



Part-Time Faculty Retirement Options and Issues

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Be Prepared

- Retirement plans are sometimes complicated and often subject to misinformation
- You have to do the math (but there are counselors and online calculators to help you)
- Estimates are based on assumptions which may or may not turn out to be accurate
- Low salary means low retirement benefits
- Your presenter is not a financial advisor

Resources

- Retirement Primer for California Community College Part-Time Faculty by Cliff Liehe at www.cpfa.org
- CalSTRS: www.calstrs.com, 1-800-228-5453, annual Member Handbook, local benefits counselors, and workshops
- Social Security: www.ssa.gov, 1-800-772-1213, and local counselors
- Other retirement plans: your plan administrator
- Your district Human Resources department
- A financial advisor

What Types of Plans Exist?

- Defined Benefit Plan
- Defined Contribution Plan
- Cash Balance Plan

What is a “Defined Benefit” Plan?

- A traditional “pension”
- “Vesting” requirement
- Retirement benefit is defined by a formula which is usually based on years of service, retirement age, and final or highest salary
- Benefit (usually paid monthly) is “guaranteed” for life and may include cost of living adjustments (COLA)
- Benefit not based on amount of contributions
- Funds invested by plan professionals

What is a “Defined Contribution” Plan?

- A “401(k)” or similar plan
- Immediate vesting
- Employer contribution (if any) is defined
- Retirement benefit is account balance (all contributions, earnings, and losses, if any) payable as lump sum or sometimes optionally as a lifetime annuity based on age and account balance
- Benefit is based on amount of contributions
- Funds invested individually by employees

What is a “Cash Balance” Plan?

- A “hybrid” plan
- Immediate vesting
- Employer contribution (if any) is defined
- Guaranteed annual minimum interest
- Retirement benefit is account balance (all contributions and interest) payable as lump sum or sometimes optionally as a lifetime annuity based on age and account balance
- Benefit is based on amount of contributions
- Funds invested by plan professionals

What Retirement Plans Are Available for Part-Time Faculty?

- A part-timer must be in one of the following:
 - CalSTRS Defined Benefit Plan (offered in all districts);
 - Social Security (if offered); or
 - Other alternative plan (if offered) such as CalSTRS Cash Balance, PARS, or APPLE
- A part-timer may also elect to be in a district 403(b), Roth 403(b), and/or 457 plan (if offered)
- Outside district: Traditional IRA, Roth IRA, and tax deferred annuities

What are the “WEP” and “GPO”?

- The “WEP” and “GPO” may apply if you concurrently receive retirement benefits from Social Security and also from CalSTRS DB, CalSTRS CB, PARS, etc.
- “WEP” is the Windfall Elimination Provision.
 - It may reduce your Social Security retirement benefits
 - See SSA Publication No. 05-10045
- “GPO” is the Government Pension Offset.
 - It may reduce or even wipe out your Social Security spousal, widow, or widower benefits
 - See SSA Publication No. 05-10007

CalSTRS Defined Benefit (DB) Plan

- A true “defined benefit” plan
- Need five years service credit to vest
- Minimum retirement age 55
- Retirement benefit is defined by a formula based on years of “service credit”, retirement age, and “earnable” salary last 3 years (usually)
- Contributions: 8.0% employee, 8.25% employer, and tax deferred
- Not portable (except for refunds)
- Defined Benefit Supplement (DBS) until 2010

Social Security

- A defined benefit plan (sort of)
- Need 40 “credits” to vest
- Minimum retirement age 62
- Retirement benefit defined by a formula based on average annual earnings over 35 years (more than other defined benefit plans)
- Contributions: 6.2% employee, 6.2% employer, and not tax deferred
- Not “portable” if you quit teaching, but available with most jobs

CalSTRS Cash Balance (CB) Plan

- A cash balance (hybrid) plan
- Immediate vesting
- Minimum retirement age 55
- Guaranteed annual interest, no admin fees
- Retirement benefit is account balance (all contributions and interest) payable as lump sum or lifetime annuity
- Contributions: at least 4% employer, at least 8% total, and tax deferred
- Portable if you quit teaching

PARS, APPLE, and other Cash Balance Plans

- Similar to CalSTRS Cash Balance Plan
- Differences from CalSTRS Cash Balance Plan:
 - Different contribution rates; e.g., PARS is 4.0% employer and 3.5% employee while some plans may be 0% employer
 - Administrative fees deducted from earnings

How Do You Choose a Plan?

- Will you vest?
- When do you plan to retire?
- Do you want a guaranteed benefit not based on contributions?
- How much is withheld from your paycheck?
- Do you want portability if you quit teaching?
- Will you be affected by the WEP and/or GPO?
- How much retirement benefit will you get?

How Do You Estimate Your Retirement Benefit?

- CalSTRS DB: See estimate on annual CalSTRS Member statement, do the math yourself, use calculator at www.calstrs.com, and/or meet with a CalSTRS counselor. Don't forget unused sick leave and AB 1586 alternative calculation.
- Social Security: See estimate on annual Social Security statement (excludes WEP), use one of the calculators at www.ssa.gov, and/or meet with a Social Security representative. Don't forget the WEP and/or GPO.

How Do You Estimate Your Retirement Benefit? (continued)

- CalSTRS CB and other cash balance plans: Estimate account balance (all contributions and interest) at retirement age and/or meet with a plan representative.
- CalSTRS CB: after estimating a lump sum benefit, estimate an equivalent lifetime monthly annuity benefit by using the Defined Benefit Supplement (DBS) Member-Only Annuity table (used by CalSTRS for both DBS and CB).

Can You Change Plans?

- Sometimes, yes
- Other times, maybe

CalSTRS DB: How Is a Retirement Benefit Calculated?

- The retirement benefit is calculated by the following formula:

Member-Only Benefit = Service Credit x Age Factor x Final Compensation

- If you are a CalSTRS DB member, you must understand this formula!!!
- Remember: your retirement benefit is not based on your account balance.

CalSTRS DB: What is “Service Credit” in the formula?

- **“Service credit”** is the number of years of credited service. Five years service credit is required to vest.
- Service credit earned in a year for a part-timer paid hourly is the number of hours worked divided by the **“full-time equivalent”** (**“FTE”**) for that type of service (e.g., 315 hrs worked ÷ 525 hrs FTE = .600 service credit).
- Service credit earned in a year for a part-timer paid by load should be the part-timer’s load (e.g., 60% load = .600 service credit).

CalSTRS DB: What is “Age Factor” in the formula?

- **“Age Factor”** is a percentage determined by your age in years and months on the last day of the month in which retirement is effective. It ranges from 1.10% to 2.40%, depending on age.
- At age 60 (“normal” retirement age) it is 2%.
- At age 63, it peaks at 2.4% (**a 20% increase in benefits compared to age 60, usually worth waiting for**).

CalSTRS DB: What is “Final Compensation” in the formula?

- **“Final Compensation”** is the average of the three highest consecutive years of “**earnable salary**” (not “**earned salary**)”.
- **“Earnable salary”** for each type of service is what a part-timer would theoretically earn in one school year if he or she worked full-time performing that service (e.g., taught the full number of FTE hours or taught a 100% load).
- Earnable salary for a part-timer paid hourly is the hourly rate multiplied by the FTE (e.g., \$100/hr x 525 hr FTE =\$52,500 earnable).

CalSTRS DB: What is “Final Compensation”? (continued)

- Earnable salary for a part-timer paid by load is the “earned” salary divided by the load (e.g., \$31,500 earned salary ÷ .60 load = \$52,500 earnable salary).
- **Caution:** for a part-timer with multiple earnable salaries (e.g., a “freeway flyer”), the earnable salary used for final compensation (highest 3 years only) is a weighted average of the multiple earnable salaries. **This may result in a lower retirement benefit than if the part-timer had fewer earnable salaries!**

CalSTRS DB: What is “Final Compensation”? (continued)

- E.g., assume a part-timer earns \$100/hr in District A with a 525 hr FTE and \$50/hr in District B with a 525 hr FTE.
- Earnable salary in District A = \$52,500/yr.
- Earnable salary in District B = \$26,250/yr.
- The overall earnable salary used for final compensation will be a **weighted average less than \$52,500/year**, possibly resulting in a reduced retirement benefit.

CalSTRS DB: Example of a Retirement Benefit Calculation

- Assume a part-timer retires at age 60 with 10 years service credit, a salary of \$100/hr the last 3 years, and a 525 FTE.

Member-Only Benefit

= Service Credit x Age Factor x Final Compensation

= 10 yrs x .02 x \$52,500

= \$10,500/yr

= \$875/mo

(**Note:** at least 20% more if retired at age 63)

CalSTRS DB: AB 1586

- Prior to 7/1/96 state law required all FTEs to be 1050 hours. Most credit part-timers received only one-half the service credit equitably earned. E.g., 315 hrs worked $\div 1050$ hrs FTE = .300, not .600.
- But if a part-timer did vest and retire, the reduced service credit was exactly offset by a proportionally equal increase in final compensation (earnable salary). Retirement benefits were equitable.

CalSTRS DB: AB 1586 (continued)

- Legislation enacted 7/1/96 and 1/1/99 made 525 hrs the minimum FTE for credit courses and 875 hrs the minimum FTE for adult education (non-credit) courses.
- In districts that complied, part-timers began receiving proper service credit. But when a part-timer retired, final compensation was also reduced and there was nothing to offset the reduced service credit earned prior to 7/1/96. So retirement benefits were reduced.

CalSTRS DB: AB 1586 (continued)

- AB 1586 (Education Code Section 22115(e)) was enacted 1/1/05 to correct the inadvertent reduction in benefits. It applies to all part-timers who were in DB prior to 7/1/96 and who also retired or will retire after 7/1/96.
- Nothing will happen until a part-timer retires. No additional service credit will be accrued. No supplemental statement will be sent by CalSTRS.

CalSTRS DB: AB 1586 (continued)

- When a part-timer retires, CalSTRS will do a second calculation of benefits as if a part-timer's district never stopped using a 1050 hour FTE. The part-timer will receive the larger of the two benefit calculations.
- **Caution:** You must understand AB 1586 to verify your benefit amount when you retire. You need to know if and when your district stopped using a 1050 hour FTE and what new FTE(s) it used instead.

CalSTRS DB: How Do You Estimate Your Retirement Benefit?

- 1) Estimate your total service credit at time of retirement
 - Find your service credit ending balance on your latest CalSTRS Retirement Progress Report (annual statement)
 - Add estimated future earned service credit
 - Convert unused sick leave to service credit using appropriate FTE and add it
- 2) Find your age factor at time of retirement from table at www.calstrs.com or in CalSTRS Member Handbook

CalSTRS DB: How Do You Estimate Your Retirement Benefit? (continued)

- 3) Estimate your final compensation using current pay schedule(s), taking into account future incremental pay raises (ignore future negotiated raises)
- 4) Apply the formula; i.e., multiply 1), 2), and 3) (Calculator available at www.calstrs.com.)
- Estimate is in today's dollars, assuming future negotiated raises are equal to inflation
- If you were in CalSTRS DB prior to 7/1/96, do alternative calculation required by AB 1586

CalSTRS DB: How Can You Increase Your Retirement Benefit?

- Increase your service credit: work more, don't get sick (unused sick leave is converted to service credit), or purchase additional service credit (including "consolidation" of your CB and DB accounts)
- Increase your age factor: Postpone retirement until age 63 (even if you reduce your load or resign before then, but do the math)
- Increase your final compensation: negotiate higher salaries, postpone retirement if pay rate will increase, and be wary of multiple earnable salaries your last three years

Social Security: How Is a Retirement Benefit Calculated?

- The retirement benefit formula is based on an employee's highest 35 years' earnings (many more years than other defined benefit plans)
- The formula favors lower wage earners
- First, all past earnings, subject to a maximum for each year, are indexed for inflation
- Then the highest 35 years' indexed earnings are added together

Social Security: How Is a Retirement Benefit Calculated? (continued)

- Next, the sum is divided by 420 (number of months in 35 years) to get “average monthly indexed earnings”
- Then, for a worker who turns 62 in 2011:
 - (1) The first \$749 of average monthly indexed earnings is multiplied by 90%
 - (2) The next \$3,768 is multiplied by 32%
 - (3) The remainder (amount over \$4,517) is multiplied by 15%

Social Security: How Is a Retirement Benefit Calculated? (continued)

- Finally, the three products are added together and the sum is rounded down to next lowest dollar to get the retirement benefit at “full retirement age”

Social Security: Example of a Retirement Benefit Calculation

- Assume that a worker turns 62 in 2011 and that the worker's highest 35 years' indexed earnings add up to \$1,500,000
- \$1,500,000 divided by 420 = \$3,571.42
average monthly indexed earnings
- (1) $\$749 \times 90\% = \674.10
- (2) $\$3,571.42 - \$749 = \$2,822.42$
- $\$2,822.42 \times 32\% = \903.17
- (3) $\$0 \times 15\% = \0
- $\$674.10 + \$903.17 + \$0 = \$1,577/\text{mo}$ benefit

Social Security: How Do You Estimate Your Retirement Benefit?

- You need your latest annual Social Security Statement and either a calculator (hard way) or an online computer (easy way)
- Note: your statement includes estimates for certain retirement ages but does not apply the WEP.
- Hard way: follow instructions on back of SSA publication No. 05-10070 (the one specific for your birth year), Your Retirement Benefit: How It Is Figured

Social Security: How Do You Estimate Your Retirement Benefit? (continued)

- Easy way (sort of):

- Use one of the calculators at:

<http://www.socialsecurity.gov/planners/benefit-calculators.htm>

- Note: the “Retirement Estimator” and “Quick Calculator” do not include reduction for the WEP
 - Estimate is in today’s dollars

CalSTRS CB: How Is a Retirement Benefit Calculated?

- The retirement benefit is the employee's account balance at time of retirement: i.e., total of all contributions (employee and employer) plus all compounded annual guaranteed interest
- The benefit is paid as a lump sum or, if over \$3500, may be paid as a lifetime annuity based on age and account balance

CalSTRS CB: How Do You Estimate Your Retirement Benefit?

- Find your CB account balance on your latest annual CalSTRS Retirement Progress Report
- Add the next year's estimated contributions, taking into account incremental pay raises (ignore future negotiated raises)
- Multiply sum by 1.0425 (using 2011-12 CB interest rate of 4.25%)
- Repeat for each year until retirement age
- Estimate is in today's dollars, assuming future negotiated raises are equal to inflation

CalSTRS CB: Example of Estimating a Retirement Benefit

- Assume annual CB statement for 2010-11 shows \$2,000 current year contributions (employee and employer) and \$20,000 account balance. Assume employee will work four more years at same load and salary until retirement age 65 in summer of 2015.
- Estimated new balance at end of 2011-12 = $(\$20,000 + \$2,000) \times 1.0425 = \$22,935.00$
- Estimated new balance at end of 2012-13 = $(\$22,935.00 + \$2,000) \times 1.0425 = \$25,994.73$

CalSTRS CB: Example of Estimating a Retirement Benefit (continued)

- Estimated new balance at end of 2013-14 =
 $(\$25,994.73 + \$2,000) \times 1.0425 = \$29,184.50$
- Estimated benefit at end of 2014-15 =
 $(\$29,184.50 + \$2,000) \times 1.0425 = \$32,509.64$
- Looking at the CalSTRS DBS Member-Only Annuity table, the equivalent lifetime monthly annuity benefit will be \$266 per month (\$205 for first \$25,000 + \$41 for next \$5,000 + \$20 for next \$2,509.64 = \$266/mo)

Retirement Issues Facing Part-Timers

- Low pay means low retirement benefits.
- The WEP and GPO are unfair.
- CalSTRS DB issues:
 - Too complex
 - Lack of accurate information
 - Inappropriate FTEs used by districts
 - Reduced benefit caused by multiple earnable salaries the last 3 years of employment
 - AB 1586 implementation problems
 - Possible need to transfer unused sick leave