



# **A School's Choice: Retirement Security for Charter School Teachers**

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National Public Pension Coalition



**Public charter schools** are becoming increasingly common in the United States. The number of students attending charter schools jumped from 880,000 in 2004 to over 2.5 million in 2014. During that time period, the number of charters increased from 3,399 to 6,495.<sup>1</sup> Currently, 43 states allow for public charter schools, but the numbers vary widely from 1,220 in California and 652 in Florida to only 87 in Indiana and 32 in Oklahoma. In total, there are more than 6,800 charter schools enrolling over 3 million students.<sup>2</sup>

Charter schools are publicly funded and privately managed schools that do not have to follow all of the same rules and regulations that govern traditional public schools. For example, in most states, teachers and other school employees participate in a traditional defined benefit public pension system. In 23 of the states that allow for public charter schools, the teachers in those schools are required to participate in the teacher pension system. In the other 20 states, however, public charter schools are given the option to participate or to enroll their teachers in an alternative retirement plan. This report aims to determine the impact of this choice on the retirement security of charter school teachers.

This report seeks to answer the following questions:

- In states where public charter schools are given a choice, how many opt out of the traditional teacher pension system?
- If the charter school does opt out, what kind of retirement plan is offered in its place?
- What kind of retirement security does that alternative plan provide for public charter school teachers?

This report will focus on eight states that allow public charter schools to choose between the teacher pension plan and offering an alternative retirement plan. These states- Indiana, Wisconsin, Louisiana, North Carolina, Florida, Michigan, Pennsylvania, and California- are representative of the different ways public charter schools have been instituted across the country. Louisiana is a particularly noteworthy example as New Orleans continues to attempt to move entirely to offering public charter schools, eliminating its remaining traditional public schools.<sup>3</sup>

There are other considerations as well. In 15 states, such as California and Louisiana covered in this study, teachers do not participate in Social Security if they are in the teacher pension plan. For public charter schools that offer an alternative retirement plan, they would be required to enroll their teachers in Social Security. For those teachers in charter schools that opt out of a state pension plan, Social Security provides a critical pillar for future retirement security. But, as this report shows, it rarely bridges the gap between what a teacher could expect from a public pension benefit and a benefit from an alternative retirement plan offered by their employer.

A traditional defined benefit pension plan is the best tool for helping employees plan and finance their own retirement instead of having to rely on loved ones or public assistance. Pensions provide a reliable source of post-employment retirement income and cost less to employers and taxpayers compared to a defined contribution (DC) retirement system. As pointed out by the National Institute for Retirement

Security (NIRS), “In order to reduce the risk of running out of funds, individuals in a DC plan need to accumulate funds to last several years past average life expectancy. Even using only the 80th percentile life expectancy, which exposes participants to a one-in-five chance of running out of income in retirement, the DC plan requires significantly more funding and/or leads to a lower standard of living in retirement for DC plan participants.”<sup>4</sup>

To compare future retirement benefits under a defined benefit and a defined contribution plan, this report uses the salary schedules in local teacher union contracts plus an expected inflation rate of 2 percent. Estimations of a defined contribution benefit are based on a 6 percent rate of return where a teacher is hired at age 27 and retires at age 62. Estimations of a defined benefit pension are based on a state retirement system’s rules for a participant's eligibility after reaching normal retirement age after a 35 year career in the system. The benefits used for comparison in this report are expected future benefits, not current benefits. (See Methodology appendix)

Almost every defined contribution plan reviewed for this report would leave a teacher short of the retirement income replacement level recommended by experts, even under the ideal conditions of a teacher taking full advantage of their employer match and earning a 6 percent return every year prior to retirement. The Center for Retirement Research at Boston College estimates that a middle-income two-earner couple born between 1960-1962 will need to replace 76 percent of their income excluding health care and long term care costs, and 98 percent including these costs.<sup>5</sup> The AARP recommends between 70 and 80 percent of preretirement income is necessary for a secure retirement.<sup>6</sup> Either by drawing down 4 percent a year or purchasing an annuity, teachers in the defined contribution plans reviewed in this report will not accumulate nearly enough assets to finance a secure retirement.

Furthermore, public charter schools themselves recognize the value of being able to enroll their teachers in the traditional public pension system. In 2012, the National Alliance for Public Charter Schools sent a letter to the IRS urging the agency to continue to allow charter schools to participate in public pension plans. In its letter, the Alliance recognizes the retirement security a public pension plan provides as an important tool to recruit and retain teachers.<sup>7</sup>

Finally, the proliferation of charters not only calls into question the retirement security of charter school teachers whose employers opt out of the state retirement system, but also the retirement security of all public school teachers. In its 2016 Annual Review of Funding Levels and Risks, the California Public Employees’ Retirement System noted:

There is a concern that the growth of charter schools may eventually impact the financial stability of the Schools pool. This is because the movement to charter schools could erode the revenue base supporting the Schools pool...To the extent that the membership and revenue base deteriorates, the unfunded liability of the Schools pool will be supported by the lower revenue base. Eventually the revenue base may not be large enough to make the contributions required to pay off the unfunded liability--which would put the members’ benefits at risk.<sup>8</sup>

While the report notes that “it will take considerable time for this to evolve into a significant concern,” charter school expansion continues undeterred in the state. Charter school proponents in Los Angeles want half of all students in the district to attend a charter.<sup>9</sup> As other states continue to debate the expansion of charter schools, more state retirement systems will be confronted with this issue.

The growth of public charter schools in the United States has been controversial for a number of reasons, including governance of the schools and their ultimate success (or lack thereof). Unfortunately, one issue that has been largely ignored by both proponents and opponents of public charter schools is retirement security for teachers and other employees in these schools. This report seeks to shine some light on this critical issue and provide some much-needed context to the debate.

**State:** California

**Number of public charter schools:** 1,220

**Pension law:** A charter school has the option of participating in the California State Teachers Retirement System (CalSTRS), the California Public Employees Retirement System (CalPERS), or creating or adopting another qualified retirement benefit plan for charter school staff. A decision to adopt CalSTRS or CalPERS is reflected in the school's charter and employees eligible for either system must be enrolled in their respective retirement plan upon hire. Individual charter school teachers and other educators do not have the option of choosing either to participate or not to participate in CalSTRS or CalPERS.

**Number of public charter schools participating in CalSTRS:** 1,091<sup>10</sup>

- **Percentage participating:** 89 percent

**Number of public charter school certified staff in state:** 38,641

**Number of certified staff at CalSTRS participating charter schools:** 33,129

**Average annual benefit of CalSTRS retiree:** \$52,428 (do not participate in Social Security)

**Average defined contribution account balance in CA:** \$23,381<sup>11</sup>



In absolute numbers, **California** has more public charter schools than any other state in the nation. Public charter schools have several choices regarding retirement plans for their teachers and other school employees. They can participate in CalSTRS, which is the statewide public pension plan for teachers; CalPERS, which is the statewide public pension plan for public employees; or they can offer an alternative retirement plan, which would be a defined contribution plan.

Unlike in some other states that offer a choice, California has a large number of public charter schools that choose to participate in a traditional public pension plan. Eighty-nine percent of public charter schools participate in the defined benefit state teachers' retirement plan, a much higher number than in most of the other states that allow these schools to choose.

It's not hard to see why so many public charter schools participate. CalSTRS is a good value for teachers. According to a report from the Center for Labor Research and Education at UC-Berkeley, most California teachers are committed to the profession for the long-term and are better off with a defined benefit pension.<sup>12</sup> In fact, according to the study from the Labor Center, 86 percent of California teachers earn more retirement income with a CalSTRS pension than they would with an

idealized 401(k) plan, something they are unlikely to find in the real world. By encouraging teachers to remain in the classroom, CalSTRS pensions also promote stability for schools and the students they educate.

It's important to note that California public school teachers do not participate in Social Security. This makes their pension benefit through CalSTRS all the more important, since it may be their only source of income in retirement, aside from any personal savings. For public charter schools that choose to offer an alternative retirement plan, they should enroll their teachers in Social Security the same as other private employers in the state. However, this does not appear to be the case. As part of a brief online survey, CalSTRS asked charters about their retirement plans. Of those charters that opted out of CalSTRS and responded to the survey, 42.9 percent offered only a defined contribution (DC) plan, 21.4 percent offered only Social Security, and 35.7 percent offered both a DC plan and Social Security.<sup>13</sup>

While participation in Social Security, in addition to a defined contribution plan, would be quite valuable for these teachers as Social Security provides a steady, reliable source of income in retirement, the value of the defined contribution plan may not make up for the lost value of earning a pension through CalSTRS. If a California charter school teacher wanted to replace 80 percent of her expected salary at retirement, she would need to save \$3,273,950 if she were to follow the popular "Multiply by 25" rule.<sup>14</sup> This rule says a worker should estimate the amount of money they will need in retirement by multiplying their desired annual income by 25.

KIPP LA, part of a nationwide charter school network, advertises a defined contribution plan for staff that offers a graduated matching 401(k) retirement plan that, at the top level, matches up to 6 percent of an employee's salary.<sup>15</sup> If a teacher at KIPP LA taught on a salary schedule comparable to the local school district for thirty-five years and took advantage of the full employer matching contribution, she would have \$1,333,152 saved for retirement (assuming a yearly return rate of 6 percent), far short of what she needs to follow the "multiply by 25" rule. Purchasing an annuity would allow for a \$7,230 monthly income, or approximately a 50 percent income replacement. Following the "4 percent rule" would provide a new retiree with a monthly income of \$4,444, or an approximately 33 percent income replacement level.<sup>16</sup> If the future retiree were to draw enough from her retirement plan to replace 80 percent of her income per year, she would be out of income--even assuming a 6 percent return on the balance--by age 76, five years short of her life expectancy.

Alternatively, that same teacher could have earned a monthly pension benefit worth \$9,352 through CalSTRS, or approximately 69 percent of her preretirement income. The teacher would need a monthly Social Security benefit of at least \$2,122 to make up the difference between the KIPP plan and CalSTRS. This would require a 35 year over year future cost of living increase of 2.1 percent of the current average monthly benefit of \$1,046 for a 62 year old recipient.

| <b>Retirement Plan</b> | <b>Estimated Monthly Benefit (35 year career)</b> | <b>Income Replacement</b> |
|------------------------|---|---------------------------|
| CalSTRS                | \$9,352   | 69%                       |
| KIPP LA                | \$7,230   | 50%                       |

Whether participating in CalPERS or CalSTRS, a charter school teacher in California can earn a more secure retirement through a public pension plan than through any of the defined contribution plans currently offered by charter schools in the state. As a high cost of living state where teachers do not participate in Social Security, public pensions provide a critical source of retirement security. Charter schools in California participate in the public pension plans at a higher rate than charters in any other state. As the number of charters continues to grow in the state, it is imperative that they maintain this high level of participation so that their teachers and other school employees will have access to a secure retirement.

**State:** Florida

**Number of public charter schools:** 652

**Pension law:** Charter schools have the option of operating as public or private employers. As a public employer, participation is optional in the Florida Retirement System (FRS). If a charter school elects FRS participation, all employees filling regularly established positions must be covered. Contract employees are not covered by FRS.

**Number of public charter schools participating in FRS:** 78

- **Percentage participating:** 12 percent

**Number of public charter school teachers in state:** 14,309

**Number of teachers at FRS participating charter schools:** 1,734

**Average annual benefit of FRS retiree:** \$21,245

**Average defined contribution account balance in FL:** \$23,859<sup>17</sup>



**Florida** has strongly embraced public charter schools. The state has a significant number of charters and, at 9.1 percent for the 2014-2015 school year, has a relatively large percentage of its school enrollment in charter schools. Participation in the Florida Retirement System, the state public pension plan, is entirely optional for charter schools. Unfortunately for teachers in these schools, the overwhelming majority of charter schools are opting out of FRS. Fully 88 percent of public charter schools in the state do not participate in the public pension system. In the state's largest school district—Miami Dade—only one of the area's 128 charter schools participates in FRS. In Broward, the state's second largest school district, 11 of the 101 charters participate in the retirement system.

It's unfortunate that more charter school teachers are not given the option to participate in FRS, which is a strong, well-funded public pension plan. Traditional defined benefit pensions offer a superior retirement over 401(k)-style defined contribution plans. The average annual pension benefit for an FRS retiree is \$21,245.<sup>18</sup> This is guaranteed for the rest of the retiree's life. The average total account balance in a defined contribution plan in Florida is just \$23,859, barely enough to cover one year of retirement.

Some charters in the state may not be offering a retirement plan at all. A review of the audits of every charter school in Miami Dade shows that 36 of the 128 schools do not disclose a retirement plan for staff. The remaining schools disclose either a 401(k) plan or a 403(b) plan with employer matches

ranging from 1 to 4 percent of the employee’s compensation, some far less generous than even FRS’s alternative defined contribution plan that has a 3 percent employee contribution and a 3.3 percent employer contribution. Only 9 employer plans reviewed offer an employer contribution without requiring an employee contribution. Florida’s largest charter school chain operator, Academica, runs 88 schools and leases personnel from a third party that offers a different 401(k) plan for different schools. These plans provide a match ranging from 25 percent to 100 percent of the employee’s contribution up to 4 percent of the employee’s compensation. If a new Florida charter school teacher would expect to replace 80 percent of her salary at retirement, she would need to save \$2,565,260 through these plans if she were to follow the popular “multiply by 25” rule.

Academica’s most generous plan provides a match of up to 4 percent of the employee’s compensation. If an Academica teacher on a salary schedule comparable to the Broward School District took advantage of the full employer matching contribution throughout her career, she would have \$687,128 saved for retirement at age 62 with 35 years of service (assuming an annual rate of return of 6 percent). That would provide enough to purchase a \$3,726 monthly guaranteed annuity in retirement, an income replacement ratio of 35 percent. Withdrawing 4 percent per year would provide a retiree with a monthly income of \$2,290, replacing only 22 percent of the retiree’s previous income. If the retiree would withdraw enough to provide an 80 percent income replacement, her account balance would be depleted by age 70, only 8 years into her retirement. Alternatively, that same teacher could have earned a monthly pension benefit worth \$6,038 through FRS, replacing 70 percent of her preretirement income, significantly more than her monthly retirement income from the defined contribution plan.

Imagine, another large charter operator that runs 16 schools in the state, offers a retirement plan that provides a match of up to 5 percent of the employee’s compensation. If an Imagine teacher on a salary schedule comparable to Broward School District worked for thirty five years and took advantage of the full employer matching contribution, she would have \$858,911 saved for retirement at age 62 (assuming an annual rate of return of 6 percent). This would provide enough to purchase a \$4,658 monthly annuity in retirement (replacing 44 percent of the retiree’s income) or enough to provide \$2,863 in monthly income if the retiree would withdraw 4 percent her first year in retirement (replacing 27 percent of the retirees income). Both leave the retiree far short of the monthly pension benefit worth \$6,038 through FRS. If the retiree would withdraw enough to provide an 80 percent income replacement, her account balance would be depleted by age 73.

| <b>Retirement Plan</b> | <b>Estimated Monthly Benefit<br/>(35 year career)</b> | <b>Income Replacement</b> |
|------------------------|---|---------------------------|
| FRS                    | \$6,038   | 70%                       |
| Academica              | \$3,726   | 35%                       |
| Imagine                | \$4,658   | 44%                       |

The pattern of public charter schools opting out of the traditional teacher pension plan in Florida confirms a fear that many supporters of traditional public schools have about the increasing number of charter schools. By not enrolling their teachers in the traditional pension plan, charter schools are

denying these teachers the opportunity to earn a secure and dignified retirement. Defined contribution, 401(k)-style retirement plans have failed to provide retirement security to working families. Moreover, defined benefit pensions promote recruitment and retention of high-quality teachers. The ability to earn a pension is an incentive for some teachers to remain in the profession who otherwise might leave. Charter schools that do not participate in the pension plan lack this retention incentive and are more likely to experience higher teacher turnover.

**State:** Indiana

**Number of public charter schools:** 87

**Pension law:** Teachers and school employees employed by charter schools are members of the Teachers Retirement Fund (TRF) or the Public Employees Retirement Fund (PERF) unless the school offers an alternative retirement program and the charter school or teacher elects not to participate in the Fund. A charter can both participate in the Funds and offer a 403(b) plan.

**Number of public charter schools participating in TRF:** 30

- **Percentage participating:** 34 percent

**Number of public charter school teachers in state:** 1,330

**Number of public charter school teachers enrolled in TRF:** 504

**Average annual benefit of TRF retiree:** \$16,260<sup>19</sup>

**Average defined contribution account balance in IN:** \$26,971<sup>20</sup>



Currently there are 87 public charter schools operating in the state of **Indiana**. These schools have several options when it comes to providing a retirement savings plan to their teachers and other school employees. They can participate in the Teachers Retirement Fund, the state pension plan for teachers; the Public Employees Retirement Fund, the state pension plan for state employees; or they can offer an alternative retirement plan, which would be a 403(b) or other defined contribution plan.

Only 30 of the public charter schools in Indiana have chosen to participate in one of the public pension funds. Those 30 schools represent just 34 percent of charter schools in the state. All of the remaining charter schools either offer an alternative plan, which is almost certainly a defined contribution plan, or offer no retirement plan at all. Defined contribution plans are less efficient than defined benefit plans and often earn lower investment returns.<sup>21</sup> The average total account balance in a defined contribution plan in Indiana is just \$26,971, barely enough to cover one year of retirement. The average annual pension benefit for a TRF retiree is \$16,260. This is guaranteed for the rest of the retiree's life.

In the state's most populous county--Marion--10 of 25 charter schools have opted out of TRF according to charter school audits. Of those that opted in to TRF, nine schools offer a 403(b) plan in addition to an employee's participation in TRF. Of those that opted out, 7 charter schools disclose a defined contribution retirement plan for teachers. These 403(b) and 401(k) plans offer a range of employer contributions and employer matches for employee contributions. The most generous plan,

provided by Enlace Academy, offers a 4 percent employer contribution along with a 3 percent employer match of employee contributions. The next most generous plan, provided by Lighthouse Academies, offers a 4 percent match of employee contributions. If a new Indiana charter school teacher would expect to replace 80 percent of her salary at retirement, she would need to save \$1,457,240 through these plans if she were to follow the popular “multiply by 25” rule.

If an Enlace teacher on a salary schedule comparable to an Indianapolis public school teacher worked for thirty five years and took advantage of the full employer matching contribution, she would have \$637,579 saved for retirement at age 62 (assuming an annual rate of return of 6 percent). She could purchase a \$3,457 monthly annuity in retirement, replacing 57 percent of the retiree’s income, or follow the 4 percent rule and draw \$2,125 per month from the account balance, replacing 35 percent of her preretirement income. If the retiree would withdraw enough to provide an 80 percent income replacement, her account balance would be depleted by age 78, four years short of her current life expectancy.

As a TRF participant, this teacher could expect a slightly lower annuity of \$3,285 per month (replacing approximately 54 percent of her previous income); a \$2,247 benefit from the system’s defined benefit portion and a \$1,037 benefit annuity from the participant's annuity savings account. It’s worth noting, however, that the TRF pension benefit is guaranteed (based on the pension benefit formula). The possible annuity an Enlace teacher in the example above could achieve is premised on taking full advantage of the employer matching contribution for thirty five years; earning a 6 percent annual rate of return for thirty five years; and not taking any withdrawals from the 401(k) account. It’s highly doubtful that all of these assumptions would be met in the real world.<sup>22</sup>

A Lighthouse Academy teacher could expect a significantly lower annuity in retirement. A Lighthouse teacher who taught for thirty five years would have \$510,063 saved for retirement, enough to purchase an annuity with a guaranteed monthly income of \$2,766 (replacing 45 percent of the retirees income) or follow the 4 percent rule and draw \$1,700 per month from the account balance, replacing 28 percent of her preretirement income. If the retiree would withdraw enough to provide an 80 percent income replacement, her account balance would be depleted by age 73.

| <b>Retirement Plan</b> | <b>Estimated Monthly Benefit<br/>(35 year career)</b> | <b>Income Replacement</b> |
|------------------------|---|---------------------------|
| TRF                    | \$3,285   | 54%                       |
| Enlace                 | \$3,457   | 57%                       |
| Lighthouse Academy     | \$2,766   | 45%                       |

The decision by most public charter schools in Indiana not to participate in either of the public retirement funds confirms a fear that many supporters of traditional public schools have about the increasing number of charter schools. While at least one charter in the state offers a comparable retirement plan under generous contribution and rate of return assumptions, charter school teachers in the state without access to TRF or PERF are more likely to face a risky retirement future.

**State:** Louisiana

**Number of public charter schools:** 145

**Pension law:** Conversion charter schools operating under a charter between the local school board and the state education board must participate in the Teacher Retirement System of Louisiana (TRSL); all other charter school participation is optional. Employees of charter schools that choose not to participate in TRSL cannot become members of TRSL, unless they are on approved leaves of absence. All employees of a charter must participate in TRSL if the school opts in. Charter school teachers' retirement benefit cannot be calculated with earnable compensation that exceeds what would have been paid to them if they were employed by the local school system.

**Number of public charter schools participating in TRSL:** 42

- **Percentage participating:** 29%

**Number of public charter school teachers in state:** 4000, according to Louisiana Association of Public Charter Schools<sup>23</sup>, 1,572, based on publicly available data

**Number of public charter school teachers enrolled in TRSL:** unknown (information not publicly available)

**Average annual benefit of TRSL retiree:** \$26,341 (do not participate in Social Security)

**Average DC account balance in LA:** \$33,533<sup>24</sup>



**Louisiana** is one state that has widely adopted public charter schools, especially in the city of New Orleans. Louisiana has allowed public charter schools for more than two decades. From 2004-05 to 2014-15 the percentage of public school students attending charter schools in the state increased from 1.1 percent to 9.8 percent, nearly a tenfold increase. New Orleans significantly increased the number of charter schools in the aftermath of Hurricane Katrina. Already, the majority of students in New Orleans attend charter schools and the school board recently announced that it would consider closing its remaining traditional public schools and placing all students in charter schools.<sup>25</sup>

Currently there are 145 public charter schools operating in the state of Louisiana. Louisiana law recognizes five different types of charter schools. A public school that takes on charter status and operates under a charter between the local school board and the state must participate in the Teachers Retirement System of Louisiana (TRSL), which is the defined benefit pension plan for teachers. All other charter school types in the state are permitted to choose whether to enroll their teachers in the

Teachers Retirement System of Louisiana or an alternative retirement plan offered by the charter school.

Only 42 of the public charter schools in Louisiana have chosen to participate in TRSL. Those 42 schools represent just 29 percent of charter schools in the state. All of the remaining charter schools either offer an alternative plan, which is almost certainly a 401(k)-style defined contribution plan, or offer no retirement plan at all. These defined contribution plans shift the investment risk squarely onto the shoulders of the teacher. New teachers are forced into a retirement model offering less retirement security at a higher cost to the employee. Defined contribution plans are less efficient than defined benefit plans and often earn lower investment returns.<sup>26</sup> If a new Louisiana charter school teacher would expect to replace 80 percent of her salary at retirement, she would need to save \$2,147,160 through these plans if she were to follow the popular “multiply by 25” rule.

Consider KIPP New Orleans Leadership Academy, a public charter school operated by KIPP New Orleans, Inc., which operates a series of charter schools throughout the city. Teachers at KIPP schools do not participate in TRSL. Instead, they are offered a defined contribution 403(b) plan.<sup>27</sup> In this plan, the KIPP teachers are not required to contribute toward their retirement. The school will match up to 5 percent of contributions, if KIPP teachers choose to contribute. If a teacher at a KIPP New Orleans charter school taught there for thirty-five years and contributed 5 percent every year for all thirty-five years, she would have \$738,253 saved for retirement (assuming a 6 percent rate of return). That would be enough to purchase a \$4,906 monthly annuity, only 55 percent of her preretirement income. Alternatively, that teacher could draw 4 percent of her initial account balance and live on \$2,460 per month, or only 28 percent of her preretirement income. If the retiree would withdraw enough to provide an 80 percent income replacement, her account balance would be depleted by age 75, even assuming the balance earns a 6 percent rate of return each year of retirement. That same teacher could have earned a pension benefit worth \$7,742 monthly through TRSL, a much more secure 86 percent of preretirement income.

Public school teachers in Louisiana do not participate in Social Security. For them, their TRSL pension benefit is their only source of income in retirement, aside from any personal savings. While KIPP New Orleans employees would participate in Social Security and have that reliable source of income in retirement, the teacher at a KIPP New Orleans charter would still not have as secure a retirement as if she would have participated in TRSL. Social Security replaces roughly 40 percent of income for the average worker. A KIPP New Orleans teacher would need to earn a Social Security benefit of \$2,836 per month to make up the difference between her TRSL pension benefit and an annuity she could purchase through her 403(b) plan.

| <b>Retirement Plan</b>       | <b>Estimated Monthly Benefit<br/>(35 year career)</b> | <b>Income Replacement</b> |
|------------------------------|---|---------------------------|
| TRSL                         | \$7,742   | 86%                       |
| KIPP NOLA Leadership Academy | \$4,906   | 55%                       |

As Louisiana continues to expand the number of public charter schools, especially in New Orleans, an increasing number of teachers may not have access to TRSL. If Louisiana charters continue the pattern of not participating in the teacher pension plan, then more teachers will be faced with an uncertain retirement. Given the state's widespread use of charters, it is imperative that the state consider what impact this lack of participation in TRSL may have, especially given the significant economic impact of public pensions in Louisiana.<sup>28</sup>

**State:** Michigan

**Number of public charter schools:** 309

**Pension law:** Participation in the state retirement system is dependent on employee status. Charters may contract with outside companies for certified teachers and staff. If a charter board of directors directly employs teachers and staff, the school and its employees must participate in the state retirement system. If a charter school board of directors contracts with an outside company for staff, they are prohibited from participating in the state retirement system.

**Number of public charter schools participating in MPSERS:** 36

- **Percentage participating:** 12 percent

**Number of public charter school teachers in state:** 6,584

**Number of teachers at MPSERS enrolled charter schools:** 718

**Average annual benefit of MPSERS retiree:** \$22,008<sup>29</sup>

**Average defined contribution account balance in MI:** \$30,021<sup>30</sup>



Currently there are 309 public charter schools operating in the state of **Michigan**. Only 36 of the public charter schools in Michigan have chosen to participate in the Michigan Public School Employees Retirement System (MPSERS). Those 36 schools represent just 12 percent of charter schools in the state. All of the remaining charter schools either offer an alternative plan, which is almost certainly a 401(k)-style defined contribution plan, or offer no retirement plan at all.

This lack of participation in MPSERS is concerning. The average annual pension benefit for a MPSERS retiree is \$22,008. This is guaranteed for the rest of the retiree's life. The average total account balance in a defined contribution plan in Michigan is just \$30,021, barely enough to cover one year of retirement.

The Michigan legislature recently passed legislation that modifies retirement plans for new hires. Under the new law, the default retirement plan for new public school employees will be a 401(k)-style defined contribution plan. A new hybrid defined benefit-defined contribution plan was also created. Both new plans put more investment risk on new hires and are less generous to new public school employees than the previous plans. However, even these new plans will provide more retirement security than some retirement plans offered by charters that have opted out of MPSERS.

For example, National Heritage Academies is the largest charter school chain in the state, managing 48 charter schools. All National Heritage Academy schools have opted out of MPERS and offer a 401(k) retirement plan to teachers. The plan matches \$0.50 for each \$1.00 employees contribute up to 6 percent of employee compensation.<sup>31</sup> Both MPERS’s hybrid and defined contribution plans would offer more retirement security. The MPERS defined contribution plan provides a 4 percent employer contribution and matches 100 percent of employee contributions up to 3 percent of pay.

A new hire in the MPERS hybrid plan on the salary schedule for a Detroit public school teacher could expect a monthly benefit of \$6,067 after 35 years of work, replacing 67 percent of her preretirement income. That same teacher in a National Heritage Academies plan would save \$712,919 for retirement (assuming a yearly 6 percent rate of return), allowing her to purchase a \$3,866 monthly annuity (replacing 42 percent of her preretirement income) or draw \$2,376 per month following the 4 percent rule (replacing 26 percent of her preretirement income). Drawing enough from the account balance to make up for 80 percent of her preretirement income would leave the teacher out of money by age 72.

A new charter school teacher in Detroit—the state's largest school district--would find it difficult to find a MPERS comparable retirement plan in any charter in the city. A review of audits of charters in the city found that the most generous retirement plan reported by a school was a 401(k) administered by the Leona Group, another large charter management chain. The plan matches an employee’s contribution up to 6 percent of employee compensation. If a new charter school teacher would expect to replace 80 percent of her salary at retirement, she would need to save \$2,147,160 through this plan if she were to follow the popular “multiply by 25” rule. A 35 year teacher could expect to be able to afford a monthly annuity of \$5,155 (57 percent of her preretirement income) from the Leona Group plan or withdrawal \$3,168 (35 percent of her preretirement income) if she were to follow the 4 percent rule, still short of the \$5,852 hybrid pension benefit. Drawing enough from the account balance to make up for 80 percent of her preretirement income would leave the teacher out of money by age 78.

| <b>Retirement Plan</b>      | <b>Estimated Monthly Benefit (35 year career)</b> | <b>Income Replacement</b> |
|-----------------------------|---|---------------------------|
| MPERS                       | \$6,067   | 67%                       |
| National Heritage Academies | \$3,866   | 42%                       |
| Leona Group                 | \$5,155   | 57%                       |

Despite all the recent changes to MPERS, participating in either MPERS plan still offers public school employees a more secure retirement than any retirement plan offered by a charter school in the state. This makes it all the more worrisome that the overwhelming majority of charters in Michigan have chosen not to participate in MPERS.

**State:** North Carolina

**Number of public charter schools:** 167

**Pension law:** Charter school boards may elect to participate in the Teacher and State Employee Retirement System (TSERS) and may choose to stop participating.

**Number of public charter schools participating in TSERS:** 48

- **Percentage participating:** 29 percent

**Number of public charter school teachers in state:** 4,389

**Number of public charter school teachers enrolled in TSERS:** 1,508

**Average annual benefit of TSERS retiree:** \$19,064<sup>32</sup>

**Average defined contribution account balance in NC:** \$38,330<sup>33</sup>



Currently there are 167 public charter schools operating in the state of **North Carolina**. Under North Carolina law, charter schools may enroll their employees in the state's public pension plans, but they are not required to do so. Only 48 of the public charter schools in North Carolina have chosen to participate in the Teachers and State Employees Retirement System (TSERS). Those 48 schools represent just 29 percent of charter schools in the state. All of the remaining charter schools either offer an alternative plan, which is almost certainly a 401(k)-style defined contribution plan, or offer no retirement plan at all.

This lack of participation in TSERS is concerning. Traditional defined benefit pensions offer a superior retirement than 401(k)-style defined contribution plans. The average annual pension benefit for a TSERS retiree is roughly \$21,000. This is guaranteed for the rest of the retiree's life. The average total account balance in a defined contribution plan in North Carolina is just \$38,330, barely enough to cover one year of retirement.

Consider Raleigh Charter High School. Teachers at Raleigh Charter do not participate in TSERS. Instead, they are offered a 403(b) defined contribution plan. These defined contribution plans shift the investment risk squarely onto the shoulders of the teacher. These teachers are forced into a retirement model offering less retirement security at a higher cost to the employee.

Interestingly, at a meeting of the Raleigh Charter High School board in February 2017<sup>34</sup>, there was a proposal to add a 457(b) defined contribution retirement plan in addition to the 403(b) plan already

offered to faculty and staff. Moreover, the proposal recommended that the school adopt the 457(b) plan sponsored by the state of North Carolina due to its low cost and the state’s role as a fiduciary for plan participants. It’s unfortunate, though, that rather than opting into TSERS, the board has chosen to simply add another defined contribution plan in addition to the one already offered.

At the PAVE Southeast Raleigh Charter School, teachers and other school employees are offered a 401(k) retirement plan.<sup>35</sup> Teachers may contribute up to \$18,000 of salary toward their 401(k) and the school will match contributions up to 2 percent. If a new charter school teacher would expect to replace 80 percent of her salary at retirement, she would need to save \$1,924,000 through this plan if she were to follow the popular “multiply by 25” rule. If a teacher at PAVE Southeast taught there for thirty-five years and contributed 5 percent of her salary every year for all thirty-five years, she would have \$464,800 saved for retirement (assuming a 6 percent rate of return). That would allow for the purchase of a \$3,089 monthly annuity, 39 percent of her preretirement income. If she were to follow the 4 percent rule, she would replace only 19 percent of her preretirement monthly income (\$1,549). Drawing enough from the account balance to make up for 80 percent of her preretirement income would leave the teacher out of money by age 69.

That same teacher could have earned a pension benefit worth \$60,606 annually through TSERS, replacing 63 percent of her preretirement income. This equates to a monthly pension benefit of \$5,050, significantly more than the annuity she could earn through the defined contribution plan.

| <b>Retirement Plan</b>                | <b>Estimated Monthly Benefit<br/>(35 year career)</b> | <b>Income Replacement</b> |
|---------------------------------------|---|---------------------------|
| TSERS                                 | \$5,050   | 63%                       |
| PAVE Southeast Raleigh Charter School | \$3,089   | 39%                       |

It’s disappointing that more public charter schools in North Carolina do not participate in the state pension plan for teachers. As detailed in our report last year, North Carolina has some of the most well-managed and well-funded public pension plans in the nation.<sup>36</sup> Rather than allowing their teachers to earn a secure retirement benefit through these pension plans, most charters are instead operating inadequate defined contribution plans, even when the charter boards recognize that these plans do not provide enough savings.

**State:** Pennsylvania

**Number of public charter schools:** 180

**Pension law:** Charter school employees must participate in the state retirement system unless the charter school has a retirement program that covers the employees when the school applies for a charter or the employee is currently enrolled in another retirement program.

**Number of public charter schools participating in PSERS:** 163

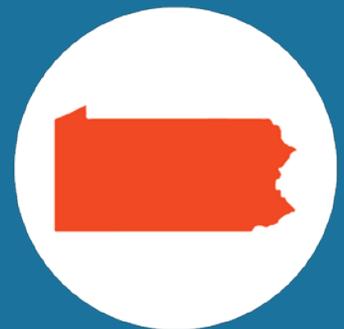
- **Percentage participating:** 89 percent

**Number of public charter school teachers in state:** 7,521

**Number of teachers at PSERS enrolled charter schools:** 7,016

**Average annual benefit of PSERS retiree:** \$25,203<sup>37</sup>

**Average defined contribution account balance in PA:** \$40,719<sup>38</sup>



Currently there are 180 public charter schools operating in the commonwealth of **Pennsylvania**. 163 of the public charter schools in Pennsylvania have chosen to participate in the Public School Employees Retirement System (PSERS). Those 163 schools represent 89 percent of charter schools in the state. All of the remaining charter schools either offer an alternative plan, which is almost certainly a 401(k)-style defined contribution plan, or offer no retirement plan at all.

Pennsylvania recently enacted significant changes to its pension plans for teachers and other public employees. Beginning July 1, 2019, PSERS employees will have a choice of three different retirement plans: two different hybrid defined benefit-defined contribution plans and a defined contribution-only plan. These changes will directly impact charter school employees who participate in PSERS. Furthermore, they may increase the number of charter schools choosing to offer an alternative retirement plan if PSERS is no longer viewed as offering a desirable retirement benefit.

The average annual pension benefit for a PSERS retiree under the current plan is \$25,203. This is guaranteed for the rest of the retiree's life. The average total account balance in a defined contribution plan in Pennsylvania is just \$40,719, barely enough to cover one year of retirement.

A review of audits submitted by charters not participating in PSERS shows that only five charters disclose retirement plans they offer teachers. These include both 401(k) and 403(b) plans, with

employer matches ranging from 2 percent to 6 percent. In no plan does the employer make a nonmatching contribution.

A teacher at a charter school with the most generous retirement plan still faces a less secure retirement than one at a school participating in PSERS. According to the school’s audit, Chester Charter School for the Arts provides a 403(b) retirement plan whereby employees are required to contribute 5 percent of compensation and the school offers to match contributions up to 6 percent. If a new charter school teacher would expect to replace 80 percent of their salary at retirement, she would need to save \$3,034,660 through this plan if she were to follow the popular “multiply by 25” rule. If a teacher taught there for thirty-five years and took advantage of the full employer match for all thirty-five years, she would have \$1,224,377 saved for retirement (assuming a yearly 6 percent rate of return). That could only replace 53 percent of her preretirement income with the purchase of a \$6,640 monthly annuity, or 33 percent of her income following the 4 percent rule and withdrawing \$4,801 monthly. Drawing enough from the account balance to make up for 80 percent of her preretirement income would leave the teacher out of money by age 76. Alternatively, that same teacher could have replaced 63 percent of her preretirement income with an earned pension benefit worth \$5,166 monthly through the PSERS hybrid plan’s defined benefit component and a \$2,788 monthly annuity with the hybrid’s defined contribution component.

| <b>Retirement Plan</b> | <b>Estimated Monthly Benefit<br/>(35 year career)</b> | <b>Income Replacement</b> |
|------------------------|---|---------------------------|
| PSERS                  | \$7,954   | 63%                       |
| Chester Charter School | \$6,640   | 53%                       |

Pennsylvania has a fairly high number of public charter schools electing to participate in PSERS. It is unclear at this point what effect the recent changes to PSERS will have on this participation rate. If PSERS is viewed as a less desirable retirement benefit in the future and more schools choose to opt out, then they are likely to be enrolled in a risky and inadequate 401(k) plan or not offered a retirement plan at all.

**State:** Wisconsin

**Number of public charter schools:** 237

**Pension law:** Under Wisconsin law, only those charter schools whose personnel are employees of the school district are required to participate in the state retirement system. This is determined by the local school board.

**Number of public charter schools participating in WRS:** 180 (best estimate)

- **Percentage participating:** 76 percent

**Number of public charter school teachers in state:** unknown

**Number of public charter school teachers enrolled in WRS:** unknown

**Average annual benefit of WRS retiree:** \$23,430<sup>39</sup>

**Average defined contribution account balance in WI:** \$45,461<sup>40</sup>



**Wisconsin** is widely recognized as having one of the best public pension plans in the nation. The Wisconsin Retirement System (WRS) is fully funded and offers a secure retirement to most public employees throughout the Badger State. This includes over 99,000 active public school teachers. Currently there are 237 public charter schools operating in the state of Wisconsin. According to Wisconsin law, only charter school teachers who are employees of the school district are required to participate in WRS. However, it turns out that this is a legal grey area.

From the publicly available data, it is unclear how many public charter school teachers are participating in the Wisconsin Retirement System. Under Wisconsin law, public charter schools must have an authorizer. In most cases, that authorizer is a school district. If the school district board determines that the charter school is an instrumentality of the school district in which it is located, then the employees of that charter school would participate in WRS. During the process of researching this report, it came to light that neither the Department of Employee Trust Funds (ETF), which manages WRS, nor the Department of Public Instruction (DPI) tracks which charter schools participate in WRS.

According to data supplied by DPI, 180 of the 237 public charter schools in Wisconsin are deemed to be instrumentalities of their authorizing school district. This would imply that the teachers and other employees of these schools do participate in WRS. There are 35 public charter schools that are deemed not to be instrumentalities, meaning their employees would not participate in WRS. Finally, there are 22 public charter schools that are independent. All but one of these is located in Milwaukee.

Public school teachers in Milwaukee do not participate in WRS anyway, as the city of Milwaukee operates its own public pension system separate from WRS. According to information supplied by ETF, it does not appear that the employees of any of the independent charter schools participates in one of Milwaukee's public pension plans.

This lack of clarity regarding participation in WRS is concerning. Traditional defined benefit pensions offer a superior retirement than 401(k)-style defined contribution plans. The average annual pension benefit for a WRS retiree is \$23,430. This is guaranteed for the rest of the retiree's life. The average total account balance in a defined contribution plan in Wisconsin is just \$45,461, barely enough to cover one year of retirement.

Some Wisconsin charter school teachers may find themselves trapped in a regulatory grey zone. They may be missing out on the benefits of participating in WRS if their classification as employees of the authorizing school district is uncertain. Since neither ETF nor DPI tracks participation of charters in WRS, there may be eligible employees slipping through the cracks.

## Conclusion

Public charter schools represent a growing segment of the public education landscape. Most states now allow for public charter schools, but the rules governing those schools vary greatly from state to state. Especially in the area of teacher retirement plans, there is a sharp division among the states. In 20 states, charter schools are given the choice to participate in the public teacher pension system or to participate in an alternative, private plan. The other 23 states with charter schools require a charter to participate in the public teacher pension system. Interestingly, Mississippi used to forbid charter schools from participating in the state pension plan, but that law was amended in 2016 to allow charter schools to join the pension plan.

As this report has shown, in the states that give charter schools the choice, there is wide variation in the levels of participation in public pension plans. In states like California, the levels of participation are very high (89 percent of charters participate), whereas in states like Florida and Michigan, participation is very low (12 percent of charter schools in each state participate). Unfortunately, the trend seems to be toward charter schools opting out of public pension plans and, thereby, denying their teachers and other school employees access to the secure retirement that pensions provide.

In all states studied, a charter school teacher would be better served by the retirement plan offered in the teacher pension system. Charter schools opting out offer inadequate retirement through 401(k)-style defined contribution plans and, unfortunately, some offer no retirement plan at all. Out of over 200 reviewed plans, including some of the largest charter school chains in the country, only one charter school offers a defined contribution plan that offers a more secure retirement than the state public pension plan. This is premised on taking full advantage of the employer matching contribution for thirty-five years; earning a 6 percent annual rate of return for thirty-five years; and not taking any withdrawals from the 401(k) account. It's highly doubtful that all of these assumptions would be met in the real world.

In no charter would the defined contribution plan allow a charter school teacher to save up enough money to be able to replace 80 percent of their income in retirement under the popular "multiply by 25" rule (the multiply by 25 rule estimates how much money a person will need in retirement by multiplying the desired income by 25). In all of the reviewed plans, a retiree would run out of money in their defined contribution account before reaching the age of 78, four years short of a woman's current life expectancy.

It's clear that this is an area that requires more analysis and regulation by state governments. In states that allow charter schools to choose, it can be unclear whether or not charter school employees are participating in a public pension plan. This legal grey area in states such as Wisconsin is in desperate need of clarification.

All teachers and public school employees deserve access to a secure and reliable retirement. Traditional public pension plans provide that. When states allow charter schools to choose not to

participate in these pension plans, they deny teachers and other school employees access to a secure retirement. States must consider the impact that this lack of participation is having on our educators and on the long-term financial stability of public pension plans.

## Methodology

For all states besides California (which uses the data from the system's charter school report), the number of schools and teachers participating in the state retirement system was gathered by merging a state retirement system's employer list with school and teacher data in the Department of Education's Common Core of Data. Employer lists from a state retirement system were either pulled from the retirement system's comprehensive annual financial report ([example here](#)) or acquired through a public records request to the state retirement system.

Unless provided in a link or footnote, defined contribution plan outlines for charter schools were found through a review of a charter school's annual audit. Michigan collects charter school [audits here](#), [Florida here](#), [Pennsylvania here](#), etc.

Estimations of a defined contribution benefit are based on a six percent rate of return where a teacher is hired at 27 and retires at 62, using salary schedules in local teacher union contracts plus an expected inflation rate of 2 percent (the Federal Reserve's target rate for inflation). For example, the starting salary for a California teacher 35 years from now would be approximately \$98,000 (adjusted from the current bottom step of the UTLA contract of approximately \$50,000) and the top step of the contract used to estimate ending pay would be over \$170,000 (adjusted from the top step of approximately \$87,000). According to the Bureau of Labor Statistics inflation calculation, a dollar 35 years ago has the same buying power as \$2.52 today. If inflation for the next 35 years follows the same trend, teachers will see an erosion of their purchasing power if salary schedules are adjusted purely on the Federal Reserve's target rate for inflation.

Annuity estimations are based on using an annuity calculator based on a 4 percent interest rate.

Estimations of a defined benefit pension are based on a state retirement system's rules for a participant's eligibility after reaching normal retirement age after a 35 year career in the system.

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