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](http://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](http://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).
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)
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 ÷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.
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.
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.
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
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%
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/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
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) x 1.0425 = $22,935.00

- Estimated new balance at end of 2012-13 = ($22,935.00 + $2,000) x 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) x 1.0425 = $29,184.50
- Estimated benefit at end of 2014-15 = ($29,184.50 + $2,000) x 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