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WHITE PAPER

The Charter School Retirement Gap

Educators at public charter schools in America have uneven access to guaranteed income

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IN PARTNERSHIP WITH

Verdara



ABOUT EQUABLE INSTITUTE

Equable Institute is a bipartisan nonprofit dedicated to making public retirement systems work. We sit at the intersection of retirement policy and broader public policy, equipping policymakers, public employees, and retirement plan managers with independent, data-driven research, analysis, and education. When retirement systems are sustainable and well-designed, they strengthen the public services communities depend on and put every public worker on a path to retirement security.

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ABOUT VERDARA

Verdara is a public benefit corporation co-developed with Equable Institute in response to the findings presented in this paper. It provides pooled employer retirement plans for charter schools, offering 401(k) and 403(b) plans through the Verdara Charter Alliance, built specifically for charter schools left out of state pension plans. By pooling employers together, Verdara uses scale to lower costs and provide professional fiduciary oversight for organizations of every size, while giving their employees a lifetime income option at retirement. Learn more at verdara.org.

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SUMMARY

Executive Summary

Charter schools and traditional public schools operate in direct competition for the same pool of educators. However, a significant retirement disparity exists that threatens teacher retention and the retirement security of charter school educators. While traditional public school educators typically have access to state pension systems, charter schools do not universally participate in these plans. In 22 states and the District of Columbia, charter schools have the option to opt out of—or are barred from—state retirement systems. Consequently, roughly 75.2% of charter school teachers work in environments where their school may not participate in a state pension plan.

KEY FINDINGS

75.2%

of charter school teachers work where their school may not participate in a state pension plan

152%

higher retirement income for a traditional public school teacher than a charter school teacher in a typical DC plan, after 30 years of service

79.3%

of surveyed charter school teachers would switch to a plan with guaranteed income

~$1B

in charter school educator retirement assets charged fees above industry average

THE TWO-PART RETIREMENT GAP

The gap between charter school and traditional public school retirement outcomes is composed of two distinct challenges:

- **The "Access to Guaranteed Income" Gap:** Despite the SECURE Act and SECURE 2.0, charter schools have not widely embraced guaranteed income products. As of the fiscal year 2024-25, nearly no comprehensive guaranteed income investment programs were found in charter school 401(k) and 403(b) plans, leaving educators in them without the security of a traditional pension.
- **The "Benefit Levels" Gap:** Even when charter schools offer retirement plans, the average employer contribution (a 4.8% match) is significantly lower than public school pension contributions. This has translated into traditional public school teacher retirement income being 36.4% higher after 20-years of service than a comparable charter school teacher, and 152% higher for someone with 30-years of service. Consequently, charter educators often face a compounding disadvantage: lower overall benefit levels, further eroded by high fee structures that diminish account growth.

There are some advantages that defined contribution plans provide, including portability of benefits that short-term and mid-career educators benefit from more on average than a state pension plan. However, even for these charter school educators there is no reason why their 401(k) or 403(b) shouldn't be putting them on a path to guaranteed retirement income that they can take with them when they move on to their next job.

CHARTER SCHOOL TEACHER PREFERENCE FOR GUARANTEED RETIREMENT INCOME

Charter school teachers express high levels of concern regarding their financial security in retirement. Equable surveyed over 1,000 charter school educators and found:

- **Widespread Concern:** Over half of surveyed teachers (57.1% combined) are "concerned" or "very concerned" about running out of money, with those aged 51–60 expressing the highest anxiety.
- **A Preference for Guaranteed Income:** Guaranteed income is the most valued retirement feature among teachers. Nearly half (45.9%) of those with previous public-sector pension experience—and 48.9% of those without—identify guaranteed income as their top priority.
- **Readiness for Change:** There is strong demand for structural change: 79.3% of teachers say they would switch to a plan with guaranteed income, and 35.4% indicate they would be willing to contribute up to 3% more of salary to access such a plan.

REDUCING THE GAP THROUGH POOLING

Operating a 401(k) or 403(b) plan creates significant administrative burdens for charter operators, including complex U.S. Department of Labor (DOL) regulations, audit requirements, and fiduciary responsibilities. Simply adding a guaranteed income product to a defined contribution plan lineup is neither easy to do nor likely to solve the problem. Operators often struggle to monitor investment quality and fee structures adequately, putting the burden of excessive fees on the teachers while eroding participant savings.

Charter schools, like most companies in America, mostly default participants into target-date funds, and more than a quarter of charter school assets are in low fee target-date funds, around 8 to 10 basis points (one basis point is 0.01% of assets per year). However, one of the largest holdings of charter school plans is American Funds, and their target-date series typically costs 30 to 50 basis points.

Educators at smaller charter schools are paying nearly twice as much in investment fees on average as their peers at the largest charter networks, around 18 basis points for charter networks with over 2,000 participants and over $100 million in assets, compared to 33 basis points for schools with under 500 employees and less than $5 million in assets.

There is around $1 billion in charter school educator retirement assets getting charged fees that are above industry average—with dozens of charter school network 401(k) and 403(b) plans paying over 1% of assets per year for administrative costs and fund fees.

To close the retirement gap, the charter sector must move away from isolated, high-fee retirement plans and toward aggregated investment vehicles. A successful path forward will include:

- **Economies of Scale:** Charter schools should pool their investments to negotiate lower fees and access higher-quality investment options.
- **National PEP Structure:** Utilizing one or more Pooled Employer Plan (PEP) structures at the national level would be the most efficient method to reduce administrative burdens and leverage collective scale.
- **Guaranteed Income Integration:** Any pooled retirement plan for charter schools should offer a personalized, guaranteed income option.
- **Closing the Gap:** While additional contributions may be required in some states to reach pension-equivalent benefit levels, providing the option for guaranteed income allows educators to make informed financial decisions and take active steps toward closing their personal retirement gap.

PART 1

Introduction: One Profession, Two Retirement Designs

In Washington D.C. today there are two teachers doing the same work, but earning very different retirement benefits.

One of them teaches 5th grade math at an elementary campus run by DC Public Schools (DCPS), and after 25 years of service will have earned a pension equal to 50% of her final average salary that generates $65,000 a year in guaranteed income when she qualifies for normal retirement.[1] Nearby, another 5th grade math teacher is working in the elementary building of a DC charter school, earning roughly the same salary as her peer educator working for DCPS. The charter teacher, though, after the same career and retiring at the same time doesn't have a pension and will only be drawing around $31,000 in retirement income — none of it guaranteed.[2]

This is because Washington D.C. does not allow charter schools to participate in the District's teacher pension plan, so the career employees at these schools can't earn a pension. By contrast, up in Baltimore teachers at charter schools are required to participate in the Maryland teacher pension plan alongside their traditional public school peers. And heading further up the eastern seaboard in New York charter schools have a choice of whether or not to join a public retirement system or offer their own retirement benefits.

> There are places across the country where peer educators serving the same communities doing the same job are being put on very different paths to future retirement income.

1.1 The Problem

Because charter schools are publicly funded but privately run, states treat them differently. As a result, there is a high degree of variance nationally in whether the teachers, administrators, and other educators who work at public charter schools have the same retirement benefits as their traditional public school peers.[3]

1 Scenario assumes a teacher hired at age 25, earning average salaries reported for DCPS teachers, who works 25-years of service to age 50 with a $130,000 final average salary, then has to wait 10 years until age 60 to draw a pension.

2 Assumes the same salary projection and years served as the DCPS teacher, a 7% total contribution rate into a 403(b) plan until age 50, 6.5% annual growth, and a 4% income withdrawal rate starting at the DCPS normal retirement age of 60.

3 Some states consider all public charter school employees to be eligible for a state retirement system, and require participation. Other states make all charter employees ineligible for participation in a state pension plan. Several states offer charter schools a choice of whether or not to participate in a state pension plan. Sometimes required participation depends on how a charter school is authorized — for example, school districts that authorize the conversion of an existing traditional public school into a charter school might still include their employees in the state teachers retirement system, while a charter school in the same area that is authorized by a state agency might not be allowed to join the state pension even if they wanted to.

Roughly three-fourths of charter school educators are in states where charter schools are not universally required to participate in a pension plan. When given a choice, some charter school operators do choose to enroll their employees in the state pension plan. Collectively this has translated into a retirement gap among charter school educators where some have access to guaranteed retirement income, and some do not.

This means there are places across the country where peer educators serving the same communities doing the same job are being put on very different paths to future retirement income.

To understand this disparity, we categorize the retirement challenge into two specific gaps: first, a structural "access to guaranteed income" gap, which results from a lack of pension participation and guaranteed income investment options; and second, a "benefit levels" gap, which results from lower employer contribution rates and higher administrative costs that erode retirement savings compared to traditional public pension plans.

Across 22 states plus D.C. where there is a mix of participation, teachers with access to defined benefit plans could earn pensions worth $17,000 to $45,000 per year with 30 years of service (inflation adjusted); their peers in charter schools not participating in the state pension generally only have access to standard 401(k) and 403(b) plans that fail to provide guaranteed income investment options, and typically just have 3% to 5% employer matches on participant contributions.

When charter schools were first developing in the 1990s, any retirement gap was small relative to the size of the national teaching workforce. However, over the last few decades charter schools have grown to account for over 8% of all public school students (around 4 million) and around 8% of all public school teachers (over 250,000).[4] This means that the charter school retirement gap is now a problem for a significant portion of the American teaching workforce — not to mention the hundreds of thousands of non-classroom educators also affected by the gap.

1.2 About This Paper

This paper analyzes the national landscape of public charter school participation in state retirement systems, with a particular focus on what it means for the people in a common industry — public school education — to have varied levels of access to guaranteed income as offered by state pension plans.[5] Parts 2 and 3 break down the data on the scope of the retirement gap and where in the country it is applicable.

We draw on Equable Institute's comprehensive national database of public sector retirement benefits, a legal assessment of charter school laws in all 50 states plus Washington D.C., plus a nationally administered survey of roughly 1,000 charter school teachers and 2,300 traditional public school teachers.

4 See National Alliance for Public Charter Schools, using data from National Center for Education Statistics. NAPCS estimates there are between 250,000 and 260,000 charter school teachers as of FY2024-25, and NCES data says there are approximately 3.15 million to 3.2 million public school teachers nationally.

5 Research related to charter schools and teacher pension plans sometimes focuses on the funding aspects of this quasi-governmental dynamic (such as whether the participation level of charter schools has an adverse or positive influence on funded status, contribution levels, and liability growth). However, the subject of this paper is the benefits themselves

Our conclusion is that the core problem is a lack of widely available, easy to understand, easy to access guaranteed retirement income options. Survey data (discussed in Part 4) points to charter school educators who don't have a pension as being just as interested in guaranteed income as their peers with a pension. But the solution isn't as simple as just requiring all charter schools to join state pension plans or adopt private pension plans (discussed in Part 5). Some of the reasons for state laws around charter school retirement are related to funding rules for charters (they don't always get the same money that districts get), employment status of teachers (some work for third-party management organizations), and how to pay for the costs of legacy pension debt.

Fortunately, since the adoption of the SECURE Act and SECURE Act 2.0, there are now scalable ways that charter schools outside of state pension plans can offer their employees access to guaranteed retirement income investments though a 401(k) or 403(b) defined contribution plan structure. In Part 6 we briefly lay out how pooled retirement structures can be leveraged to offer pension-like guaranteed retirement income options using economies of scale and protecting charter operators from fiduciary liabilities.

PART 2

The National Landscape of Charter School Retirement Law Variance

State and municipal retirement systems vary in the specific benefits they offer. Generally, public retirement plans offer a path to guaranteed retirement income in the form of a "pension" — sometimes there are options of retirement plans, sometimes the pension benefit is paired with something else to form a "hybrid" benefit, but most states offer some kind of pension.[6] These defined benefit pensions are funded through a combination of employer, employee, and state contributions. And they typically are not optional for traditional public school teachers.[7]

Charter schools are a public-private hybrid: publicly funded, privately operated, authorized under state law. In certain states charter schools are even considered government employers for purposes of adhering to state laws around access to government resources or being eligible for state pension benefits. But generally, charter schools are not all considered public entities in every context and in certain contexts do not have to participate in state retirement plans the way that school districts do.

The governance framework for charter schools varies considerably from state to state, with a mix of authorizing entities ranging from state agencies, to universities, to school districts. This authorization variance influences charter school retirement benefits in several ways, including state laws related to employees from education management organizations (EMOs), private companies that run schools and sometimes employ their staff, and whether a charter school is a start-up (a new school) or a conversion (a former district school).[8]

The net result is that where charter school educators are public educators in every meaningful sense — they teach kids from the same area, are governed by the same state-credentialing requirements, and generally just think of themselves as teachers (see Part 4) — they don't always have access to the same retirement benefits as traditional public school teachers.

6 Some states offer only final-salary based pensions. Other states offer cash-balance pensions, hybrid plans (a partial defined benefit and a partial defined contribution plan), and or offer the choice of a pension or something else. As of April 2026, only Alaska was not enrolling new hires into a defined benefit pension plan, but even that policy was under legislative review and poised to be changed.

7 Teachers in Florida, Indiana, Michigan, Ohio, Pennsylvania, and South Carolina have a choice of retirement plan designs offered by their state retirement system.

8 Charter school law was never designed with retirement in mind. The charter school authorization framework was built around school governance, academic accountability, and fiscal responsibility to local taxpayers. Retirement benefits were, at best, an afterthought. The result is that pension eligibility is a byproduct of whether a charter school was classified as a "government employer" for the narrow purpose of pension participation.

2.1 The Three Categories of States

A review of all 50 states' laws found there are 22 states plus Washington D.C. where some or all charter school educators are not required to participate in a state pension plan.[9] These 23 jurisdictions comprise about three-quarters (75.2%) of charter school educators in the United States.[10] Generally, they fall into three broad categories:

1. States where all charter school employees are required to participate in a state retirement system.
2. States where all or most charter schools have a choice of whether to participate.
3. States where some or all charter schools are excluded from the state system.

There are nuances to these categories too, notably around eligibility definitions. State law defines who is eligible to join a public employee retirement system generally. Sometimes, occupation or licensure requirements matter, for example the Illinois Teachers' Retirement System (TRS) requires an individual to have a teachers license in order to join that pension plan. So even though Illinois requires charter schools to be a participating employer in their TRS, any employees at Illinois charter schools who are not licensed teachers would not be allowed to join—thus leading charter schools in Illinois to often offer a 403(b) plan for their non-pension-eligible employees.

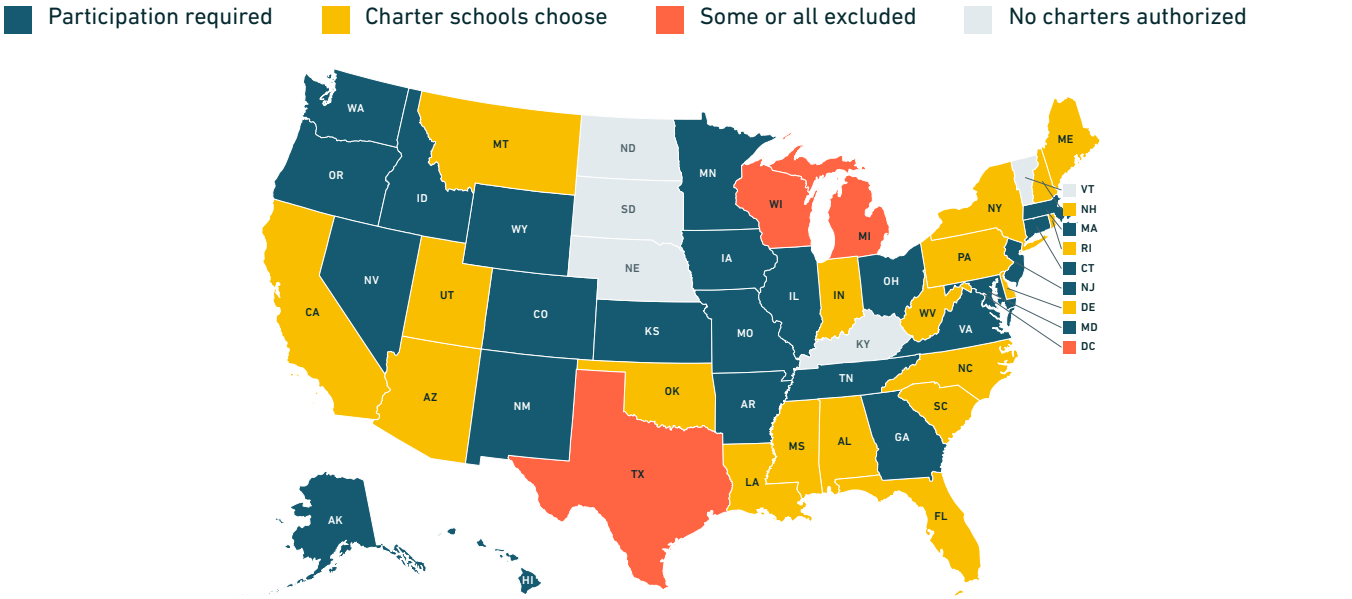
Conversely, state law in Michigan and Texas explicitly prohibits charter school employees who are technically employed by a third-party employment agency from joining their respective state public school pension plan.

9 Research support for this review came from the law firm Goldberg Kohn Ltd., which provides legal services across various practice areas, notably including educational institutions and labor and employment matters, including substantial work on behalf of charter schools led, in part, by Meredith S. Kirshenbaum.

10 National Center for Education Statistics, Common Core of Data Public Elementary/Secondary School Universe Survey, 2024–25. Note: We combined teachers aggregated by state from the School Staff file (ccd_sch_059) and the School Directory file (ccd_sch_029) on NCES school ID, to estimate the number of charter school teachers in each state.

FIGURE 1

Charter school participation rules for state pension plans, by state



Source: Equable Institute review of state charter school and retirement system laws. See Tables 1 and 2.

2.2 The 23 Places Where the Guaranteed Retirement Access Gap Exists

Among states where there is a choice of participation or rules preventing everyone from joining a state pension plan, the specific legal rules vary. Tables 1 and 2 break down the specific opt-out rules for each state, the percentage who don't participate in the state's teacher pension plan, and details on the options that do exist.

When measuring these payroll participation levels against the charter school teacher headcounts in 2024-25 data, we find that 46.8% of educators in these 23 jurisdictions do not have access to a state or local pension.[11] When measured against the national total of charter school educators, that is 34.8% who aren't eligible for a public sector pension.

46.8% of educators in these 23 jurisdictions do not have access to a state or local pension.

11 National Center for Education Statistics, Common Core of Data Public Elementary/Secondary School Universe Survey, 2024–25 and Equable Institute gathered data in Table 1 on payroll-based pension plan participation. Analysis generalizes from payroll pension-plan participation percentages to educator headcount data to get an approximate estimate of the share of charter school teachers who are or are not pension plan eligible.

TABLE 1

What Kind of Charter Schools Have the Right to Opt-Out of Participating in Their State Teacher Pension Plan?

STATE	WHO HAS AN OPT-OUT?	PERCENTAGE OF PAYROLL NOT PENSION PARTICIPATING	DETAILS ON PENSION PLAN PARTICIPATION OPTIONS FOR CHARTER SCHOOLS
Alabama	Only Start-Ups	11.1%	Only start-ups have a choice of participation in the Alabama Teachers Retirement System. Conversion charters must participate in the state system. Non-conversion charters may participate, but participation is not mandatory.
Arizona	All	76.0%	All charter schools have a choice of participation in the Arizona State Retirement System.
California	All	16.2%	All charter schools have a choice of participation in the California State Teachers Retirement System (for certificated educators) and California Public Employees Retirement System (for non-certificated employees).
Delaware	All	0%, No Opt Outs	All charter schools have a choice of participation in the Delaware Public Employees' Retirement System. Charters that opt out of the state system must execute MOUs with state entities to ensure interests of charter school employees are protected.
Florida	All	89.2%	All charter schools have a choice of participation in the Florida Retirement System. Charters formally have the ability to designate whether they are a public or private employer; private designation means they are making themselves ineligible for FRS.
Indiana	All	13.3%	All charter schools have a choice of participation in the Indiana Teachers' Retirement Fund. Individuals who join INTRF have the choice of participating in a hybrid pension plan or a defined contribution plan run by the Indiana Public Retirement System.
Louisiana	Only Independently Authorized	59.6%	Only, non-district-operated charters have a choice of participating in the Teachers Retirement System of Louisiana. Type 1-3, and Type 5 charter schools have a choice of participation in TRSL. For Type 4 charters, governed by local school boards, employees are required to participate in the state retirement systems for teachers and school employees. Charter schools that do want to participate in the teacher pension plan can also join the School Employees Retirement System of Louisiana for non-teacher staff.
Maine	All	74.1%	All charter schools have a choice of participation in the Maine Public Employees Retirement System Teacher Pension Plan.
Mississippi	All	51.9%	All charter schools have a choice of participation in the Mississippi Public Employees' Retirement System. When charter schools were first authorized in Mississippi, they did not have a choice of participation, however subsequent legislative language gives charters selective government agency status should they want to participate in Mississippi PERS.
Montana	All	No Opt Outs	All charter schools have a choice of participation in the Montana Public Employees' Retirement System. Members of Montana PERS have a choice of enrolling in a pension plan or a defined contribution plan run by the state retirement system.
New Hampshire	All	89.7%	All charter schools have a choice of participation in the New Hampshire Retirement System.

TABLE 1, CONTINUED

STATE	WHO HAS AN OPT-OUT?	PERCENTAGE OF PAYROLL NOT PENSION PARTICIPATING	DETAILS ON PENSION PLAN PARTICIPATION OPTIONS FOR CHARTER SCHOOLS
New York	All	86.3%	All charter schools in upstate New York have a choice of participation in the New York State Teachers Retirement System and New York State and Local Retirement System (for non-certificated employees). All charter schools in NYC have a choice of participation in the New York City Teachers Retirement System.
North Carolina	All	72.1%	All charter schools have a choice of participation in the North Carolina Teachers' and State Employees' Retirement System. For charter schools that want to participate in the state pension plan, state law designates their employees as employees of the local school district for the purpose of participating in NC TSERS.
Oklahoma	All	63.3%	All charter schools have a choice of participation in the Oklahoma Teachers Retirement System.
Pennsylvania	All	0.25%	All charter schools have a choice of participation in the Pennsylvania Public School Employees' Retirement System. Charters that choose not to participate must designate the retirement plan that they will be offering at the time of authorization. Employees of charter schools who do participate in the PSERS have a choice between two hybrid pension plans and a defined contribution plan administered by PSERS.
Rhode Island	Only Independent Schools	24.9%	Only specially authorized charters have a choice of whether to participate in the Employees' Retirement System of Rhode Island. Specifically, schools authorized as "Mayoral Academies" can choose whether to participate in ERSRI; other independent charter schools must participate in ERSRI.
South Carolina	Only Start-Ups	72.6%	Only start-ups have a choice of participation in the South Carolina Retirement System. Conversion charters must participate in the state system. Non-conversion charters may participate, but participation is not mandatory.
Utah	All	87.5%	All charter schools have a choice of participation in the Utah Retirement System's Teacher Retirement System. Employees of charter schools who do join URS TRS have a choice of hybrid retirement plan or defined contribution plan run by URS.
West Virginia	All	54.5%	All charter schools have a choice of participation in the West Virginia Teachers Retirement System.

Source: Equable Institute review of charter school annual financial reports, reported payroll levels, and state retirement plan participation. Payroll category definitions vary from state to state based on reports (typically either instructional payroll, total payroll, or salaries expenditure).

Note: There are states listed above that require charter schools to make pension contributions on behalf of teachers who are on sabbatical from a traditional public school, even if that school has otherwise opted out of a state pension plan. For example, in Utah, a teacher may, with approval of the local school board, request a leave of absence to teach at a charter school. During this time, the teacher may continue to be covered by the benefit program of the district if the charter school and local board mutually agree. However, these instances do not affect a charter school's enrollment status in the retirement system.

TABLE 2

Other States Without a Choice for Charter School Operators

STATE	WHO HAS PENSION ACCESS	PERCENTAGE OF PAYROLL NOT PENSION PARTICIPATING	DETAILS ON PENSION PLAN PARTICIPATION OPTIONS FOR CHARTER SCHOOLS
District of Columbia	No Pension Participation Allowed	100%	No charter schools are eligible to participate in the District of Columbia Teachers' Retirement Plan. However, charters must allow teachers who are coming over from a district school and want to remain in the state teacher retirement plan to do so for up to two years.
Michigan	Pension Participation Required, Except for Third-Party Employees	Third-party Employment Share = 88%	Charter schools are required to enroll their own employees in the Michigan Public School Employees' Retirement System. However, state law restricts third-party entities from having their employees enrolled in MPSERS. As a practical matter, this means that most teachers who are formally employed by an EMO are not allowed in MPSERS. For those charter school employees who do join MPSERS, they have the choice of participating in a hybrid pension plan or a defined contribution plan run by MPSERS.
Texas	Pension Participation Required, Except for Third-Party Employees	Third-party Employment Share = 9.1%	Charter schools are required to enroll their own employees in the Texas Teachers Retirement System. However, state law restricts third-party entities from having their employees enrolled in Texas TRS. As a practical matter, this means that teachers formally employed by an EMO are not allowed in Texas TRS.
Wisconsin	Independently Authorized Not Allowed in the Pension	18.9%	Specially authorized, independent charters are not allowed to participate in the Wisconsin Retirement System. District-authorized charter schools are required by state law to participate in WRS.

2.3 What States with "Choice" Actually Mean in Practice

Charter school leaders' decisions to opt in or out of state pension systems are regionally influenced by factors like fiscal constraints, competitive recruitment needs, and regional market pressures shaped by political contexts and labor markets.

Charter school leaders have anecdotally cited the high cost of teacher pensions in some states as a reason to opt out, if given the choice. And in regions with high employer contribution rates due to unfunded liabilities, operators often prioritize cost control. NYC charter schools have largely opted out of the city's pension system (which historically has had high costs to pay down unfunded liabilities), and Michigan charters have also historically sought to bypass paying costs as high as 21% of payroll to the state's public school employee pension plan.[12]

12 Pension plan participation rates referenced are based on the findings presented in Table 1. Michigan Public School Employees' Retirement System costs referenced are based on a weighted average of the employer contribution rate across all tiers of benefits, see Equable Institute Public Retirement Research Database.

High costs are not always a deterrent, though, if offering a pension is viewed as essential for recruitment. In California, where employer rates have grown to around 20%, the majority of charter schools still opt into CalSTRS, prioritizing the competitive advantage of offering a state-backed pension.

Labor market conditions can influence decisions too. Consider that NYC charters, which draw from a deep metropolitan labor pool, mostly opt out of the city's pension system. Conversely, charters in Upstate New York, where recruiting is more challenging, tend to opt into the state's pension system as a competitive necessity.

PART 3

Measuring the Retirement Gap: Guaranteed Income and Benefit Levels

There are pros and cons for any kind of retirement plan design. Defined benefit pensions offer guaranteed income by design and generally protect participants from market crashes right before retirement, but benefits accrue slowly in the early years of a career and generally cannot be moved to another employer or state. Defined contribution (DC) plans offer portability and individual control, but also generally put investment risks on individuals. There is no one size fits all retirement plan, and generally when employers offer a single retirement plan design, it won't fit every employee, leaving retirement income gaps.

Understanding these trade-offs is important for conceptualizing what the charter school educator retirement gap looks like through two distinct, yet related, issues:

1. the "guaranteed income" gap, and
2. the "level of retirement income" gap.

3.1 Understanding Standard Pension Benefit Trade-Offs

A typical defined benefit plan provides guaranteed income based on final average salary and years of service — it is a formula that doesn't actually depend on contributions or investment returns, so participants are not entirely dependent on market performance for their future income.

Some pension plans will link cost-of-living adjustments or other post-retirement increases to investment returns, but a key advantage of a pension is that it doesn't require employees to make investment decisions and protects retirement income from potential market declines right before retirement.

The trade-off for these benefits is a lack of portability and limited benefit accumulation for short-term workers. Accumulated defined benefit pensions can't be transferred from the state to a private company, or even from state to state. Long-tenured employees (e.g. around 20-years of service or more) will get the most out of a pension plan. Those who leave before vesting generally receive a refund of their own contributions, sometimes with interest, and those who leave mid-career typically receive a small deferred benefit.

For high-turnover industries — like charter schools — this is important for educators to understand.[13] Pensions are most valuable to educators who stay in one state for 20 years or more.

13 David Stuit and Thomas M. Smith (2012), "Explaining the gap in charter and traditional public school teacher turnover rates," Economics of Education Review, 31(2).

The average state educator pension plan in the U.S. requires 6.5 years of service before "vesting" — which is serving long enough to claim a benefit in the future. For those who do vest, standard defined benefit design terms include a 2% "multiplier" on years of service. This means a 10 years of service career would generate a pension equivalent to 20% of final average salary, which can be claimed at some point that is typically around age 62 or age 65.

Educators who work longer can generate larger pension benefits: with a 2% multiplier, a 20-year career would yield a 40% of final average salary pension, and a 30-year career would lead to a 60% of final average salary pension. For someone whose final average salary is $80,000, that would be a pension of $32,000 to $48,000.

A key factor for assessing the quality of these benefits is how inflation might influence them. If someone works at a public school from age 25 to 35, and earns a pension benefit worth $8,000, but if they can't start drawing it until three decades later at age 65, then the actual purchasing power of that might be closer to $4,000. In addition, once individuals start drawing a pension public school retirement systems do not always offer inflation adjustment of benefits during retirement.[14]

3.2 Understanding Standard Defined Contribution Plan Trade-Offs

The majority of charter schools who don't participate in a state pension plan offer a 401(k) or 403(b) defined contribution plan. Generally these are single employer sponsored retirement plans, and charter school networks will often offer one employer sponsored plan across all of their schools.

The typical 401(k) and 403(b) plan takes in pre-tax contributions or post-tax "Roth" contributions, and then invests the money based on individual investment allocation choices. Contributions from employees and employers, plus investment returns, combine to create an account balance that individuals can start withdrawing from after age 59 ½ (based on federal law covering retirement plans).

A common way that individuals invest their defined contribution account money is through a "target-date fund" — which is an age based strategy that picks a future point in time and automatically transitions money from stocks to bonds between now and then. This avoids individuals having to try and time their investment choices or determine the appropriate levels of diversification for their future retirement goals.

To get money out of a 401(k) or 403(b) a common strategy is to set up a recurring distribution. Another strategy is to take a portion of the account balance and buy an annuity that will guarantee a stream of income — though knowing you're buying the right annuity can be very tricky and cumbersome.

14 Equable Institute, "What is the Average Teacher Pension COLA in 2025?" September 2026.

3.3 Typical Charter School 401(k) and 403(b) Benefit Levels

Most charter school networks put all of their affiliated schools into a single retirement plan. Many charter school 401(k) and 403(b) plans have dozens of schools and hundreds of covered employees. To analyze charter school retirement plans, we reviewed Form 5500 filings for schools who were current on their reporting as of fiscal year 2024-25, with attached financial reports (e.g., long-form filings).[15] The sample included 161 plans covering 64,141 active participants with $2.2 billion in assets, and ran the spectrum from large national networks with over $100 million in assets to single site schools with just over $1 million in assets.[16]

VESTING RULES

Across this representative sample of charter school plans, we found there are many charter schools who allow for the immediate vesting of 401(k) and 403(b) benefits:

- 39% have immediate vesting and the median vesting time for the remainder is four years.[17]
- The most common vesting designs across charter school defined contribution plans are 6-year graded vesting (e.g. 15% to 20% vesting per year) and 3-year cliff vesting (e.g., 100% vesting after three years).

EMPLOYER CONTRIBUTION RATES

Charter school employers often offer a match on employee contributions, similar to other organizations that offer 401(k) and 403(b) plans. The standard corporate 401(k) match is around 3% of salary — e.g., employers match contributions made by employees up to 3% of their salary. Charter schools are slightly more generous. Looking at our sample of charter school plans from 2024-25, we found:[18]

- The majority of charter school 401(k) and 403(b) plans, 65%, use a maximum matching contribution rate of 3% to 5%.
- The median maximum matching provision is 5%, with an average 4.8% employer match.
- Roughly 50% of charter school retirement plans make employer contributions discretionary on board approval, even where a match formula is present.
- Among charter schools with over 100 employees (and consistently filing "long-form" Form 5500 reports), only one out of 161 plans reviewed didn't have some kind of employer contribution provision.

15 Form 5500 reports use a "fiscal year beginning" date structure. So for a plan with a January to December plan year, the data covers calendar year 2024; for a plan with a June to July fiscal year the data covers July 1, 2024 to June 30, 2025.

16 These figures are roughly a third of the estimated number of charter school educators in 401(k) or 403(b) plans, as of the fiscal year ending 2025.

17 Equable assessment of a sample of 161 charter school plan designs comprising around $2.2 billion in combined assets. Generally, plan design terms are published in financial attachments to Form 5500 filings with the Department of Labor, but these are only required on plans with over 100 active employees. As a result, the only comprehensive source of data for charter school plans does not include tiny, single-site, or brand new schools who aren't in a 401(k) or 403(b) with robust public reporting requirements.

18 Equable assessment of a sample of 161 charter school plan designs comprising around $2.2 billion in combined assets.

3.4 The Retirement Guarantee Gap

At the end of 2019, Congress adopted the SECURE Act, which included provisions encouraging lifetime income products to be adopted by defined contribution plans. Additional policy support for lifetime income products also came in a follow up 2022 law called SECURE 2.0. The collective provisions included "safe harbor" provisions to protect retirement plan sponsors from liability related to annuity providers, new rules enabling the transfer of annuity contracts into IRAs, and requirements that retirement plan participants get statements showing estimated future retirement income.

Despite these changes charter schools have not widely embraced the inclusion of lifetime income investment products in their 401(k) and 403(b) plans that could help close some of the retirement gap between charter school educators and their peers in traditional public schools.

A review of fiscal year 2024-25 investment fund line ups for charter school 401(k) and 403(b) plans found a few fixed rate annuities (e.g. classic group-annuities designed to preserve capital by promising a modest, guaranteed return each year) and some legacy TIAA CREF variable annuity contracts.[19] But all of these kinds of annuities are built around providing some level of guarantee during the accumulation of assets, not guarantees on the level of income being paid out during retirement.

There are ways that charter schools could offer guaranteed income in their DC plan line ups (see Part 6). And there is plenty of demand from educators for guaranteed retirement income (see Part 4). But to-date this has not been a priority for charter school operators.

3.5 Quantifying the Charter School Retirement Benefit Gap

Beyond just having access to guaranteed income investment options, charter school retirement plan benefits themselves are generally below comparable pension benefits for educators who spend two to three decades in the classroom. The following tables summarize how the lack of guaranteed income access is exacerbated by different expected retirement income levels for charter school educators versus traditional public school educators.

In Table 3, we compare the benefits an educator with 30 years of service would have in retirement given the same salary trajectory and being in the same state. Each row compares the kind of income that an educator might expect to receive in retirement from a state pension plan versus being a defined contribution plan.

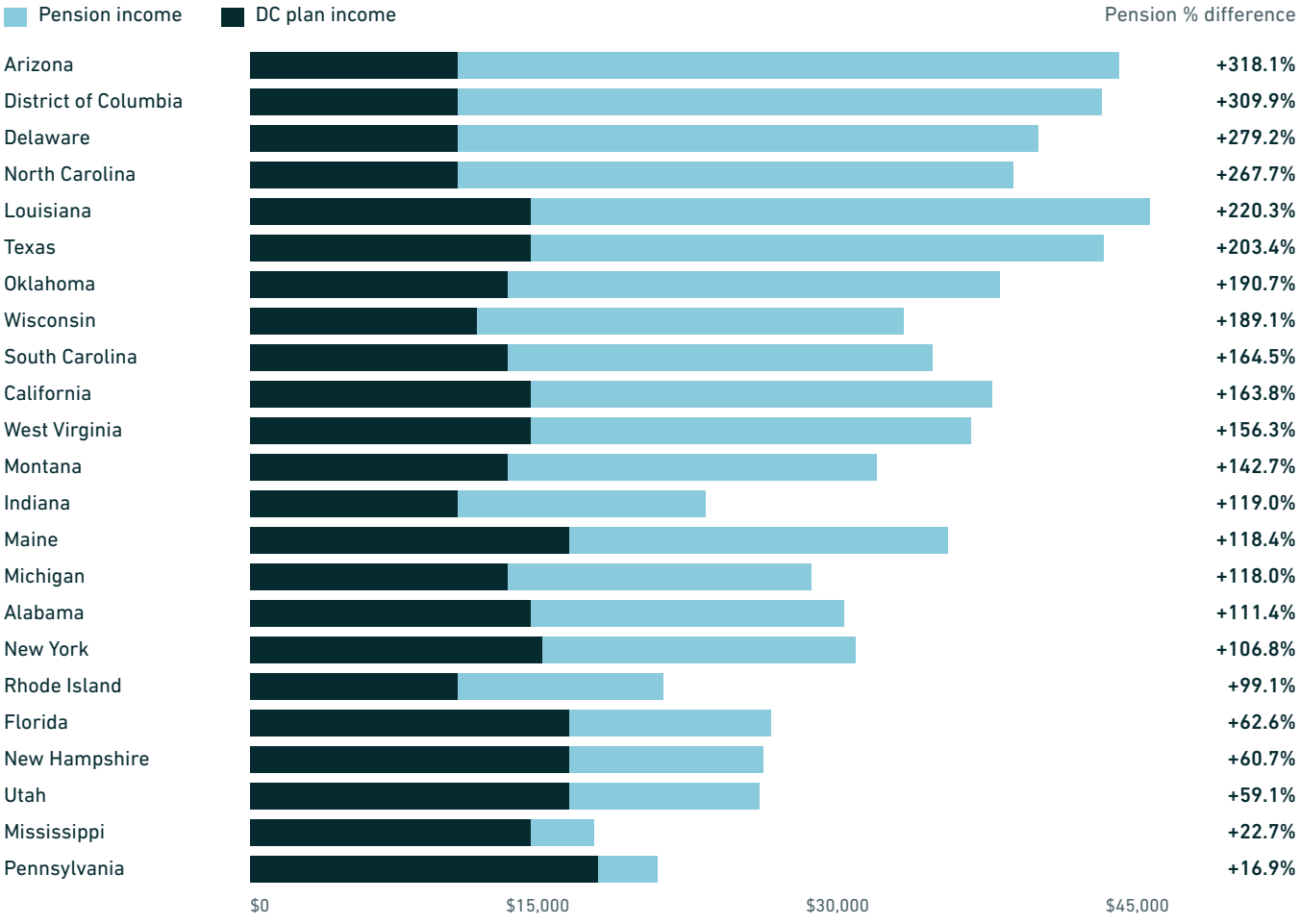
19 Equable assessment of a sample of 161 charter school fund line ups (Schedule H, Line 4i) for plans comprising around $2.2 billion in combined assets. Total assets in fixed annuities, variable rate annuities, and stable-value contracts was 5.7% of all assets. There were no target-date funds with embedded annuities or guaranteed lifetime withdrawal benefits. The 5500s reviewed were for the fiscal year 2024-25 (most have not yet filed their 2025 5500s, part because some plans only ended their fiscal years beginning 2025 in the summer of 2026 as this research was being conducted), and several of the annuity embedded target-date funds only became available that year. It is possible that schools already using Blackrock or Nuveen target-date funds might switch to annuity embedded versions in coming years, since it would logistically be a straightforward switch.

To keep the scenarios apples-to-apples, each uses the state's current tier of benefits for certificated teachers, and uses the same starting salary and salary growth projections. The DC plan income projections assume a 4% employer contribution with 3% employee contribution (7% total), earning a 6.5% annualized rate of return; income for the DC plan uses the classic "4% Rule" of drawing out 4% of accumulated assets each year during retirement.[20]

In this scenario, the average retirement income gap for charter school educators with a 401(k) or 403(b) plan is 152% — that is, an educator who works 30 years in a traditional public school system could receive more than twice the retirement income of a charter school educator in a standard DC plan.

FIGURE 2

Annual retirement income at 30 years of service: state pension vs. stylized DC plan (2026 dollars)



Source: Equable Institute analysis. See Table 3 for assumptions.

20 A more technical way to approach this analysis would be to use stochastic modeling to compare scenarios under different investment experiences, and measure the percentage of times that an individual fails to meet their retirement income goals due to a financial market shock in the years right before retirement.

TABLE 3

Average Charter School Retirement Plan Value Compared to State Pension Incomes for 30 Years of Service (Inflation Adjusted)

Analysis assumes the same 25-years-old starting age, same starting salary path, same normal retirement age, 7% of pay total contributions into the DC plan, 6.5% investment returns[21]

STATE NAME	PLAN TYPE	NORMAL RETIREMENT AGE	PENSION INCOME	DC PLAN INCOME	PENSION % DIFFERENCE
Alabama	Pension	62	$29,090	$13,760	**+111.4%**
Arizona	Pension	55	$42,529	$10,171	**+318.1%**
California	Pension	62	$36,297	$13,760	**+163.8%**
Delaware	Pension	55	$38,567	$10,171	**+279.2%**
District of Columbia	Pension	55	$41,694	$10,171	**+309.9%**
Florida	Pension	65	$25,465	$15,662	**+62.6%**
Indiana	Hybrid	55	$22,277	$10,171	**+119.0%**
Louisiana	Pension	62	$44,076	$13,760	**+220.3%**
Maine	Pension	65	$34,204	$15,662	**+118.4%**
Michigan	Hybrid	60	$27,514	$12,621	**+118.0%**
Mississippi	Hybrid	62	$16,890	$13,760	**+22.7%**
Montana	Pension	60	$30,632	$12,621	**+142.7%**
New Hampshire	Pension	65	$25,169	$15,662	**+60.7%**
New York	Pension	63	$29,714	$14,367	**+106.8%**
North Carolina	Pension	55	$37,395	$10,171	**+267.7%**
Oklahoma	Pension	60	$36,685	$12,621	**+190.7%**
Pennsylvania	Hybrid	67	$19,960	$17,075	**+16.9%**
Rhode Island	Hybrid	55	$20,252	$10,171	**+99.1%**
South Carolina	Pension	60	$33,384	$12,621	**+164.5%**
Texas	Pension	62	$41,742	$13,760	**+203.4%**
Utah	Hybrid	65	$24,920	$15,662	**+59.1%**
West Virginia	Pension	62	$35,261	$13,760	**+156.3%**
Wisconsin	Pension	57	$32,060	$11,088	**+189.1%**
Average			**$31,556**	**$13,011**	**+152.2%**

21 Methodology Note: The scenarios assume the normal retirement age for the open tier of benefits that certificated teachers are eligible for in each state. For example, if new teachers qualify for a tier of benefits in a state retirement system that has a normal retirement eligibility age of 62 (with at least 20 years of service), then we use 62 for the start of withdrawals from the modeled defined contribution plan too. The defined contribution plan assumes a 7% total contribution rate for the years analyzed (20 or 30), a 3% employee contribution plus 4% employer contribution. Investment allocation is a pass-through target date fund with an 8 basis point expense ratio, and 6.5% assumed return. The withdrawal assumption is 4% of the balance at the normal retirement age. For states with retirement plan options available (IN, MI, PA, UT) we modeled the plan employees are defaulted into. Some states offer hybrid plans (IN, MI, MS, PA, RI, UT) that blend a partial pension with a partial defined contribution plan; the table above just shows the pension benefit value.

Note: The average figures shown at the bottom are averages of their respective columns. They are not intended to be weighted averages.

Note that states with later normal retirement ages allow DC plans to generate more value and reduce the purchasing power of pensions. The dollars shown are inflation adjusted to 2026 dollars, but nominal figures are available in Appendix A. The figures shown are for a 30-years-of-service educator; to see comparable figures at 20 years of service see Appendix A (with fewer years of service the gap between pension income and DC plan income narrows).

It is not surprising to see that a 401(k) or 403(b) with 7% of salary in total contributions generates less income than a public pension, particularly states with multipliers above 2% (AZ, LA, TX). The size of the difference is considerable, though.

And even if DC plans were producing similar income levels (like MS and PA), the projected income is entirely based on assuming a stable investment return every year — when in reality there will be market volatility and none of that income is guaranteed. For an educator with five, 10, even 15 years of service the DC plan approach might actually be worthwhile trade-off given portability and income erosion of pension benefits; on the flipside for career charter school educators there is a massive retirement income gap for the same years of service in the same place.

PART 4

What Charter School Teachers Actually Think About Their Retirement

Survey findings demonstrate that charter school educators are acutely aware of these gaps. Their preference for guaranteed income directly addresses the "access to guaranteed income" gap, while their concerns about base compensation and retirement plan quality correlate with the "benefit levels" gap.

To quantitatively measure how much charter school educators care about this retirement gap, Equable conducted a survey of more than 1,000 charter school teachers — plus a comparison group of 2,300 traditional public school teachers.[22]

The survey asked respondents about their financial health and views on retirement plans. The survey also posed questions on how charter school teachers perceive themselves as well as what might cause them to switch schools (i.e., to a traditional public school or another charter school) or leave the profession entirely.

Among the key findings:

- More than half of charter school teachers who participated in the survey are "concerned" or "very concerned" that they will run out of money in retirement.
- Current teachers at charter schools generally think of themselves as teachers — not exclusively "charter school" teachers.
- Nearly 4 out of 5 (79.3%) charter school teachers surveyed said they would switch to a retirement plan that offered guaranteed income if given the option; and more than one-third (35.4%) of respondents indicated they would pay more (up to 3% of salary increase) to have access to guaranteed retirement income investments.

22 The survey was fielded in the Spring of 2025, with a margin of error of 2.9% to 3.9%. See Appendix B for methodological details.

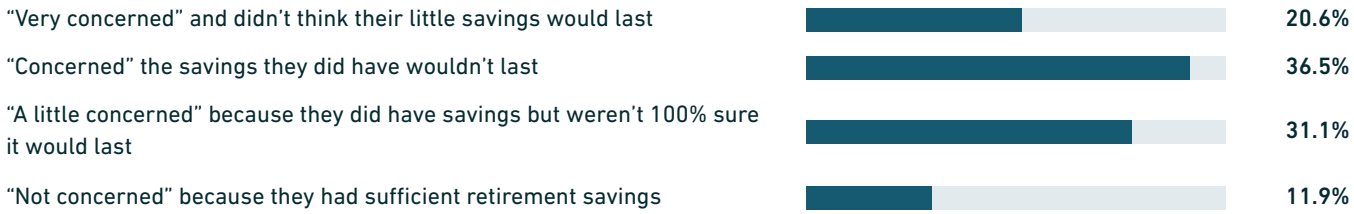
4.1 Charter Educators Care About their Future Retirement Security

Many charter school teachers are concerned they will run out of money in retirement.

More than half of charter school teachers are "concerned" or "very concerned" that they will run out of money in retirement. When asked how concerned they were about running out of money in retirement:

FIGURE 3

How concerned are charter school teachers about running out of money in retirement?



Source: Equable Institute survey of charter school teachers and staff, spring 2025.

Those aged 51-60 are the most concerned about their retirement savings, with 70.2% saying they are "concerned" or "very concerned," compared to just 48% of 18-25 year olds.

Clearly saving for retirement is a challenge for charter school teachers. Nearly half of charter school teachers who completed the survey reported they are unable to save regularly money from their paychecks for supplementary retirement savings, with even fewer reporting they actually have any personal savings. Specifically:

- 47.6% of charter school teachers/staff cannot regularly save money from their paychecks
- 40.4% of charter school teachers/staff have some personal savings
- 23.9% have a supplementary retirement account such as a Roth IRA or 401(k)

4.2 Teachers At Charter Schools Do Not Exclusively Consider Themselves "Charter School" Educators

If there were a perception among educators at charter schools that they were a unique class of teachers, without practical overlap of skills or duties with their peers at district run schools, then a gap in retirement benefits offered could be understandable. But that is not close to reality.

Charter school teachers were asked how they would describe their career, not just their current job:

- More than half (57.8%) selected "teacher/educator," while an additional 26.2% chose "public school teacher/educator"
- Only a small number — just 11.3% of respondents — said that they thought of themselves specifically as a "charter school teacher/educator"
- 4.7% selected "other"

> Charter school teachers generally think of themselves as teachers, not charter school teachers.

Charter school teachers generally think of themselves as teachers, not charter school teachers. This suggests that charter schools operators are regularly in competition with traditional public schools to retain educators and can't depend on their identity as charter school teachers to keep them in the classroom.

The key factors to retaining educators are higher pay and benefits, according to the survey respondents. While anecdotally charter school operators have frequently flagged their workplace culture as being a key retention tool, when asked to rank six options in terms of what would cause them to leave their job at a charter school, the top choice was receiving a higher base compensation.

The second and third highest ranked retention answers were "better health insurance plan" and "access to pension plan for retirement."[23]

23 Other answers were ranked more distantly, such as "Getting employer retirement contributions that match my student loan payments," "Fewer job requirements outside of the classroom,""More defined curriculum and teaching requirements."

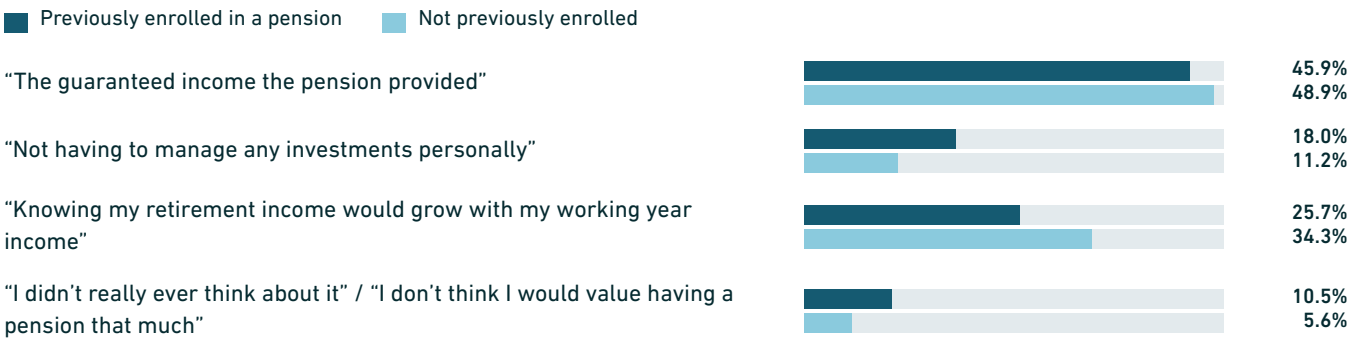
4.3 Nearly 4 in 5 Charter School Educators Would Prefer Pension-Like Guaranteed Income

We asked charter school teachers if they had previously been in a public school district with a pension and split the group to ask about their preferred feature of pensions. Nearly half (48%) had previously been enrolled in a public-sector pension plan as a public school teacher.

Of the charter school teachers who had been enrolled in a pension plan, a plurality indicated that the feature they valued the most was the guaranteed income that the pension provided. Of those teachers who had not been previously enrolled in a public-sector pension plan, a similar percentage indicated that guaranteed income is the feature they would value the most:

FIGURE 4

The pension feature charter school teachers value most



Source: Equable Institute survey of charter school teachers and staff, spring 2025.

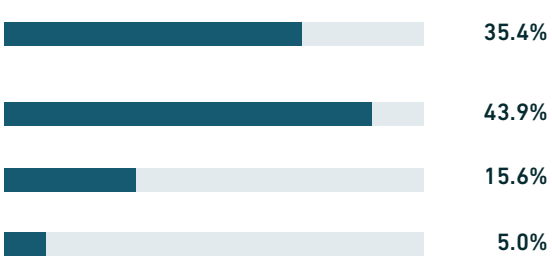
Then we asked the charter school teachers if they would switch to a retirement plan with guaranteed income if it were provided to them, 4 out of 5 (79.3%) charter school teachers surveyed said yes, with more than one-third (35.4%) of respondents even indicating they would pay more in contributions to join such a plan — up to 3% of their salary.[24]

24 This is consistent with the general population. A survey from Allianz Center for the Future of Retirement in 2025 found 86% of workers prefer the simplicity and security of a steady stream of retirement income over the challenge of figuring out how to spend down their savings on their own.

Specifically we asked: "If your charter school began offering a retirement plan option that provided guaranteed income like a public school pension plan does, how would you feel?" Their responses:

FIGURE 5

"If your charter school began offering a retirement plan option that provided guaranteed income like a public school pension plan does, how would you feel?"



Source: Equable Institute survey of charter school teachers and staff, spring 2025.

4.4 Closing the Retirement Gap Could Make Recruiting Easier for Charter Schools

Nearly one-third (31.4%) of teachers and staff at traditional public schools said that they would be more likely to take a job at a charter school that offers a pension than a charter school that does not — making a pension-like guaranteed retirement income investment option a potential recruiting tool.

We asked: "Some charter schools participate in state pension plans, and some do not. Would it influence your decision in taking a job at a charter school if they were to offer a pension plan?" There were 41% of respondents who said "I would never consider taking a job at a charter school. Among the 59% of traditional public school teachers who were not opposed in theory to joining a charter school:

- 53% said "I would be more likely to take a job at a charter school that offers a pension than a charter school that does not."
- 47% said "I might consider a job at a charter school, but their retirement plan options wouldn't influence my decision."

4.5 Other Notable Findings

Charter school teacher understanding of their own retirement plans does not fully line up with the actual provisions being offered.

When asked if their current charter school provided a retirement plan, a majority of charter school teachers (75.1%) said yes. But less than half (45.9%) said there was a matching provision, and nearly a third (29.2%) indicated there was no employer match. Another 13% said there were no employer retirement plans, and 11.9% said they didn't know.

The large sample of charter school plans analyzed in Part 3 found a much more comprehensive coverage of 401(k) and 403(b) plans than 75%, and more than half actually offer employer matches.

This misalignment with perceptions and benefit terms is very common across the public and private sectors where workers often don't entirely understand how their retirement plans work. But it is important for charter school operators to understand this because it means even where they might think they are offering a quality benefit, a retirement gap perception might still exist.

PART 5

The Operational Gap for Those Outside State Systems

In principle, there is nothing that would stop a charter school from creating a private pension plan, or offering access to guaranteed income through a 401(k) or 403(b) structure. However, historically this has been difficult for charter school operators who often struggle with standard defined contribution plan operations much less sophisticated plan designs.

The operational and administrative hurdles faced by charter schools—specifically regarding plan fees and fiduciary oversight—exacerbate the "benefit levels" gap, as excessive costs systematically erode the value of the retirement assets that educators are able to accumulate.

The operational and administrative hurdles faced by charter schools—specifically regarding plan fees and fiduciary oversight—exacerbate the "benefit levels" gap

5.1 The Fee Problem

Generally, charter schools face the same structural challenge that small- to medium-sized employers face in the defined contribution market: they aren't a very profitable source of business for financial services companies, so products aren't tailored to them, and service providers often take advantage through excessive and unnecessary fees.

For example, a small NYC charter network with around $5 million in assets had experienced growth from just being a small school over a decade, but never updated the initial retirement plan that its founders had set up. As a result even as the plan grew out of its infancy into one in the low millions with over 100 active employees, the investment options didn't change. There was never an investment advisor on the plan, and the school's leaders didn't realize they should be reviewing the investment options quarterly. The result was that school employees were investing in "revenue-share" mutual funds that were 60 to 80 basis points, plus covering administrative costs that put the all-in expense of target date funds at an eye popping 130 basis points.

For context, Vanguard target date funds (the most commonly used) cost 8 basis points and depending on the plan administrative set up, all in costs could be 30 basis points or less.

Revenue-share classes of mutual funds are only ever justifiable for a brand new plan where an employer can't afford to cover administrative costs. But this NYC small charter network didn't fit that description. They were just being taken advantage of.

5.2 Charter School Investment Fee Averages

To comprehensively understand the fees paid by charter schools, we collected fund lineup data from long-form Form 5500 reports and paired the listed investment funds with published fund costs. It is not always clear from a Form 5500 what share class a charter school is using, so to be conservative we used the lowest possible expense ratio for a given fund (typically an institutional class). That means the figures below drawn from that analysis are a lower bound on what charter school 401(k) and 403(b) fees are—the actual numbers could be higher.

Charter schools are similar to corporate plans with a heavy concentration of assets in target-date funds. Most 401(k) and 403(b) plans nationally have target-date funds as the "qualified default investment alternative" and many people just stick with defaults. Target-date funds account for 63% of charter school plan assets, concentrated in the following five series:

TABLE 4

Top Five Target-Date Fund Series Used by Charter Schools

FUND SERIES NAME	PERCENTAGE OF CHARTER SCHOOL ASSETS	USUAL FEE RANGE
Vanguard Target Retirement	19.9%	0.08% – 0.10%
American Funds Target Date Retirement	12.5%	0.30% – 0.50%
BlackRock LifePath	7.2%	0.08% – 0.10%
Nuveen / TIAA-CREF Lifecycle Index	4.4%	0.08% – 0.10%
T. Rowe Price Retirement	3.2%	0.30% – 0.50%

Remaining charter school educator assets in 401(k) and 403(b) plans are spread across a wide range of mutual funds, collective investment trusts, and insurance products. The sample reviewed for this paper included over 1,200 distinct funds with expense ratios ranging from 1.5 basis points (0.015%) to 202 basis points (2.02%).

The average, asset-weighted expense ratio for all plans measured was 26 basis points (0.26%), but averages vary by how many assets are in a plan and how many employees are participating. Tables 5 and 6 show that generally the smaller plans are paying higher fees — and the smallest are paying nearly twice as much as the largest.

TABLE 5

Average Expense Ratio in FY2024-25 Charter School 401(k) and 403(b) Plans, by Asset Size

PLAN ASSETS BAND	WEIGHTED AVE EXPENSE RATIO	MEDIAN PLAN EXPENSE RATIO
$100M+	0.18%	0.10%
$25–100M	0.19%	0.13%
$10–25M	0.31%	0.36%
$5–10M	0.24%	0.21%
$1–5M	0.33%	0.36%

TABLE 6

Average Expense Ratio in FY2024-25 Charter School 401(k) and 403(b) Plans, by Participants

PLAN PARTICIPANTS BAND	WEIGHTED AVE EXPENSE RATIO	MEDIAN PLAN EXPENSE RATIO
2,000+	0.18%	0.13%
1,000–1,999	0.23%	0.34%
750–999	0.28%	0.25%
500–749	0.30%	0.29%
Under 500	0.33%	0.32%

This pattern is consistent with larger plans adopting predominantly indexed lineups, whether through fiduciary attention from charter school leaders, access to institutional pricing, or guidance from a financial advisor.

Within the charter school retirement plan fund lineups, there can be a large gap between the lowest cost fund and highest. Within our sample, the average lowest priced non-target-date fund is 8 basis points (0.08%)—mostly wide market index funds—and the average highest priced fund is 90 basis points. Virtually every menu with a highly priced fund in this upper range is an actively managed non-target-date fund.

The dominant driver of higher costs within charter school retirement plans are actively managed funds. Looking across weighted average expense ratios for every plan, roughly 10% had average costs of 50 basis points or more — and within that group, 91% of investments were active funds.

5.3 The Administrative Burden Problem

The fund fees for specific investment options are only part of the cost story.

Every single employer plan has some administrative costs — for recordkeeping, administration, audits, and investment management. But depending on an organization's finance and HR team, the size of these costs can be well above what is necessary to provide a retirement plan.[25]

25 Managing a single-employer 401(k) or 403(b) requires a level of regulatory practice that often is not a part of the operational capacity of individual charter schools. ERISA compliance involves meticulous adherence to reporting standards, non-discrimination testing, annual audits, and participant disclosures. Even senior HR professionals who have coordinated 401(k) and 403(b) plans typically need advice from third-party administrative professionals on how to compile and file forms.

For example, there are two charter school networks in the northeast with a similar sized retirement plan using the same recordkeeper but, with one paying more than 7x what the other is for similar services. Both plans are between $15 million to $20 million. But one of them reports bundled recordkeeping and administrative costs paid from plan assets — e.g., by members — of over 70 basis points while the other reports around 10 basis points.[26]

To analyze administrative costs, we reviewed reported fees in annual financial filings (Form 5500) from charter school retirement plans and compared them to industry averages published by the Investment Company Institute.[27] The data in Form 5500 reports is sometimes incomplete and has some limits—notably reported fees often understate (and never overstate) what is paid by a plan, meaning any fee data we can find is a conservative estimate. But looking at Form 5500 reports can identify plans that are definitively paying more than they should for administrative costs.[28] And sadly there is a lot of overpaying.

We found hundreds of millions of charter school 401(k) and 403(b) plan assets well above industry averages — and dozens with all-in administrative and fund fee costs above 100 basis points (e.g., over 1% of plan assets annually).[29] Specifically:

- As of 2024-25, there was at least $779 million in 401(k) and 403(b) plans for charter school educators where the total fees were above industry averages.
- Since charter schools with under 100 employees do not disclose fees, and financial markets have grown meaningfully in the last year, it is reasonable to conclude there is closer to $1 billion in retirement assets paying above market average fees.

$779M in charter school educator 401(k) and 403(b) plans paid total fees above industry averages in 2024-25.

26 We are keeping the identities anonymous, though the underlying data is public in the Department of Labor EFast Database. Some organizations pay for administrative costs outside of plan assets, such as paying an administrative fee invoice directly — in which case those costs do not always appear on the Form 5500. However, we selected this specific scenario since these are similarly structured plans with the same recordkeeper and are more likely paid for in the same way. The cheaper plan listed has more active participants (even though its assets are slightly smaller than the peer plan with fewer active), which sometimes leads to higher per participant fees, but that is not reported on this form. Looking back at historic reports, the lower administrative costs are consistent, suggesting some kind of legacy pricing.

27 For the purposes of this analysis, we combined all administrative costs — recordkeeping, third-party administrative, investment management, etc. Some Form 5500s break these out, others have them bundled. To ensure an apples-to-apples comparison we didn't consider assessing just recordkeeping or just investment management fees.

28 There three ways reading Form 5500 fees can be limited: (1) some organizations pay for retirement administrative costs outside of plan assets, e.g., an organization pays a third-party recordkeeping invoice directly and does not report it on a Form 5500; (2) some organizations use "revenue-sharing" funds that give retirement plan administrators a portion of the investment returns their employees generate in exchange for lower admin fees, and that means reported costs are the lower bound of actual potential fees paid; and (3) organizations with fewer than 100 employees are not required to report a schedule of fees, meaning we can't see a comprehensive view of charter school fees or have a definitive representative sample.

29 ICI has produced regular updates to average all-in fees for retirement plans, breaking the data down by 401(k) from 2026, 403(b) from 2025, and asset size. Their most recent publications found similar asset-band level "All-in" administrative and fund fee costs across 401(k) and 403(b) plans. Specifically, the average all-in costs reported were $1M–$10M plans = 0.92%, >$10M–$50M = 0.67%, >$50M–$100M = 0.53% (401k) and 0.55% (403b), and >$100M–$250M = 0.41% (401k) and 0.46% (403b).

For plans with $1 million to $10 million, the industry average for all-in retirement plan costs (administrative and average fund fees) is 92 basis points — but we found at least 45 charter school network plans (with over $216 million in assets and over 14,000 educators) who were paying above that. The most extreme example is an Oklahoma charter network with around 200 employees who reported paying over 213 basis points just for administrative services. An Arizona network with between 500 and 750 employees reported paying 177 basis points in administrative costs, and over 200 basis points in all-in costs (including average expense ratios). A DC single-site school with more than 300 employees reported 114 basis points in administrative costs.

For plans with $10 million to $50 million, the national average all-in expense ratio is 67 basis points for 401(k) and 403(b) plans. Here too we found around two dozen charter school networks, comprising nearly $300 million in plan assets for around 14,000 participants, all paying above that industry average. The largest overpayer is a Florida charter school network whose participants paid 101 basis points for administrative services and over 138 basis points in all-in costs.

When administrative oversight is not able to keep retirement costs reasonable, the negative effects can lead to distractions for leadership and reduced retirement security for teachers. Retirement plans that aren't reviewed and modified over time (like the NYC charter network example) can suffer from redundant administrative costs and expensive investment funds eroding participant account balances over time.

Without the fiduciary capacity to benchmark these plans against industry standards or the leverage to negotiate institutional pricing, many charter operators inadvertently saddle their employees with fees that severely undermine actual investment returns. This results in a compounded loss for educators: not only are they receiving lower employer contributions than their traditional public school peers, but the retirement assets they do accumulate are systematically diminished by the very plans intended to support them.

PART 6

Conclusion: How to Close the Retirement Gap

There is no question that charter school educators have a strong preference for the security that guaranteed retirement income can provide. Federal regulatory policy over the last decade has moved to incentivize the adoption of guaranteed income investment options in 401(k) and 403(b) plans. And yet, a retirement gap for charter schools remains.

6.1 The Core Problem Is a Lack of Guaranteed Income

There are understandable reasons for why some charter schools do not participate in a state pension plan — from not being allowed to join, to cost concerns, to workforce compensation strategies for a specific school program approach. While this lack of participation creates a retirement income gap, there are solutions to provide guaranteed income through 401(k) and 403(b) plans that can help close that gap. The structural problem is that charter schools who don't participate in state pensions have not made up the balance by ensuring their defined contribution plans offer a path to guaranteed retirement income.

That lack of guaranteed retirement income investment options is exacerbated by lower overall benefit levels than pension plans provide, and occasionally high fund fee costs for participants. The retirement gap isn't just a matter of not having a pension. It's a gap that is actively widened where a challenging-to-manage 401(k) or 403(b) has been put in place of that pension.

> Educators in the same profession, serving the same students, in schools that were authorized as an expression of public policy, should not get stuck on the wrong side of this gap.

6.2 A Scalable Alternative Is Now Legally Feasible

There are practical solutions to address the retirement income access gap. Charter schools as plan sponsors can evaluate guaranteed lifetime income solutions and add them to their fund line ups. However, this is also an expensive solution on its own for most (if not all) plans. Annuity products and guaranteed lifetime withdrawal benefits can come with fees of 90-100 basis points. The process of evaluating guaranteed income products is also outside the capacity of most charter school operators as well, which creates reliance on financial services advisors who may or may not have the charter schools' best interest in mind.

This is where a national retirement plan pool for charter schools can help address the retirement gap. The "Pooled Employer Plan" structure created by the SECURE Act and SECURE Act 2.0 allows employers from all over the country to band together, irrespective of how similar those organizations might be.[30] Leveraging the economies of scale of charter school retirement assets can help drive down expense ratios on standard investment options (target-date funds, mutual funds, collective investment trusts (CITs), etc.) as well as make it possible to offer guaranteed income investment options in a cost-effective way. The Pooled Plan Provider, the organization legally and fiduciarily responsible for running the PEP, can take on the burden of ensuring the guaranteed income solution is aligned with the needs of charter school employees as well as being cost effective.[31]

With the retirement income access gap solved, schools could turn to addressing the retirement benefit level gap. Some charter school teachers already have indicated they would be willing to contribute more to a retirement plan with guaranteed income, and schools with relatively low employer contribution rates can consider increasing them. All charter schools could also consider adopting retirement plan rules that encourage savings — such as autoenrollment (everyone hired gets put into the retirement plans, unless someone wants out) and auto-escalation (participant contributions automatically go up slightly each year, unless proactively reversed).

6.3 Conclusion

There is a scenario where the 5th grade math teachers in Washington D.C. featured in our introduction do not have a retirement gap separating them, despite serving the same kids, in the same city, doing the same job. In this scenario, Washington D.C.'s charter schools have joined a Pooled Employer Plan that provides a guaranteed retirement income option.

The 5th grade teacher is defaulted into that investment option and her contributions, along with the match from her employer go into the pool to turn her account balance into something that provides some level of guaranteed income. It might not match the $65,000 a year that the pension provides to her DCPS peer, but it reduces the retirement gap. And in this scenario if the teacher were to know her options well ahead of retirement, and see how additional contributions during her career could help bring her up to the same income level that the pension provides, then even the benefit value portion of the retirement gap could be solved.

The charter school retirement gap is not an accident of individual choices — it is a structural consequence of a fragmented policy landscape and operational limits of charter schools to adapt to a changing retirement investment landscape. Educators in the same profession, serving the same students, in schools that were authorized as an expression of public policy, should not get stuck on the wrong side of this gap.

30 See Appendix C for background on these kinds of pooled plans and their evolution from "multiple-employer plans."

31 Further, pooling across multiple retirement plans can enhance operational compliance with ERISA regulations, reduce administrative burdens. The Pooled Employer Plan concept also eliminates the so-called "one bad apple rule" that would otherwise require a charter school in a pooled plan to make up for the fiduciary failing of another organization in the same pool.

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APPENDIX A

Pension versus Stylized DC Plan Comparisons

Table A1 presents the same comparison as Part 3, Table 3. Some normal retirement ages are different because underlying eligibility rules vary based on the combination of age and years of service (ex. "Rule of 80" that puts eligibility for a normal retirement at a combination of age and years worked). The percentage income difference is notably lower with 20 years of service, mainly because inflation erodes the 20 years of service pension substantially more than a 30 years of service pension for the same 25-year-old entrant. Another reason for the difference is that the 20 years of service DC plan has 10 more years to generate an accumulation balance.

TABLE A1

Average Charter School Retirement Plan Value Compared to State Pension Incomes for 20 Years of Service (Inflation Adjusted)

Analysis assumes the same 25-years-old starting age, same starting salary path, same normal retirement age, 7% total contributions into the DC plan, 6.5% investment returns[32]

STATE NAME	PLAN TYPE	NORMAL RETIREMENT AGE	PENSION INCOME	DC PLAN INCOME	PENSION % DIFFERENCE
Alabama	Pension	62	$14,431	$10,595	**+36.2%**
Arizona	Pension	62	$18,366	$10,595	**+73.3%**
California	Pension	62	$18,006	$10,595	**+69.9%**
Delaware	Pension	60	$17,328	$9,718	**+78.3%**
District of Columbia	Pension	60	$18,733	$9,718	**+92.8%**
Florida	Pension	65	$12,632	$12,060	**+4.7%**
Indiana	Hybrid	60	$10,009	$9,718	**+3.0%**
Louisiana	Pension	62	$21,864	$10,595	**+106.4%**
Maine	Pension	65	$16,967	$12,060	**+40.7%**
Michigan	Hybrid	60	$13,649	$9,718	**+40.4%**
Mississippi	Hybrid	65	$7,895	$12,060	**-34.5%**
Montana	Pension	60	$15,196	$9,718	**+56.4%**

32 Methodology Note: The scenarios assume the normal retirement age for the open tier of benefits that certificated teachers are eligible for in each state. For example, if new teachers qualify for a tier of benefits in a state retirement system that has a normal retirement eligibility age of 62 (with at least 20 years of service), then we use 62 for the start of withdrawals from the modeled defined contribution plan too. The defined contribution plan assumes a 7% total contribution rate for the years analyzed (20 or 30), a 3% employee contribution plus 4% employer contribution. Investment allocation is a pass-through target date fund with an 8 basis point expense ratio, and 6.5% assumed return. The withdrawal assumption is 4% of the balance at the normal retirement age. For states with retirement plan options available (IN, MI, PA, UT) we modeled the plan employees are defaulted into. Some states offer hybrid plans (IN, MI, MS, PA, RI, UT) that blend a partial pension with a partial defined contribution plan; the table above just shows the pension benefit value.

TABLE A1, CONTINUED

STATE NAME	PLAN TYPE	NORMAL RETIREMENT AGE	PENSION INCOME	DC PLAN INCOME	PENSION % DIFFERENCE
New Hampshire	Pension	65	$12,486	$12,060	**+3.5%**
New York	Pension	63	$14,740	$11,062	**+33.2%**
North Carolina	Pension	65	$15,218	$12,060	**+26.2%**
Oklahoma	Pension	65	$16,483	$12,060	**+36.7%**
Pennsylvania	Hybrid	67	$9,902	$13,147	**-24.7%**
Rhode Island	Hybrid	60	$9,099	$9,718	**-6.4%**
South Carolina	Pension	65	$14,999	$12,060	**+24.4%**
Texas	Pension	62	$20,707	$10,595	**+95.4%**
Utah	Hybrid	65	$12,362	$12,060	**+2.5%**
West Virginia	Pension	62	$17,492	$10,595	**+65.1%**
Wisconsin	Pension	65	$13,574	$12,060	**+12.6%**
Average			**$14,875**	**$11,071**	**+36.4%**

Note: The average figures shown at the bottom are averages of their respective columns. They are not intended to be weighted averages.

TABLE A2

Nominal Pension Values for 20-Year and 30-Year Scenarios Shown in Table 3 and Table A1

STATE NAME	PLAN TYPE	BENEFIT MULTIPLIER	FAS YEARS	NOMINAL PENSION — 20 YOS	REPLACEMENT RATE — 20 YOS	NOMINAL PENSION — 30 YOS	REPLACEMENT RATE — 30 YOS
Alabama	Pension	1.650%	5	$30,025	33.0%	$60,527	49.5%
Arizona	Pension	2.100%	5	$38,214	42.0%	$77,035	63.0%
California	Pension	2.000%	3	$37,464	40.0%	$75,524	60.0%
Delaware	Pension	1.850%	3	$34,655	37.0%	$69,859	55.5%
District of Columbia	Pension	2.000%	3	$37,464	40.0%	$75,524	60.0%
Florida	Pension	1.600%	8	$27,892	32.0%	$56,227	48.0%
Indiana	Hybrid	1.100%	5	$20,017	22.0%	$40,352	33.0%
Louisiana	Pension	2.500%	5	$45,493	50.0%	$91,708	75.0%
Maine	Pension	2.000%	3	$37,464	40.0%	$75,524	60.0%
Michigan	Hybrid	1.500%	5	$27,296	30.0%	$55,025	45.0%
Mississippi	Hybrid	1.000%	8	$17,433	20.0%	$35,142	30.0%
Montana	Pension	1.670%	5	$30,389	33.4%	$61,261	50.1%
New Hampshire	Pension	1.515%	5	$27,569	30.3%	$55,575	45.5%
New York	Pension	1.670%	3	$31,283	33.4%	$63,062	50.1%
North Carolina	Pension	1.820%	4	$33,601	36.4%	$67,735	54.6%
Oklahoma	Pension	2.000%	5	$36,394	40.0%	$73,367	60.0%
Pennsylvania	Hybrid	1.250%	5	$22,747	25.0%	$45,854	37.5%
Rhode Island	Hybrid	1.000%	5	$18,197	20.0%	$36,683	30.0%
South Carolina	Pension	1.820%	5	$33,119	36.4%	$66,764	54.6%
Texas	Pension	2.300%	3	$43,084	46.0%	$86,852	69.0%
Utah	Hybrid	1.500%	5	$27,296	30.0%	$55,025	45.0%
West Virginia	Pension	2.000%	5	$36,394	40.0%	$73,367	60.0%
Wisconsin	Pension	1.600%	3	$29,972	32.0%	$60,419	48.0%

APPENDIX B

Charter School Educator Survey Methodology

In spring 2025, Equable conducted a survey of roughly 1,000 charter school teachers and 2,300 traditional public school teachers. It asked respondents about their financial health and views on retirement plans. The purpose of the survey was primarily to gauge charter school teachers' sentiments about retirement plans and interest in a guaranteed income pension-like retirement plan. For additional background information, the survey also posed questions on how charter school teachers perceive themselves as well as what might cause them to switch schools (i.e., to a traditional public school or another charter school) or leave the profession entirely.

Equable's communications team developed a survey based on previous experience running sentiment analysis through the Teacher Retirement U program (TRU). The survey instrument was split into two groups: one for charter school teachers and one for traditional public school teachers.

B.1 Respondents

Total respondents were 4,843, of which 3,448 completed at least 75% of the survey. Respondents completing fewer answers were dropped from analysis. Also dropped from analysis were respondents who indicated they were non-K12 educators (e.g., higher education teachers) or took less than 60 seconds to complete the post-screener questions.

RESPONDENTS	CHARTER SCHOOL TEACHERS/STAFF	TRADITIONAL PUBLIC SCHOOL TEACHERS/STAFF
Total respondents	1,464	3,379
Completed 75% of the survey	1,069	2,379
Completed 100% of the survey	992	2,052

The overall margin of error for the survey is between 2.9% and 3.9%.[33] The margin of error for the 1,069 respondent sample of charter school teachers is 2.9% at a 95% confidence interval and 3.9% at a 99% confidence interval. For the slightly smaller 992 sample of charter school teachers, the margin of error is 3.1% to 4.1% across a 95% and 99% confidence interval, respectively.

Survey demographics: more than half (59.47%) of respondents were aged 26-50, with most (65.4%) teaching the elementary grades (K-5). A majority (61.38%) have been in the classroom 10 years or less.

33 The survey had a margin of error of 2.9% to 3.9%.

Provided below is the actual distribution of respondents across age groups, grades taught, school roles, and tenure in the K-12 profession:

AGE

18-25	**15.86%**
26-35	**28.71%**
36-50	**30.76%**
51-60	**9.54%**
Over 60	**15.12%**

n = 1,362

CURRENT POSITION

Classroom teacher	**64.24%**
Support staff	**17.18%**
Administration	**3.79%**
Tutor/Coach	**6.66%**
Other school employee	**8.13%**

n = 1,292

GRADE LEVELS TAUGHT

Preschool/Pre-K	**19.43%**
Kindergarten	**20.43%**
Grades 1-5	**44.97%**
Grades 6-8	**25.93%**
Grades 9-12	**19.35%**

Respondents selected all that applied. n = 1,292 (total selections = 1,681)

YEARS IN THE K-12 PROFESSION

First year	**8.05%**
1-5 years	**33.13%**
6-10 years	**20.2%**
11-15 years	**11.15%**
16-20 years	**7.74%**
21-25 years	**6.04%**
26-30 years	**3.33%**
30+ years	**10.37%**

n = 1,292

The survey was marketed through Equable's TRU TikTok channel, TRU curriculum website, and Facebook ads. It was also offered by SurveyMonkey.

B.2 Question Methodology and Data Collection

Questions for charter school teachers and traditional public school teachers were generally the same, with minor language adjustments given the different respondent groups.

The survey was divided into three parts:

1. The first part established baseline demographics, with respondents asked questions around age, location, and school role.
2. The second part assessed financial health with questions such as whether respondents could afford rent based on their own salaries (i.e., without help from family or roommates) and if they were able to accumulate savings.
3. The final set of questions asked respondents about existing retirement benefits as well as what would entice them to join a potential plan.

Equable marketed the survey in spring 2025 through its TRU TikTok channel, TRU curriculum website, and Facebook ads, offering respondents a chance to win a gift card if they completed the survey. The survey was also offered to a panel of respondents maintained by SurveyMonkey; however, this option did not offer direct compensation from Equable.

Equable gathered National Center for Education Statistics (NCES) staff and employee data for 2023 and filtered it to extract charter school-related data. The NCES 2023 charter school employee data indicated 414,000 charter school "staff," which is defined as all full-time and part-time personnel employed at the school, including instructional staff (e.g., teachers, instructional aides), support staff (e.g., counselors, librarians, nurses), administrative staff (e.g., principals, assistant principals), and operational staff (e.g., custodians, food service workers, security personnel).

Equable then looked at NCES data for charter schools by age, with the most recent complete data being for the school year ending 2021. The distribution percentages for the age ranges provided were as follows: under 30 (21%), 30–39 (34%), 40–49 (24%), 50–59 (14%), and 60 and over (7%). Equable used this to develop sample size targets by age range that would have a ±5% margin of error.

Finally, Equable collected Census data for the adult population in the U.S. by individual age as a proxy to regroup those categories based on the age categorizations in the survey. For example, using 2020 Census data, there were 45.5 million adults aged 18-30 and 30 million aged 18-25; therefore, 65.9% of those aged 18-30 were actually 18-25. A sample size of 1,200 total respondents where 21% were under 30 would yield a sample size target of 252 respondents, but 65.9% of that figure is 143 respondents — a sample size target for a group that is 18-25.

For complete representative analysis, stratified sampling analysis, and all survey questions contact Equable Institute.

APPENDIX C

Background on Multiple Employer Plans and the SECURE Act

A multiple-employer plan (MEP) is a particular kind of plan whereby different employers participate in a single retirement system for the purposes of getting preferential cost treatment from plan administration and investment services. They are built for economies of scale and reduce administrative headaches for small businesses. MEPs are a single plan under ERISA, so for reporting purposes, they file a single Form 5500.[34] However, each employer in the plan is treated as a separate entity for purposes of investments, fiduciary compliance, etc.

MEPs are subject to the full scope of ERISA and IRS tax qualified plan rules. A MEP can be either a defined contribution plan or a defined benefit plan. The vast majority are 401(k)-type defined contribution plans because the funding rules for defined benefit MEPs essentially make each employer responsible for the underfunding of other participating employers, which can be a very undesirable prospect for participating employers. However, there are MEP defined benefit plans that help serve employers that believe offering such guaranteed income benefits is important for their workforce development goals.

MEPs must have a sponsor organization to administrate the retirement plan on behalf of two or more employers. The plan sponsor can be a new or existing organization, and it can be a single company or an association.

Crucially, the employers that join a MEP need to have "affinity" or "nexus"[35] (which will be discussed more below). This particular requirement has, in the past, been a point of concern for multiple employer charter school retirement plan initiatives.

The creation of a MEP also requires at least three distinct services:

- **Fiduciary oversight and administration.** The association acting as the plan sponsor would hire a group to establish the plan and then provide ongoing fiduciary document administration. Each school that participates in the MEP would have a seat on the governing committee, which would be responsible for appointing other fiduciaries for investments and benefit administration.
- **Benefit administration.** The MEP board would hire a firm to provide services for administering the benefit, such as ensuring distribution of assets/benefits.

34 See IRC Section 413(c)(4).

35 The "nexus" requirement was introduced by the DOL in 2012. See DOL Advisory Opinion 2012-04A.

- **Investments and bookkeeping.** The MEP board would put out an RFP for investment and bookkeeping services (or "recordkeeping" and "third-party administrative" services). Record keeping services ensure that contributions are being made from the various employers, track account balances with credited rates of return (if relevant), track service time accumulation and vesting (if relevant), process transactions out of the fund, and often serve as a first point of contact for questions from participants about accessing their benefits. Other administrative services are focused on the MEP's compliance reporting and auditing requirements. Investment services provide the actual vehicles where individual account balances would be invested and/or annuity products are purchased.

Both for-profit and nonprofit entities can participate in the same MEP; the only potential limitation is their eligibility to offer 401(k) and 403(b) plans. For-profit organizations could only join a 401(k) MEP.

C.1 Open and Closed MEPs

Structurally, there are two kinds of MEPs: open and closed.

A closed MEP is considered a single employer retirement plan composed of multiple participating employers, allowing the sponsoring employer to file a single Form 5500 and perform a single audit for the MEP. While most MEPs are set up as defined contribution plans like 401(k)s, the structure of the MEP allows it to be set up as a defined benefit plan as well.

Open MEPs, on the other hand, are single employer plans that can be linked using a reciprocity — or participation — agreement. The complexity of a reciprocity or participation agreement varies greatly based on the type of plan structure. Although it is possible to set up a defined benefit open MEP, it is significantly more complicated. A participation agreement could be used to recognize service and vesting credit, but it would also need to be more expansive and articulate the defined benefit plan formulas and required employer contributions. Employers would acknowledge that if, for example, another employer is delinquent in making employer contributions to the plan, then the underfunding of one employer is the responsibility of all other participating employers.

C.2 MEPs and "Nexus"

To be considered a closed MEP, the Department of Labor requires a business nexus or commonality among the participating employers. If no nexus exists, the arrangement will be considered a combination of single employer plans, with each employer needing to file its own Form 5500, prepare an audit report (if applicable), obtain a fidelity bond, and satisfy certain fiduciary obligations under ERISA.

To establish nexus, two criteria must be met:

1. **Participants must be a "bona fide" group or association of employers.** The Department of Labor has taken the view that a single multiple employer plan may exist where a cognizable group or association of employers, acting in the interest of its employer members, establishes a benefit program for the employees of member employers and exercises control of the amendment process, plan termination, and other similar functions on behalf of those members with respect to a trust established under the program. Relevant factors for determining whether a purported plan sponsor is a bona fide group or association of employers include:
    - How members are solicited.
    - Who is entitled to and actually participates in the association.
    - The process by which the association was formed, the purposes for which it was formed, and what if any were the preexisting relationships of the members.
    - The rights, powers, and privileges of employer members that exist by reason of their status as employers.
    - Who actually controls and directs the activities and operations of the benefit program.

    Importantly, the employers that participate in the benefit program must, either directly or indirectly, exercise control over the program — both in form and substance.
2. **Participants must be "tied together" by a "genuine economic or representational interest."** The entity sponsoring and maintaining an ERISA plan, and the individuals that benefit from the plan, must be tied together by a common economic or representation interest, unrelated to the provision of benefits. For example, if all adopting employers of a MEP were dental offices, then there is a good argument that nexus exists. However, a plan established and maintained by insurance companies for the purposes of marketing insurance products would not be able to establish a nexus.

For charter schools, if there was a national members-group association it might qualify for nexus. Technically, there are individual state associations that could set up individual closed MEPs — and the Utah Association of Public Charter Schools has done this, establishing a group retirement plan for select members of its association.

For MEPs that do form, there is a meaningful risk to consider called the "one bad apple" rule (sometimes also referred to as the unified plan rule). Specifically, a MEP can lose its tax-qualified status if one employer within the group is not in compliance with applicable Internal Revenue Code requirements. A secondary risk of defined benefit MEPs is that employers take on a formal responsibility for underfunding caused by other employers.

Another type of MEP, which became effective in September 2019, is the Association Retirement Plan (ARP), which allows smaller employers to pool resources to reduce administrative costs and centralize fiduciary responsibilities. An ARP can only be a defined contribution plan, and because it is a closed MEP, it can only be maintained by a bona fide group or association of employers or a bona fide professional employer organization. One of the requirements for a bona fide group or association of employers is that employer members have a "commonality of interest," which is demonstrated if one of the following is true:

- The employers are in the same trade, industry, line of business or profession; or
- Each employer has a principal place of business in the same region that does not exceed the boundaries of (a) a single state or (b) a metropolitan area (even if it crosses state lines).

This is a broader test for finding a commonality of interest than the DOL has typically required for MEPs (i.e., historically, an economic or representational nexus among employers maintaining a MEP is required).

C.3 Pooled Employer Plans

The SECURE Act and SECURE Act 2.0 created the Pooled Employer Plan (PEP),[36] which simplifies the ability to offer a defined contribution plan to unrelated employers because it does not require nexus. PEPs don't require formal commonality between employers, so for charter schools it is possible and legal to create a multi-state defined contribution plan in which any charter school employer could conceptually participate. Additionally, the SECURE Act eliminated the "one bad apple" rule for PEPs. Therefore, establishing a high level of trust among participants is not a consideration with a PEP.

PEPs were first created by the SECURE Act of 2019 for 401(k) plans, allowing unrelated employers to participate in a single defined contribution retirement plan. The SECURE Act 2.0 of 2022 expanded the use of PEPs to 403(b) plans for employees of nonprofit organizations and educational institutions.[37]

Traditionally, nonprofits tend to offer 403(b) plans to their employees, as it is considered the "standard" retirement plan for such entities. The 403(b) structure is specifically designed for nonprofit organizations; it offers certain tax advantages and is generally easier to administer than a 401(k).

Additionally, a PEP can offer any kind of investment products that would otherwise be allowed in a single-employer defined contribution plan. A PEP for charter school teachers could include target date funds, mutual funds, annuities, and/or plans with "in-plan" income such as a target date fund that shifts from equities into annuities.

A PEP must have a "sponsor" to take on the role of named fiduciary and handle administration, ensure compliance oversight, and manage audit requirements. Formally, this named fiduciary role is called the pooled plan provider or PPP. Organizations that serve as the PPP could either manage all of the duties internally, or they could outsource duties to third-party providers, such as third-party administrators, investment managers, etc.

36 See SECURE Act, Section 101(c).

37 See SECURE 2.0 Act, Section 106. Note: PEPs are not yet authorized to include governmental 403(b) plans.