Accepted Manuscript

Pension-spiking, free-riding, and the effects of pension reform on teachers' earnings

Maria D. Fitzpatrick

PII:	S0047-2727(17)30020-8
DOI:	doi: 10.1016/j.jpubeco.2017.02.007
Reference:	PUBEC 3752
To appear in:	*Journal of Public Economics*
Received date:	31 March 2015
Revised date:	9 February 2017
Accepted date:	14 February 2017

Please cite this article as: Maria D. Fitzpatrick , Pension-spiking, free-riding, and the effects of pension reform on teachers' earnings. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Pubec(2017), doi: 10.1016/j.jpubeco.2017.02.007

Pension-Spiking, Free-Riding, and the Effects of Pension Reform on Teachers' Earnings*

Maria D. Fitzpatrick
(Cornell University and NBER)

Abstract

In many states, local school districts are responsible for setting the earnings that determines the size of pensions, but are not required to make contributions to cover the resulting state pension fund liabilities. In this paper, I document evidence that this intergovernmental incentive inherent in public sector defined benefit pension systems distorts the amount and timing of income for public school teachers. I use the introduction of a policy that required experience-rating on earnings increases above a certain limit in a differences-in-differences framework to identify whether districts are willing to pay the full costs of their earnings promises. Because of the design of the policy, overall earnings of teachers near retirement did not change. Instead, districts that previously provided one-time pay increases shifted to smaller increments spread out over several years. In addition, some districts that did not practice pension-spiking prior to the reform appear to begin providing payments up to the new, lower limit, perhaps due to increased salience of the fiscal incentive. Therefore, the policy was ineffective at decreasing pension costs.

KEYWORDS: Intergovernmental Incentives, Teacher Compensation, Teacher Retirement
JEL CLASSIFICATION: H75, H72, H77, J26, I21, I28,

* I would like to thank seminar participants at Bocconi University, Boston College, CESifo, Cornell University, Erasmus University, University of St Gallen, the NBER Economics of Education Spring 2014 conference and Jonah Rockoff and three anonymous referees for helpful comments and suggestions. Maricar Mabutus provided excellent research assistance. Funding from the W.E. Upjohn Institute for Employment Research and the National Institute on Aging, through Grant Number T32-AG000186 to the National Bureau of Economic Research, is gratefully acknowledged. All errors and omissions are my own.

Maria Fitzpatrick, Department of Policy Analysis and Management, Cornell University and NBER. Mail: 103 Martha Van Rensselaer Hall, Ithaca, NY 14853. Email: maria.d.fitzpatrick@cornell.edu Phone: (607) 255-1272.