of the workforce, driven by workers' preferences and retirement behavior.