

INTRODUCTION

Yesterday's financial promises often prove difficult to keep today. Nowhere in America is that clearer than in public-sector pensions. In the education realm, public schools in many states are under the double-barreled gun of rising costs and budget cuts. Nationally, teacher compensation comprises 55 percent of total current expenditures in education (and that number rises to 81 percent when all school staff are included).¹ A large and growing share of these costs goes to help fund retirement benefits. Between 2004 and 2010, district pension costs (not counting retiree health insurance) increased from 12 percent to over 15 percent of salaries.² A recent report from the Pew Center on the States estimated that unfunded public employee pension liabilities in the United States grew to \$1.26 trillion during the 2009 fiscal year; other studies estimate that the true liability is even higher.³ As states attempt to pay down this liability, pension costs for all public employees, including teachers, will likely keep rising.⁴

But what about teachers employed by public charter schools that are not required to participate in state teacher pension plans? Do their retirement plans face the same challenges? What types of retirement plans do they use?

Forty states currently have charter schools. In twenty-four of those states, teachers in charter schools must participate in the state plan. But in the other sixteen states, charters have the option of participating in the state's pension plan for teachers, meaning the law offers *access* to the state retirement system but does not *require* membership.⁵

How often do charters avail themselves of alternative options? And what do they do instead? Until now, we've had little evidence on the matter.⁶

This paper examines data regarding the pension arrangements of "opt-out" charter schools in six states. Not only is this information interesting in its own right, but it could also point to ways that other states and districts might redesign their own teacher pension plans going forward.

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1. Organisation for Economic Co-operation and Development, *Education at a Glance 2010: OECD Indicators* (Paris, France: OECD, 2010), <http://dx.doi.org/10.1787/888932310377>.
 2. Robert Costrell and Michael Podgursky, "Teacher Retirement Benefits," *Education Next* 9, no. 2 (Spring 2009), <http://educationnext.org/teacher-retirement-benefits/>. Updated chart available at http://www.uark.edu/ua/der/People/Costrell/Employer_Contributions_December_2010.pdf.
 3. Pew Center On the States, *The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs* (Washington, D.C.: Pew Charitable Trusts, 2011), http://www.pewcenteronthestates.org/uploadedFiles/Pew_pensions_retiree_benefits.pdf. For additional studies, see Robert Novy-Marx and Joshua Rauh, "State Pension Systems and Their Impact on Plan Liabilities," *Journal of Pension Economics and Finance* 10, no. 2 (2011): 173-194.
 4. Robert Costrell and Michael Podgursky, *Reforming K-12 Educator Pensions: A Labor Market Perspective* (New York, NY: TIAA-CREF Institute, 2011), http://www.tiaa-crefinstitute.org/pdf/research/dvds_books/pb_reformingpension0211a.pdf.
 5. Generally, charter schools in states where the option exists must submit an application to the state retirement system to participate in it—meaning that they are not automatically enrolled in the system. In the District of Columbia, charters are excluded altogether since the federal government funds teacher pension plans.
 6. One exception that we are aware of is the following report: F. Howard Nelson, Edward Muir, and Rachel Drown, *Venturesome Capital: State Charter School Finance Systems* (Washington, D.C.: U.S. Department of Education, Office of Educational Research and Improvement, 2000), <http://www2.ed.gov/rschstat/eval/choice/charterfin.pdf>. A table in the study indicates which states required their charter schools to participate in the state retirement system at the time of the study. Another table presents the charter school participation rates for all states in which the option existed at the time.

In these pages, we address two main questions:

- When given the option, how many charters choose to participate in their regular state (or local) teacher pension plans, and how many do not?
- In the case of charter schools that do not participate in state plans, what—if anything—do they offer instead?

We view this study as the first step in a quest to obtain reliable data about pensions in the charter sector. We hope these provocative initial findings may encourage discussion regarding how to restructure traditional pension systems, with an eye to reforming policies regarding teacher recruitment, retention, and quality, as well as retirement.

METHODOLOGY

Out of the sixteen states that allow charter schools the option of participating in state retirement systems, we selected six states: Arizona, California, Florida, Louisiana, Michigan, and New York. We chose these six because they contain large numbers of charter schools and comprise over 75 percent of all of the charter schools that qualified for inclusion in this study based on state laws.

For each of the six states, we obtained a list of charter schools for the 2008-09 school year, along with relevant demographic and geographic data, from the National Center for Education Statistics' (NCES) Common Core of Data (CCD).⁷ The National Alliance for Public Charter Schools (NAPCS) also shared data on charter management and education management organizations (CMOs and EMOs) for the 2008-09 school year.⁸

We obtained lists of participating employers for the six state retirement systems from annual reports and direct requests.⁹ The data on participating employers were matched as closely as possible to the 2008-09 school year. We merged these data with the NCES CCD school records for each state and then organized the databases by school name, with a dummy variable indicating participation in the state system. The combined databases allowed us to calculate an overall participation rate for each state.¹⁰

7. Participating employer data for California was only available for the 2010 fiscal year, so we used a list of charter schools for the 2009-10 school year from the California Department of Education instead of 2008-09 CCD data.

8. National Alliance for Public Charter Schools, "Public Charter Schools Dashboard" (Washington, D.C., 2010), <http://dashboard.publiccharters.org/dashboard/home>.

9. The participating employer data for each state were gleaned from the following sources: Arizona (Arizona State Retirement System upon request, January 2009); California (California State Teachers' Retirement System upon request, June 30, 2010); Florida (Florida Retirement System annual report, June 30, 2009); Louisiana (Teachers' Retirement System of Louisiana upon request, fall 2009); Michigan (Michigan Public School Employees' Retirement System comprehensive annual financial report, September 30, 2009); and New York (New York State Teachers' Retirement System upon request, 2008-09 school year).

10. In some cases, a school would appear once in the state system's participating employer data but multiple times in the CCD data, disaggregated by campus or grade range. As such, we marked all entries in the CCD database as participating employers in the state system.

METHODOLOGY (continued)

Within each state, we examined the alternatives employed by a random 20 percent sample of schools that chose *not* to opt in to their state retirement systems.¹¹ We surveyed each sampled school to identify its alternative retirement plan, if any. If it offered a plan, we also inquired about employer contributions, vesting periods, and eligibility requirements. For California and Louisiana, we also asked whether the school employees were enrolled in Social Security in addition to the school's plan. Any school that had been closed as of the 2008-09 school year was removed from the sample and replaced by another school from the randomization. We attempted to secure a high response rate via repeated follow-up calls and emails. Sample sizes and response rates for the random samples are presented in Table 1.

STATE	SAMPLE SIZE ¹²	RESPONSE RATE
Arizona	62	81%
California	20	80%
Florida	74	70%
Louisiana	18	89%
Michigan	41	80%
New York	17	74%

11. Due to the relatively small number of charter schools in Louisiana, we included in our phone survey all of the charter schools that opted out of the state retirement system.
12. These sample sizes were adjusted once we discovered that five schools in California, six schools in Florida, and one school in Arizona were participating employers in their state retirement systems, even though they had not been listed as such by the state—raising some fresh doubts about state data. Many of the schools participated under the umbrella of their local school districts or colleges without the state's knowledge. In addition, two New York schools told us they were participating employers in the Teachers' Retirement System of the City of New York. These schools in Arizona, California, Florida, and New York were removed from the samples and not replaced, and the participation rates were adjusted accordingly (see Table 3 on page 8 for participation rates). Results are based on the adjusted sample size, and response rates on the original sample.