

# Who Will Staff Montana's Schools? The Retirement Dilemma

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The School Administrators of Montana (SAM) requested information about the impact of retirement on the mounting difficulties they were experiencing. It has become increasingly challenging to fill teaching and administrative positions with qualified personnel. Many of their staff have reached retirement age. The number of applicants for positions has severely declined.

Several recent reports have addressed the issues of recruitment and retention of school leaders and teachers in Montana, including studies supported by Montana State University and by an advisory committee to the Montana Board of Public Education. This report examines the retirement-related factors that impact the same issues.

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# Who Will Staff Montana's Schools? The Retirement Dilemma

## The Dilemma

Over the past ten years, Montana school districts have experienced increasing difficulty recruiting and retaining teachers, administrators, and other certified staff. It is painfully clear that the students of Montana will be the ultimate losers if qualified personnel are not available to provide services to students. Indeed, who will staff Montana's schools? Who will teach Montana's children?

Several studies<sup>1</sup> identified the following difficulties:

- ▶ Montana educators' salaries are among the lowest in the nation. Average teachers' salaries plummeted from 26<sup>th</sup> in 1983 to 46<sup>th</sup> in 2002.
- ▶ Mid-career teachers and administrators are leaving Montana for more attractive financial packages in other states.
- ▶ Fewer than one-third of recent education graduates are remaining in Montana to teach.
- ▶ State support for schools is declining, and enrollment is decreasing.
- ▶ Many districts offer little or no health benefits for their staff.

Retirement issues compound the difficulties.

- ▶ Retirement is one of the top three reasons teachers leave their positions. The other two reasons are for higher salaries and to take a position out of state.
- ▶ Nearly half of the current superintendents and principals intend to retire within the next five years. Fifty-five percent of them are 50 years old or older.

- ▶ Forty-four percent of the administrators are considering jobs in education in other states. Two-thirds of those considering leaving Montana are younger than 40.
- ▶ Montana teachers' retirement system benefits rank among the lowest in the nation.
- ▶ Montana superintendents and principals indicated that better retirement benefits were the most important factor that would keep them longer in their jobs.
- ▶ The number retiring from the Teachers' Retirement System (TRS) increased by 82% from 1990 to 2002, from 283 to 514 retirees.

A combination of strategies will be necessary to improve the recruitment and retention of school personnel in Montana. Those strategies include changes to retirement structures.

### **Montana Teachers' Retirement System (TRS)**

The state of Montana provides two statewide retirement systems, the Teachers Retirement System (TRS) and the Public Employees Retirement System (PERS). Teachers, specialists, and administrators in public schools, special education cooperatives, and state agencies are required to be members of TRS. Some university and college of technology staff who were TRS members before 1993 or 1995 are also members.

Employer contributions to TRS for school districts, special education cooperatives, and community colleges are paid from the County Retirement Fund in each county. The revenue is comprised of proceeds from a permissive county levy and some specified non-levy revenues. A county with a low mill value may be eligible to receive guaranteed tax base (GTB) aid from the state. In recent years state GTB aid has funded about 19% of total Retirement Fund costs.

Montana statutes also require that contributions to the retirement system must be sufficient to pay the full actuarial cost of the system. The current contribution rates shown in Table 1 are set in statute. If costs increase by \$1 million, rates would increase by approximately 0.2% of member compensation, given current

conditions. If members (employee contributions) were the funding source, the increase would be slightly higher than 0.2%. Members' contribution may be subject to withdrawal, so their contributions have less actuarial value. If the increase were funded through the County Retirement Fund (employer contributions), county levies would increase an average of about 0.5 mills. The state GTB contribution would be approximately \$190,000 of each \$1 million increase.

<b>Table 1</b> <b>Montana Teachers' Retirement System</b> <b>Contribution Rates<sup>2</sup></b>	
<u>Contributions</u>	<u>Rate</u>
Employee	7.15%
Employer	7.47%
<u>Amortization for unfunded liability</u>	
State supplemental	0.11%
MUS system supplemental	4.04%

### **Other states' teacher retirement systems**

Montana is one of 27 states providing a statewide retirement system that contains only teachers/educators. The other 23 states include teachers in the same system with government employees. Social security coverage is available to teachers in 37 states, including Montana. Plans in 13 states do not provide teachers with social security.

The number of retirees is growing faster than active employees. The ratios of active to retired participants are declining in nearly all states. Only three state ratios did not decline between 1996 and 2000 – California, Illinois, and Massachusetts. Montana's ratio of active members to retirees declined from 2.19-to-1 in 2000 to 1.86-to-1 in 2002.<sup>3</sup>

Table 2 lists several characteristics of the 50 state retirement systems that include teachers and school administrators.

**Table 2**  
**2000 Comparison of**  
**State Retirement Systems that include Educators<sup>4</sup>**

<b>Descriptions</b>	<b>Montana</b>	<b>Other states</b>
<b>Separate retirement system for teachers/educators</b>	yes	23 systems are combined gov't employees, 27 educators only
<b>Social security coverage</b>	Yes	13 systems do not include coverage
<b>Ratio of active members to retirees</b> - in 2002 ratio slipped to 1.86-to-1	2.19-to-1	12 states have lower active/retiree ratios
<b>Annual benefit formula multiplier</b> - 11 have tiered systems (rates differ for different experience)	1.67%	7 have lower rates
<b>Employee contributions</b> - 5 states require none	7.15%	range is from none to 10.5%
<b>Years for vesting in system</b> - 15 states require 10 years	5 years	34 have 5 or fewer years
<b>Retirement age/minimum service (without penalty)</b>	60/5 or 25 years	only 3 states lower than 60, only 7 allow 25 yrs or less
<b>Early retirement/minimum service (with penalty)</b> - 5 states allow no early retirement	50/5	most common 55
<b>State tax on benefits</b> - 7 states have no income tax at all - 16 states exempt a portion	\$3,600 may be exempt	19 states do not tax pensions

Montana's annual benefit formula multiplier for teachers is one of the lowest in the nation. Only 7 states have multipliers lower than Montana's 1.67%. Some states have tiered multipliers that apply one rate for the first 10 to 20 years of service, a slightly higher rate to the next 5 to 10 years, and another rate to the years beyond that. Most use the increasing rates as an incentive to retain people in the system. A few states apply a lower rate at 30 years as an incentive to retire.

Members become vested (receive pension benefit rights) in TRS in Montana after 5 years of service. Several states require 3 or 4 years to become vested, but 5 years is the most common. In two states, a member is immediately vested in the system. Montana is one of 15 states that allows exemption of a portion of pensions from state income tax. Only three of those states exempt less than Montana.

Montana's normal age of retirement (without penalty) is 60 years if the member has five years of creditable service. With 25 years of service a member may retire at any age without penalty. Five states do not provide early retirement provisions, so those members must wait until the normal retirement age to receive benefits. Early retirement in Montana is allowed at age 55 with five years of service, but penalties apply.

**TRS membership**

The TRS membership in 2002 was dramatically older than it was ten years earlier. Only 98 members were under the age of 25 in 2002. By 2002 the number of members 50 years old or older represented 41% of full-time membership.

The number of members who were 60 years old or older increased from 400 to 689 between 1992 and 2002. The 40 to 49 age group was the largest in 1992 with nearly 6,000 members. By 2002 that group had declined by almost one-third.

During the 10-year period between 1992 and 2002, overall TRS membership grew but a major shift took place between full-time and part-time members. Full-time membership declined by about 700 while part-time membership increased by nearly 2,000.

Table 3 illustrates how much change in membership took place in each of the age groups between 1992 and 2002.

<b>Table 3</b>		
<b>Teachers' Retirement System Members<sup>5</sup></b>		
	<u>1992</u>	<u>2002</u>
<u>Number by age – full-time</u>		
less than 25 years old	1150	98
25 to 39	4,350	3,445
40 to 49	5,893	4,032
50 to 59	2,709	4,532
60 and older	400	689
<u>Percent by age – full-time</u>		
less than 25 years old	1.1%	0.8%
25 to 39	32.2%	26.9%
40 to 49	43.6%	31.5%
50 to 59	20.1%	35.4%
60 or older	3.0%	5.4%
<u>Membership</u>		
full-time members	13,502	12,796
part-time members	<u>2,662</u>	<u>4,650</u>
<b>Total</b>	<b>16,662</b>	<b>17,446</b>

Currently 2,208 TRS members have 25 years of service and are eligible for retirement without penalty. Half of them are younger than 55. An additional 1,686 have at least 20 years of service, and only 20% of them are 55 or older. Within five years a large number of current TRS members are likely to retire young enough to continue working in education beyond retirement.

#### **Retirement from TRS**

Despite the shift in membership demographics, the average age and years of service for TRS retirement changed by only a few decimal points between 1992 and 2002. Table 3 shows the comparable retirement data for those two years.

Table 4 Teachers' Retirement System Retirees Average Age and Service <sup>6</sup>		
<u>Retirement</u>	<u>1992</u>	<u>2002</u>
average age	57.5	57.1
average service	26.1 years	26.4 years

In a 2002 survey of superintendents and principals<sup>7</sup>, half of them indicated they intend to retire within five years. Nearly half said they are considering taking positions out-of-state. Many vacancies will need to be filled. A pool of potential administrators already hold the proper credentials and are working in non-administrative jobs in the school districts, but their number is decreasing rapidly. In 2000 approximately 400 school staff were certified to be administrators but weren't employed in those positions. By 2002 that number had decreased to 300, and their average age and years of service were higher than the current administrators.

### **Public Employees Retirement System (PERS)**

The other Montana retirement system is extended to employees of the state and its political subdivisions.<sup>8</sup> PERS differs from TRS in a few significant ways. PERS members and employers each contribute 6.9%, a lower percentage than in TRS. The annual benefit multiplier rate is 1.786% compared to 1.667% for TRS. The rate increases to 2.0% for all service years once a PERS member has 25 years of service.

Penalties are applied in PERS if the retiree is younger than 60 or has less than 30 years of service. PERS members cannot retire without penalty at any age with 25 service years as TRS members can. Retiring at age 50 with 25 years experience would provide 42% of the average salary in TRS but only 35% for PERS members. However, at age 60 with 30 years experience, the tables have turned rather sharply. The TRS retiree would receive 50% of the average salary, and the PERS retiree would receive 60%. In the 2003 session, serious consideration was



given to increasing the 2% PERS rate to 3.0%. If the 3.0% were applied, the benefits would increase to 75% for the PERS retiree.

### **Impact of retirement on shortages**

The graying of Montana's teaching staff is evident in the analysis of the numbers in each age group over the past ten years.

Almost half of current TRS members will be eligible to draw retirement benefits within the next five years. What might have been a positive in the face of declining school enrollment is now a major cause of vacant positions across the state.

Montana's TRS allows retirement without penalty at earlier ages than many other state systems. The combination of being able to retire with 25 years of service and the ability to receive retirement benefits at 50 undoubtedly contributes to the exodus of teaching and administrative staff from Montana's schools. But the resulting retirement income is low and health insurance extremely expensive. Many of those retirees plan to take their Montana retirement benefits with them to other states where they establish themselves in another system, pay taxes in another state, and eventually may supplement their Montana benefits with additional benefits from a new retirement system.

School boards cannot anticipate filling vacant positions with recent college graduates. State support for schools is eroding at the same time school budgets are being impacted by enrollment declines, leaving schools unable to pay salaries that attract and retain young teachers. It is astonishing that even 29% of Montana education program graduates remain in state to teach, given the low salaries, meager benefits, and unstable budgets that almost guarantee annual layoffs of non-tenured staff.

Nor can school boards expect to fill vacancies with experienced candidates. The number of applicants for positions has dwindled dramatically, even in the most attractive areas in the state.

### **Addressing the retirement issues**

No single proposal can address all the issues related to recruitment and retention of certified personnel. It will require a thoughtful combination of strategies. The shortage of certified personnel is a major dilemma for the schools and for the children of Montana.

There are several compelling reasons to improve the retirement benefits of Montana teachers in order to retain certified staff in Montana schools.

- ▶ Some measures may increase the number of new graduates who remain in Montana to teach. Current proposals include providing assistance with loans and bonuses for new teachers in specific teaching fields. However, if these efforts aren't accompanied by broader financial assistance to the system and increased salaries, the attraction will be brief.
- ▶ Many teachers and administrators are on the brink of retirement. The majority of them are younger than 55. They are vested in Montana, they pay taxes here, their history is here, and they have several working years ahead of them. Many anticipate remaining in education – in other states. This experienced pool of teachers and administrators has indicated that the most important factor that would keep them working longer in Montana is increased retirement benefits.
- ▶ Only seven states have teacher retirement rates lower than Montana's annual multiplier of 1.67%. Only three states have teachers' salaries that are lower. Multiplying a low salary by one of the lowest retirement multipliers in the nation results in retiree benefits that are about the lowest in the nation.
- ▶ The benefits for committing to 30 years in the TRS system are substantially lower than for PERS. TRS members may retire earlier without penalty, but if they commit to 30 years in the system they receive 50% of their average salary versus 60% for PERS members.
- ▶ TRS retirees receive no health insurance benefits. As health insurance rates increase and budgets decrease, more districts have reduced or eliminated health benefit contributions. Retirees often find they are without access to affordable health insurance.
- ▶ Statutes limit the ability of a TRS retiree to supplement retirement income with part-time work in education. They are limited to approximately one-third of their average final compensation. One-third of a workday or work week is a difficult proportion to apply to a teacher's school schedule.

### **Strategies for retirement changes**

The early loss of school personnel to other states and professions may be partially attributed to the low level of benefits for remaining in the system. Strategic changes to the retirement system may provide a more cost effective method of retaining personnel than the much needed salary increases. Some of those changes might include focusing the large group of talented and experienced educators who are about to leave the schools and the state. Recognize their contributions to Montana and to the children of the state. Move toward more balanced incentives (or disincentives) between PERS and TRS. Take steps to provide retirement benefits that keep pace with the benefits in other states.

1. Increase the annual multiplier rates, targeting the experienced group that is leaving Montana.
2. Assure retiree access to a health insurance program.
3. Allow broader opportunity to teach after retirement to meet the needs of local schools and communities as well as the needs of the retiree.

If we lose the mid-career educators to out-of-state jobs, the older educators to retirement, and attract no new younger teachers to our schools, who will staff Montana's schools? Who will teach Montana's children?

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<sup>1</sup> *Montana School Leaders: Superintendents and Principals – Survey 2001-2002, Who Will Teach Montana's Children? 2002 Follow-up Study, Who Will Teach Montana's Children? 2001*

<sup>2</sup> MCA Title 19, Chapter 20, part 6.

<sup>3</sup> The 2002 data for the same factors as the Wisconsin study 2000 calculations were used to determine the 2002 ratio.

<sup>4</sup> *2000 Comparative Study of Major Public Employee Retirement Systems*, State of Wisconsin Legislative Council, Madison, WI 2000

<sup>5</sup> TRS Actuarial Valuation Reports from 1998 and 2002.

<sup>6</sup> Summary information provided by the Teachers' Retirement System, 2002.

<sup>7</sup> *Montana School Leaders: Superintendents and Principals Survey 2001-2002*

<sup>8</sup> MCA Title 19, Chapter 2, parts 3 and 9.