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Summary:

A recent study concludes that unfunded public pension liabilities are eating away at teacher salaries in every state—just like the old arcade game Pac-Man. This happens because the school districts teachers work for pay an increasingly large share of their budgets into retirement funds for teachers who are no longer teaching, at the expense of those currently in the classroom.

Word Count 680

"…America's public school teachers are being charged on average about $6,800 a year—money that could be boosting their paychecks—to preserve what are becoming increasingly inequitable public pension systems."

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Time to Stop the PERS Pac-Man from Eating Teachers' Salaries and Taxpayers' Pocketbooks

By Steve Buckstein

What do Pac-Man and public pensions have in common? An intriguing 2016 national study of pension debt and teacher salaries recently answered this question. Depending on what economic assumptions are made, it's likely that unfunded public pension liabilities for all states and local governments exceeded $6 trillion in 2017. Based on the same assumptions, Oregon's share of those liabilities likely approached $50 billion.

The study, *The Pension Pac-Man: How Pension Debt Eats Away at Teacher Salaries*, by Chad Aldeman of Bellweather Education Partners, concluded that unfunded public pension liabilities were eating away at teacher salaries in every state—just like the old arcade game Pac-Man. This happens because the school districts teachers work for have to pay an increasingly larger share of their budgets into retirement funds for teachers who are no longer teaching, at the expense of those currently in the classroom.

In effect, America's public school teachers are being charged on average about $6,800 a year—money that could be boosting their paychecks—to preserve what are becoming increasingly inequitable public pension systems. The inequality stems from the shifting nature of state pension systems that compensate older (and currently retired) teachers at higher rates than they will younger ones.

So where do Oregon teachers stand? Compared to the national average of about $6,800 per teacher, Oregon basically has to charge our teachers $7,398 a year to cover our unfunded PERS liabilities. That's more than in all but 14 other states.

One might conclude that Oregon teachers consequently have lower salaries than teachers around the country because of this large pension hit. Not true. The nation's largest teachers union reported that the average Oregon teacher earned $61,862 a year in 2016-17, compared to the national average of $59,660. That put our teachers in thirteenth place for average teacher pay among the 50 states.

Then again, Oregon teachers might be expected to earn *more* because, again according to that recent union report, in 2017 Oregon had more revenue per student in its public school system than 30 other states. We had $14,827 per student in average daily attendance, compared to the national average of just $13,900.

So, even though Oregon teachers are being hurt by our large public pension debt, they still earn more than teachers nationwide, and even more relative to their Oregon neighbors who pay the taxes to fund those higher teacher salaries while earning less than the national average themselves. All-in-all, Oregonians compensate our public school teachers relatively well.

Even though the latest, so-called Tier 3 or OPSRP PERS system has a less generous defined-contribution element than Tier 1 PERS workers earned, taxpayers should not be on the hook for unknown, and unknowable, pension costs going forward. It's unknowable costs like these that have led to the current, nearly $7,400 annual debt burden on our teachers, districts, and taxpayers.

If Oregon had no unfunded PERS liabilities, three things could happen. Teachers might argue they should see an average raise of almost $7,400 per year, while school districts might want to put that money toward other district expenses that benefit students. Taxpayers might expect to see their Oregon personal income tax bills reduced if the state managed its public pension funds responsibly.

But none of these outcomes will occur because Oregon *hasn't* managed PERS responsibly. As long as this continues, the outcome will be what's unfolding now: higher taxes and greater school district payments to fund pension liabilities that few saw coming—and that threaten to continue, like Pac-Man, to eat away at teacher salaries, school district budgets, and taxpayer pocketbooks.

To stop the PERS Pac-Man, our Governor and legislators need to get serious about PERS reform, specifically by ending the "defined-benefit" elements of PERS for all work done in the future, either by new employees or current ones. Instead, the legislature should move all public employees, including teachers, to 401(k)-style defined-contribution retirement plans, which are the only kind of plan available to most taxpayers. The costs to future teachers, schools, and taxpayers will only get worse if we don't end the PERS Pac-Man once and for all.

Steve Buckstein is Senior Policy Analyst and Founder of Cascade Policy Institute, Oregon's free market public policy research organization.

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