



Retirement Estate Asset Protection Planning

Will Teachers Get the Retirement That They Deserve?

Classroom educators are coping with hybrid plans and pension fund shortfalls.

Provided by Pat Baxter, Registered Financial Advisor

Arizona. Kentucky. Massachusetts. Michigan. Pennsylvania. Rhode Island. Tennessee. In these states and others, teachers are concerned about their financial futures. The retirement programs they were counting on have either restructured or face critical questions.^{1,2}

Increasingly, states are transferring investment risk onto teachers. Hybrid retirement plans are replacing conventional pension plans. These new plans combine a 401(k)-style account with some of the features of a traditional pension program. Payouts from hybrid retirement plans are variable – they can change based on investment returns. The prospect of a fluctuating retirement income is making educators uneasy, especially in states such as Kentucky where teachers do not pay into Social Security.¹

Traditional pensions have vanished for teachers starting their careers in Michigan, Rhode Island, and Tennessee. In 2019, that may also happen in Pennsylvania.¹

In some states, educators are being asked to offset a shortfall in pension funds. Arizona teachers now must contribute 11.3% of their pay to the Arizona State Retirement System, compared to 2.2% in 1999. (What makes this situation worse is that the average Arizona public schoolteacher earns 10% less today than he or she did in 1999, adjusted for inflation.)²

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Classroom teachers in Massachusetts already have 11% of their salaries directed into the state retirement fund; in California, almost 10% of teacher pay goes into the state retirement system. (The national average is 8.6%.) Make no mistake, some of these pension fund problems are major: New Jersey's state retirement system is only 37% funded, and Kentucky's is just 38% funded.^{1,3}

How can teachers respond to this crisis? One way is to plan for future income streams beside those from underfunded or reconceived state retirement systems. A talk with a financial professional – particularly one with years of experience helping educators make sound, informed financial decisions – may help identify the options.

That conversation should happen sooner rather than later. Educators in some states are no longer assured of fixed pension payments – and unfortunately, the ranks of these teachers seem to be growing.

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