

APPENDIX A - State Profiles

ARIZONA

Policy

All charter schools in Arizona have the option to participate in the Arizona State Retirement System (ASRS) under Arizona state charter law, which was passed in 1994. Charter school operators indicate that once a charter school opts in to ASRS, it is impossible for it to exit the system.

Participation Rate

The National Center for Education Statistics' (NCES) Common Core of Data (CCD) reports that there were 526 charter schools operating in Arizona during the 2008-09 school year. Of these 526 schools, 151 were listed as ASRS participating employers, indicating that 29 percent of charter schools in Arizona opt in to the state retirement system. However, an additional fifty-eight schools were not themselves listed as participating employers, but included under the umbrella of a participating local education agency (LEA). ASRS claims that charter schools in Arizona are required to opt in to the system on their own, and are not able to enroll in ASRS through an LEA. Yet when surveyed by phone, these additional fifty-eight schools claimed to be in ASRS. If these schools in question are counted as participating employers in ASRS, the total number of charter schools participating in ASRS would be 209, or 40 percent of all Arizona charters. Finally, we discovered one additional school in the randomization was participating in ASRS despite not being listed as such. Hence, the final participation rate is 41 percent (see Table 5).²¹

Table 5. Arizona Participation Rate	
Total number of charter schools	526
Number of opt-in schools	151
Number of opt-in "agency" schools	58
Participation Rate	40%
Number of schools in random sample discovered to be in ASRS	1
Adjusted Participation Rate	41%

21. The participation rate was adjusted according to the following formula: $Adjusted\ Opt-In\ Rate = (TOT - (1-c)(OUT))/TOT$, where TOT = the total number of charter schools in the state, c = the proportion of charter schools in the random sample that were in ASRS despite not being listed as such, and OUT = the total number of charter schools that were originally counted as being out of ASRS.

Why Opt Out?

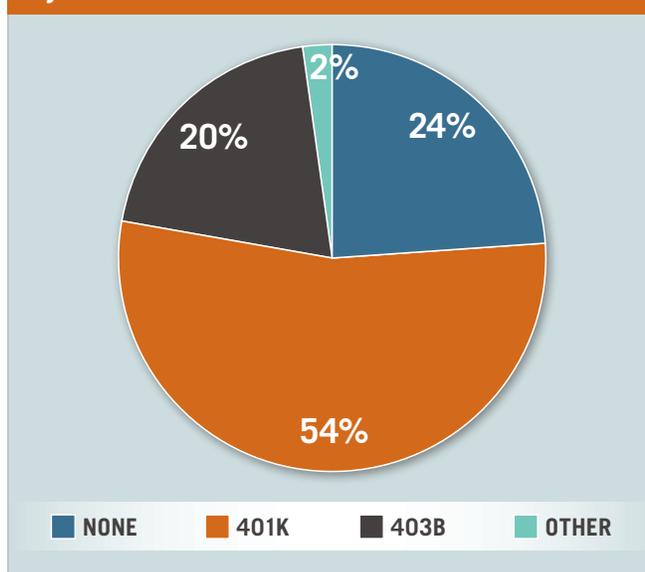
Charter schools that choose not to participate in ASRS cite the cost of employer contributions. In 2009, the annual employer contribution rate to ASRS had increased to 9.45 percent of an employee's annual salary, up from just 2.66 percent in 2001—and it is projected to continue increasing for the next ten years.²² Arizona state law requires charter schools to pay in to Social Security regardless of whether or not they participate in ASRS. If a charter school refrains from opting in to ASRS, it can reduce payroll costs by offering a 401(k) or 403(b) retirement plan with a contribution rate lower than the ASRS contribution rate. Charter school leaders report that many charters that participate in ASRS opened in the early years of the charter school movement and likely opted in before considering—or knowing—the alternatives.

Alternative Retirement Plans

A random 20 percent sample of charter schools in Arizona that were not listed as participating employers in ASRS in 2008-09 yielded sixty-three schools. Fifty-one ultimately responded to our survey, for an 81 percent response rate. Out of those, twenty-seven offer 401(k) plans, ten offer 403(b) plans, twelve offer no retirement plan, and one offers a SIMPLE IRA plan (see Figure 3).²³

Most of the schools extending retirement plans offer employer matches on employee contributions, either dollar for dollar or a percentage on the dollar, ranging up to 6 percent. One charter management organization (CMO) and two individual schools offer straight contributions of roughly 5 percent, meaning the employees are not required to make contributions of their own to receive it. One 401(k) retirement plan and one 403(b) retirement plan offer no employer contribution, and one CMO offers a discretionary match that it adjusts each year, depending on the organization's financial health. The vesting periods on these retirement plans vary from immediate vesting to ten years, although the majority of the plans offer either immediate or one-year vesting periods.

Figure 3. Alternative Retirement Plans Offered by Arizona Charter Schools



22. Arizona State Retirement System, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30* (Phoenix, AZ: ASRS, 2010), https://www.azasrs.gov/content/pdf/financials/2010_CAFR.pdf.

23. We discovered that one school was a participating employer in ASRS despite not being listed as such. This school was removed from the sample and was not replaced.

A Savings Incentive Match Plan for Employees (SIMPLE IRA plan) allows employees and employers to contribute to traditional IRAs set up for employees. It is ideally suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan.