



PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO

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April 7, 1993

The Honorable Bill Owens
Colorado State Senator
State Capitol Building
Denver, CO 80203

RE: SB 93-183

Dear Bill:

I have followed the discussion regarding your charter schools bill carefully, including your comments when the Senate Education Committee was amending the bill. As you might expect, I was pleased to see the Committee include language requiring employees of charter schools to be members of PERA or the DPS retirement system, whichever is applicable.

I am writing to try to persuade you that the current provision in the bill as amended should be maintained. There are several reasons why requiring membership in PERA or the DPS plan is important:

1. Requiring membership in PERA or DPS helps assure that career teachers and other employees will receive a substantial benefit at retirement. Employees who are covered under a single plan for all their service, including their work at a charter school, will receive a larger benefit than if they earn small retirement benefits from a number of employers.

2. HB 93-1235 recognized the importance of providing that DPS and PERA members who move from one system to the other receive a substantial benefit at retirement. The mechanism both plans hope to recommend would encourage, for example, DPS employees who want to move to another Colorado school district to do so, without fear that their retirement benefits would be severely reduced. Of course, DPS employees currently are free to evaluate whether moving to a PERA-covered job in mid-career is worth the possible loss in total retirement benefits, and may decide to stay with DPS. However, because we don't want retirement considerations to be a large barrier to an employee facing this decision, PERA and DPS want to establish some portability mechanism.

Employees who move from a charter school into PERA or DPS-covered employment might have some difficulty getting credit for their years of charter school work transferred if the charter school established a different type of retirement plan. The mechanism we hope develops from HB 93-1235 may well work because both PERA and DPS are defined benefit systems not covered by social security.

3. The employer cost of PERA coverage should not be an obstacle to charter schools. The information I gave you after the amendments to SB 93-183 were made showed that the 11.6 percent PERA rate is significantly lower than the average contribution made by school districts around the country (averaging 15.04 percent) and in neighboring states, and lower than the average rate paid by private and public employers nationwide (13.2 percent including social security, according to the U.S. Chamber of Commerce).

4. The recent increase in the employer cost of DPS coverage is misleading. The DPS plan's employer contribution rate increased from 12.5 percent of salary to 16.5 percent of salary in 1993, as you know. This was necessary only because DPS had an early retirement window in 1992 which required the rate increase to maintain the fund on an actuarially sound basis. The window, however, is expected to cut DPS salary expenses by more than the cost of the higher retirement contribution. Many employees who retired during the window will not be replaced and those who are will be replaced by employees earning lower salaries. The DPS school board is going to receive a follow-up report this year to verify the magnitude of the savings which were projected last year. The number of retirements during the 1992 window exceeded projections.

5. The bill as amended allocates a higher percentage of district per pupil operating revenues to charter schools than the original bill did. The current percentages are 90-85-80, I believe. Charter schools will not be weighed down by their retirement costs if their employees must be PERA or DPS members.

6. Allowing charter schools to adopt separate retirement plans for some or all their employees could cause serious problems for PERA and DPS. PERA would oppose giving each individual charter school employee the option of joining PERA, because those who expected to leave school employment after just a few years might decide not to join PERA. This "adverse selection" against PERA could increase the cost of providing benefits to PERA members retiring in the future.

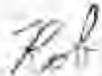
Requiring all employees of a charter school to be either PERA members or not members would be unwise as well. Again, charter school employees with a plan outside PERA would have some portability problems when moving from or to PERA. If many schools which are now uniformly covered by PERA eventually were not covered by PERA, the erosion of the PERA membership would increase the contribution rate required to fund PERA benefits for remaining members.

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7. The fact that SB 93-183 limits the number of charter schools currently doesn't assuage our concern about the potential threat to PERA's soundness. The current limit makes the bill a pilot study of sorts, with the potential for the limit to be removed if charter schools are successful. PERA has no position on whether charter schools should be allowed or on how many should be allowed. It does greatly concern PERA that the trust funds could be weakened and the future retirements of educational employees weakened as well if PERA membership by charter school employees is not required and charter schools become more numerous.

I hope these points are informative, and you will decide to accept the provision in the bill as amended. In any case, please let me know if you have further questions.

Sincerely,



Robert Gray
Director, Government Relations

cc: Bob Kirscht