



## The Public School Pension Fund's Problem Is Not Charter Schools

By James M. Hohman

### Summary

Making charter schools pay more into the school retirement system is not just unfair; it's counterproductive.

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School districts are required to contribute to the Michigan Public School Employees' Retirement System, and their mandatory contributions, now equivalent to a quarter of total employee salary, are expected to increase to 30 percent. Some school officials are trying to lower this burden by recommending that public charter schools pay more. But higher pension contributions from charter schools would have only a small impact on district contribution sizes and would leave the underlying reason that the plan is so expensive unaddressed.

School districts' ever-increasing contribution rates are caused by the growing disparity between what state policymakers have set aside in savings and what the retirement system expects to pay in pension benefits. The gap stands at \$17.6 billion, close to a year-and-a-half's worth of total state funding for schools.

Of school districts' current pension contributions, over half — 12.49 percentage points — is devoted solely to closing this gap and catching up on benefits already earned by employees and retirees. Another 8.5 percentage points goes to pay for the medical insurance costs of current retirees — in other words, to retirement benefits previously earned. Just a relatively small amount, from 2.24 percentage points to 3.47 percentage points, goes toward paying for the benefits currently being earned by members. Clearly, the pension system's primary problem is in paying for the benefits already earned, which represent at least 86 percent of school districts' cost.

Currently, charter schools pay according to the same percentage schedule. Not many of their employees belong to the state pension system, however, because many charter school personnel, including teachers, are actually employed by private management firms under contract to the school. Charter school critics are essentially suggesting that charter schools pay extra to address problems that arose almost exclusively from the underfunding of conventional districts' retirement benefits. Most charter school employees never earned the underfunded pensions, so they certainly can't be blamed for the \$17.6 billion gap.

Roping charter school employees into the pension system will not reduce school districts' long-term liabilities, and it will only marginally decrease the mandatory contribution rate. Even if all charter school employees received compensation as high as that in conventional government

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Aspirin is not the right remedy for a broken bone, and double-taxing charter schools is not the right remedy for the broken school pension fund.

schools — an unlikely assumption — then the contribution rates would fall by just 2 percentage points, from around 25 percent to 23 percent. This decline would be less than the projected increase in contribution rates in the upcoming fiscal year.

Besides, the notion that more members will fix the system fails to account for how the system is funded. The costs to catch up on payroll are not assessed as a cost per employee, but rather as a percentage of total member payroll. Despite a drop in employment at conventional government schools, total payroll increased over the last decade, according to data from the state's Center for Educational Performance and Information. The base is not falling, as school officials assert, though it may not be increasing as much as they would like.

Excluding charter schools provides a benefit. Fewer people in the system means that the state does not create more long-term liabilities for pension benefits — benefits that have been perennially underfunded.

The school officials' solution is like taking an aspirin to remedy a broken bone. The aspirin deals with some of the pain, but not the cause. Conventional public schools would like increased membership because it lessens their pain, but it doesn't fix the problem.

Charters are neither the problem of the system nor the solution. The solution is to prevent the state from using a system that permits the underfunding of future benefits. Thus, the state should offer new employees participation in a defined-contribution retirement plan and trim retiree health care benefits.

The state is currently paying the price for past deferments and ought to fix this problem for the future. It may take time before schools get the full fiscal benefits of the change, but broken bones aren't fixed overnight, either.

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**James M. Hohman is assistant director of fiscal policy at the Mackinac Center for Public Policy**, a research and educational institute headquartered in Midland, Mich. Permission to reprint in whole or in part is hereby granted, provided that the author and the Center are properly cited.

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**MICHAEL D. JAHR**  
Vice President for Communications  
140 West Main Street  
P.O. Box 568  
Midland, Mich. 48640

Phone: 989-631-0900

Fax: 989-631-0964

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