

Erratum to

MISSOURI CHARTER SCHOOLS
AND TEACHER PENSION PLANS:

How Well Do Existing Pension Plans
Serve Charter and Urban Teachers?

August 2014

**Correction concerning reciprocity between
the Missouri Public School Retirement System (PSRS) and
the Kansas City Public School Retirement System (KC).**

In our report we stated that there is no reciprocity between the three Missouri teacher pension plans, based on our understanding that employer contributions could not transfer between plans. That statement is correct concerning PSRS and the Public School Retirement System of the City of St. Louis (STL). However, since 2008 there has been in place a reciprocity agreement between PSRS and KC, and since 2003 between KC and STL, both of which would permit some access to employer contributions. The purpose of this correction is to clarify how reciprocity works in Kansas City, focusing on the more empirically relevant issue of reciprocity between PSRS to KC.

While our initial report was inaccurate in stating that there is not reciprocity between KC and PSRS, it is still the case that the substance of the concerns we raise in the initial report is relevant even with the reciprocity agreement in place. The reason is that the reciprocity is not seamless. Put differently, educators cannot move freely between the KC and PSRS plans like they can between districts that truly share the same plan. Rigidities in the transfer agreement are such that many educators will still face significant pension penalties in moving from Kansas City suburban districts (PSRS) to Kansas City Public Schools (KC). The rigidities are more substantial moving from PSRS to KC, and for individuals who move with a promotion (e.g., teacher to principal), which is the direction and type of mobility that is the focus in our report.

The reciprocity agreement between PSRS and KC works as follows: If an educator moves from PSRS to KC, PSRS will credit her with the actuarial value of her pension at the time of separation and these funds can be used to purchase service years in the KC plan. The same option exists for an educator moving from KC to PSRS. Mobility penalties remain despite the reciprocity agreement for three reasons. First, the state statute does not permit an educator to buy more years in the receiving plan than she has already accumulated in the sending plan. However, as noted in our report, pension plan benefits for PSRS teachers are more generous than those in STL or KC. For a representative teacher with ten years of PSRS experience, a year in PSRS is worth about 1.25 years in KC. If this ten-year veteran moves to KC, she will thus lose the equivalent of roughly 2.5 years of pension credit—a large penalty.

The second penalty is more subtle but can be important for leadership recruitment in Kansas City Public Schools. The cash value of the pension (pension wealth) calculated by the actuaries in the sending plan is based on pay and experience in the old position. The actuarial cost to buy service years in the receiving plan is based on the new salary. This is likely a negligible issue for an educator who moves from teaching in one plan to teaching in the other. However, for an educator who moves from teaching in one plan to a principal position in another, the corresponding salary increase creates an additional mobility tax. To see this, note that for a promoted individual who stays in PSRS (or any other final-average-salary defined-benefit plan), the rules of the plan are such that the promotion produces a windfall gain. However, if the educator switches plans, the reciprocity agreement is such that the windfall is eliminated. The key point is that this penalty is triggered only if the educator switches plans. If the educator moves from a teacher to principal position within PSRS or KC, no penalty is incurred.

Finally, these reciprocity agreements are based on static calculations of pension wealth, not future gains. As Figure 4 of our report indicates, a teacher moving from PSRS to KC at age 40 is giving up a very large future gain (an option value) just a few years down the road had she remained in PSRS. This loss in potential future gains is not captured in static actuarial reciprocity calculations.

To summarize, our initial report inaccurately stated that there is no reciprocity between these plans. However, while there is in fact a formal reciprocity agreement between PSRS and KC, substantial penalties to labor mobility still arise from the fact that Missouri educators are enrolled in separate defined-benefit pension plans. The term “reciprocity” suggests the problem is fixed, but the “fix” is incomplete. If educators had access to their own contributions and the district contributions in a defined-contribution or cash-balance-type retirement plan, or if the separate defined-benefit plans for educators in Missouri were truly merged, there would be no such penalties.

Finally, data in Table 1 shows that as a practical matter, relatively few teachers transfer from KC to other Missouri districts over the course of a teaching career.

Columns (2) and (4) reproduce the retention rates in our report (in Figures 8 and 9). Column (3) and (5) report retention rates in any Missouri school district. The estimated probability that an entering teacher in Kansas City Public Schools will remain employed up until the traditional retirement age in any Missouri district is less than ten percent. It is well below that for a typical PSRS teacher. This reinforces the point made in the report: traditional defined benefit pension plans are not well suited for teachers entering Kansas City Public Schools.

Table 1. Estimated Retention Rates for an Entering Cohort of Kansas City Teachers: In Plan and in Missouri

Years Experience	KC Traditional vs. all Missouri school districts		KC Charter vs. all Missouri charter		PSRS
	In Plan	In MO	In Plan	In MO	All
0	100.0%	100.0%	100.0%	100.0%	100.0%
1	73.8%	80.8%	67.3%	76.3%	90.0%
2	53.0%	66.0%	53.0%	64.1%	82.9%
3	37.4%	53.7%	44.1%	56.1%	77.4%
4	29.6%	47.0%	37.7%	50.1%	72.6%
5	24.9%	43.0%	30.5%	43.3%	69.0%
6	22.0%	40.4%	25.1%	37.0%	66.0%
7	18.0%	33.8%	24.0%	35.7%	64.1%
8	18.0%	33.3%	15.0%	27.5%	62.0%
9	12.6%	25.9%	10.5%	21.4%	57.6%
10	10.6%	22.9%	8.9%	18.9%	55.4%
15	5.9%	14.2%	5.0%	11.7%	47.3%
20	4.4%	10.8%	3.6%	8.9%	42.7%
25	3.3%	8.4%	2.8%	7.0%	38.6%
30	1.8%	5.1%	1.5%	4.2%	21.1%