

## Changing Jobs? Protect Your Pension Benefits.

*Before you make a move, ask these 7 critical questions about your teacher's pension to find out if your retirement benefits will transfer with you.*

*by NEA Member Benefits*

If you're planning a job change, make sure you find out how it will impact your educator pension benefits. You may face a reduction in benefits, especially if your pension cannot be transferred. This will definitely affect educators who move from one state to another, but it also can impact those who change jobs within the same state.

Ask these seven questions to shed light on your situation:

### **1. Can you transfer a teacher's pension?**

The most important question related to pension portability is to confirm whether your teacher's pension plan is a defined benefit plan or a defined contribution plan, or some combination.

A defined benefit pension plan promises a specific pension benefit during retirement. The plan may state this benefit as an exact dollar amount you can expect to receive each month. A defined contribution plan, however, does not promise you a specific benefit amount at retirement. Instead, you and often your employer contribute money to an individual account, and "you get what you get" based on how your investments perform.

The individual accounts within defined contribution plans are generally fully portable. That means it's relatively easy to transfer all accumulated savings to your next employer's plan through a rollover or direct transfer.

Defined benefit plans, on the other hand, are not as portable. Benefits will depend heavily on what your state allows. According to the National Council on Teacher Quality (NCTQ), if you leave before meeting your plan's "vesting" requirements (see next question below), you'll typically get back only your pension contribution and a small amount of interest in most states. If you leave after you are vested, but before you are eligible for full benefits, the amount of income you will be entitled to likely will be lower because it's based on fewer years of service and lower earnings.

### **2. What does "being vested" mean?**

One term that you will hear often in relation to a defined benefit pension plan is employee vesting. This simply refers to the length of service needed to receive benefits from a plan. As mentioned above, if you leave a school system before you're vested, you likely will get back only what you put into the plan plus a low rate of interest.

In recent years, states have been lengthening the time it takes to become vested for public-sector employees. For example, an NCTQ study shows that 15 states (up from nine in 2009) now make educators wait for 10 years to vest in their pension plans.

A handful of states, however, have softened this blow by allowing so-called partial vesting. NCTQ cites South Dakota, where the vesting period is only three years, as a great example. Employees with fewer

than three years of experience who choose to withdraw their contributions upon leaving receive their own contributions plus interest and a 50 percent employer match. Those with at least three years of experience may withdraw their pension contribution plus interest and receive an 85 percent employer match.

### **3. How are my retirement benefits calculated?**

The retirement benefit for a defined benefit plan is usually tied to earnings, years of service, or both. For example, when you are eligible to retire, you might receive 2 percent of your average salary over the final five years of your employment, times the number of years that you have worked for that employer. The complexity of the formula varies from state to state, so you'll want to make sure you find out what the specific requirements are for your plan.

To find out more about how your pension, your supplemental retirement savings and any Social Security implications can affect what you can expect to receive, get your free copy of "[An Educator's Guide to Retirement Income Planning](#)," a valuable resource created exclusively for NEA members.

### **4. What happens if I leave after I am vested but before I am eligible to retire?**

Most experts agree that educators generally do not accumulate a lot of retirement benefits early in their careers. Consider this typical scenario detailed in a 2015 report from the Urban Institute and Bellwether Education Partners:

*A teacher is hired at age 25 and enrolls in a defined benefit plan. Her annual pension will equal 2 percent of her final average salary (over the last five years) multiplied by years of service, which she may begin collecting at age 60. Her benefits "vest" after five years, entitling her to at least some future pension benefit if she works that long. Once she retires, the state will annually adjust her pension amount to keep up with inflation. If she leaves after 15 years of service, the teacher would receive annual payments upon retirement replacing 30 percent of her current averaged salary, but she would have to wait 20 years to begin collecting. Her pension benefits would not grow to keep up with inflation during this waiting period.*

A cautionary note: The example above is just a hypothetical situation. Because there is so much variability in how states treat pension benefits if employees leave before retirement, it is critical that you ask about your state's specific rules.

### **5. What about "reciprocity" when switching jobs?**

While some states have begun offering licensure reciprocity, enabling teachers to transfer their certification when moving to a new state, according to the Urban Institute/Bellwether report, none currently offer this kind of interstate reciprocity for pension benefits.

Some states, however, may have multiple public pension plans covering different groups or districts, and thus may offer what's called intrastate reciprocity for pension benefits.

In other states where there is only a single statewide plan covering all public employees, it should be a seamless transition. That means you should be able to move to any district in the state with no negative impact on your benefits. It is important, however, to verify this with your pension plan administrators.

### **6. Can I purchase "service credits"?**

Many states do allow employees to purchase “service credits” to make up for the years of service they might otherwise lose because of a move. However, experts say that states frequently limit the number of service credit buyback years, often to five or 10 years, and that the credits can be prohibitively expensive. What’s more, the rules for these purchases can be quite complicated.

It’s certainly worth asking your new state if they have a service credit program. That way you can determine if it’s a feasible, affordable option for you.

### **7. What about transferring my seniority?**

According to the NCTQ, seniority still provides enhanced job security in most states, and that can impact your pension. Thus, if you are relocating, it’s a good idea to ask your new school district if they have a standing policy for transferring seniority. Areas with acute teacher shortages might be particularly likely to have such pension transfer policies in place.

Even if there’s no existing program, it can’t hurt to negotiate. Ask if they would be willing to recognize some or all of your seniority.

### **Get answers so you can make an informed choice**

No doubt you will base a decision to change jobs on many variables beyond just pension benefits. But the impact of a move on your anticipated retirement income is significant enough that it’s definitely worth getting the information you need to make sound financial decisions.

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