

# CALIFORNIA

## Policy

All charter schools in California have the option to participate in the California State Teachers’ Retirement System (CalSTRS) under California state charter law, which was passed in 1992. Charter school operators report that it is difficult for a charter school to exit CalSTRS once it has opted in.

## Participation Rate

We obtained a list of charter schools in California during the 2009-10 school year from the California Department of Education (CDE). It reported 815 total charter schools. Of those, 715 were listed as participating employers in CalSTRS, meaning 88 percent of charter schools in California opted in to the state retirement system. However, CalSTRS had its own list of charter schools for the 2009-10 school year, which was not entirely consistent with CDE’s list for the same year. The CalSTRS list included a total of 810 charters for 2009-10. Of those, 732 schools were listed as participating employers, meaning 90 percent of charters opted in to the state retirement system. Both figures are reported in Table 6. Finally, we discovered that five schools in the randomized sample were actually participating in CalSTRS despite not being listed as such; the final participation rate is therefore in the 91 to 93 percent range.<sup>24</sup>

Table 6. California Participation Rate		
	Data provided by CDE	Data provided by CalSTRS
Total number of charter schools	815	810
Number of opt-in schools	715	732
Participation Rate	88%	90%
Number of schools in random sample discovered to be in CalSTRS	5	5
Adjusted Participation Rate	91%	93%

24. 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 randomization that were found to be in CalSTRS despite not being listed as such, and OUT = the total number of charter schools that were originally counted as being out of CalSTRS.

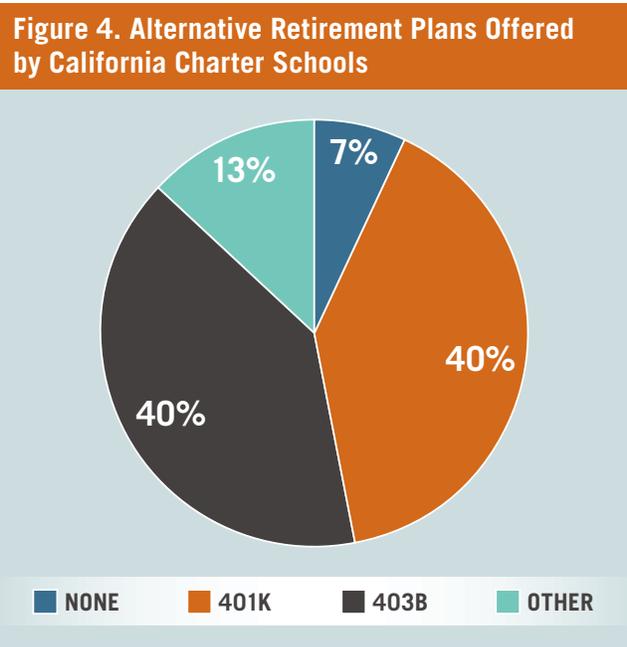
## Why Opt Out?

Of the six states included in this study, California has the highest percentage of charter schools participating in its state retirement system. One of the primary factors influencing this high participation is California state law, which does not require charter schools to enroll in Social Security if they are participating employers in CalSTRS. If charter schools choose *not* to opt in to CalSTRS, they are theoretically required to opt in to Social Security, although we found a school in our randomization that had not done so, and the law governing this requirement is somewhat vague. CalSTRS also has a relatively low employer contribution rate, at 8.25 percent, which is augmented by a 2 percent contribution paid by the state.<sup>25</sup> When a charter school chooses not to opt in to CalSTRS, it loses its 2 percent state contribution, and generally must opt in to Social Security. Thus, choosing not to opt in to the state plan generally does not result in large financial savings for a charter school, since most charters that do not opt in to CalSTRS also offer their own retirement plan on top of Social Security.

## Alternative Retirement Plans

A random 20 percent sample of charter schools in California not listed as participating employers in CalSTRS in 2009-10 yielded twenty-five schools.<sup>26</sup> Twenty of those responded to the survey, for an 80 percent response rate. Of the twenty, six offer 401(k) plans, six offer 403(b) plans, one offers no retirement plan, one offers a cash-balance plan,<sup>27</sup> and one offers a SIMPLE IRA retirement plan (see Figure 4).<sup>28</sup>

Employer contribution rates vary widely among the 401(k) and 403(b) plans. Most are in the form of employer matches to employee contributions, either dollar for dollar or a percentage on the dollar, which ranges up to 10 percent of the employee's salary. Two plans offer contributions of 4 percent and 8 percent, each with a requirement that the employee also contribute 8 percent. One plan offers no match or contribution. The vesting periods range from immediate vesting up to six-year vesting schedules.



25. California State Teachers' State Retirement System, *Comprehensive Annual Financial Report: A Component of the State of California for the Fiscal Year Ended June 30, 2010* (Sacramento, CA: CalSTRS, 2010), [http://www.calstrs.com/help/forms\\_publications/printed/CurrentCAFR/cafr\\_2010.pdf](http://www.calstrs.com/help/forms_publications/printed/CurrentCAFR/cafr_2010.pdf).

26. The 20 percent sample was drawn from an original list of 789 charter schools collected from the National Center for Education Statistics' (NCES) Common Core of Data (CCD). Of those schools, 124 did not participate in CalSTRS, yielding a 20 percent sample of twenty-five schools.

27. A cash balance plan is a type of defined-benefit plan that provides for smooth accrual of pension wealth (like a defined-contribution plan), but keeps the investment risk and fund management with the employer.

28. We discovered that five schools were participating employers in CalSTRS despite not being listed as such (they enrolled under the umbrella of their LEA). These schools were removed from the sample and were not replaced.