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This week children across the country are returning to the classroom, and with the new school year comes a renewed debate about the best way to challenge the culture of mediocrity that prevails in too many public schools.

Ask experts about the best path to reform, and you'll get different answers. Many favor the vouchers first proposed by Milton Friedman. Others believe in Ray Budde's concept of charter schools. Still others find hope in programs such as Wendy Kopps's Teach for America.

All these ideas have their merits. When it comes to shaking up the status quo, however, the most potent education reform may be the one that's too often considered a side issue: pension reform.

That's right, pension reform. Over the past 25 years, the private sector has moved from having four of five workers in a defined-benefit pension to having just one of five workers in such a plan. Mostly this means a shift to 401(k)s and the like, where payouts are related to what employees pay in.



Columnist William McGurn on how pension reform helps students, and columnist James Taranto on GOP obstructionism.

Like most government employees, teachers have not made this shift. Their unions fight bitterly to retain the defined benefit plans underwritten by taxpayers. While these plans allow some lucky folks to retire in their 50s with a generous payout, they also feature perverse incentives that punish the young (more on this below) and encourage people to hang on for dear life even when they'd much rather leave.

In an age of state budget crises, voters are beginning to wake up to the financial price tag. In a February speech declaring a fiscal state of emergency in New Jersey, Gov. Chris Christie questioned the fairness of the existing arrangement:

"A retired teacher paid \$62,000 towards her pension and nothing, yes nothing, for full family medical, dental and vision coverage over her entire career," said the governor. "What will we pay her? \$1.4 million in pension benefits and another \$215,000 in health-care benefit premiums over her lifetime. Is it 'fair' for all of us and our children to have to pay for this excess?"

His complaint was echoed in these pages recently by California Gov. Arnold Schwarzenegger. For years, he points out, his state has been increasing benefits for public pensions—while reducing contributions and resorting to various fakes to paper over the resulting unfunded liabilities. A recent report from the Manhattan Institute puts the total unfunded liability across America at \$933 billion.

As bad as these unfunded liabilities are, the focus on numbers draws attention away from the system's insidious effect on the teaching culture. Under most teacher pension plans, benefits are paid out according to a formula that multiplies years of service times a percentage of annual salary. Many plans also include cost of living adjustments, early retirement, and loopholes that allow people to jack up retirement payouts by spiking their earnings their last years.

The assumption behind this system is that retirement packages need to be plush to encourage good teachers to stay. The unintended consequences, however, may do just the opposite. Education Sector, an independent nonprofit that describes itself as challenging conventional thinking about education policy, says that this system "creates some big winners at the expense of many small losers."

Who are these losers? In a just-released report called "Better Benefits: Reforming Teacher Pensions for a Changing Work Force," the think tank suggests the losers include anyone who doesn't stay put for 30 or so years. Because their pensions are not portable, teachers lose big if they move to another school system, switch careers, or try to cash out. The report cites a 2008 survey in which nearly four out of five teachers agreed with the statement that "too many veteran teachers who are burned out stay because they do not want to walk away from the benefits and service time they have accrued."

The tragedy is that few men and women who enter teaching start out this way. Alas, the hidebound system of payouts—along with tenure and essentially free medical care—over time cultivates an apparatchik's mentality, where people wait out the system for that pot of gold at the end of the rainbow. The attrition rates for New York City teachers tell the story: While the city typically loses between 20%-30% of teachers in the first three years, fewer than half a percent of teachers who have 10 years or more leave.

"Our system for teachers pensions assumes lifetime employment in the same place and rewards seniority above all else," says E.J. McMahon, an expert on public pensions who directs the Manhattan Institute's Empire Center for New York State Policy. "That's a compensation model better suited to a factory floor in the 1950s than a classroom in 2010. If we want better teachers, we need a pension system that recognizes that educating children is a lot different from tightening bolts on a Studebaker."

Write to [MainStreet@wsj.com](mailto:MainStreet@wsj.com)