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Examining the Prevalence of Salary Spiking in Missouri's Defined Benefit Public School Retirement System

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A B S T R A C T

Salary spiking is the practice of boosting one's wages in the period just before retirement in order to reap larger retirement benefits. This may happen in Defined Benefit pension plans because they often do not base benefits on contributions, but on a formula, which takes into account a short window of time. Using two sources of data, school district salary schedules and actual teacher salaries for Missouri teachers, we estimate the prevalence of salary spiking. We do this by using seven years of actual salary data to forecast a worker's final three years then compare this forecast to the individual's actual wages. While we find evidence of salary spiking in all our samples and models, our estimates of spiking vary considerably across years. This suggests that some macro factors in the economy, possibly the lingering impacts of the great recession, may affect estimates of salary spiking.

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