



California State Teachers'
Retirement System
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November 17, 2003

TO: All County Superintendents of Schools
District Superintendents of Schools
Community College Districts and
Other Employing Agencies

FROM: EXECUTIVE OFFICE

SUBJECT: EMPLOYER DIRECTIVE 2003-03
Supersedes Administrative Directive 91-06
One-Year Final Compensation Benefit Enhancement

PURPOSE

The purpose of this directive is to inform and update employers about the one-year final compensation benefit enhancement provisions for classroom teachers with fewer than 25 years of service credit. This benefit enhancement resulted from the enactment of Chapter 1184, Statutes of 1989, and Chapter 83, Statutes of 1990. This benefit is not to be confused with the one-year final compensation enhancement that benefits members who have 25 years of credited service.

SCOPE

This directive applies to all county superintendents of schools, school districts, community college districts, and all other agencies that employ active members as classroom teachers, as defined in Education Code Section 22135.

DISCUSSION

Since July 1, 1990, employers have had the option of negotiating a one-year final compensation benefit formula for the classroom teachers who work in their districts by entering into collective bargaining agreements with the exclusive representatives of the classroom teachers. Employer certification is required in order for an individual to receive this

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benefit if the member is a classroom teacher with fewer than 25 years of credited service at retirement.

The collective bargaining agreement must contain a mechanism to pay California State Teachers' Retirement System (CalSTRS) the present value cost of the additional benefit, as well as the administrative costs incurred by CalSTRS in the maintenance of the program.

This program consists of three critical elements:

- **Eligibility requirements:** Determination by the employer of the employee's eligibility to receive the benefit
- **Participation requirements:** Establishment and monitoring of benefit applications and certification of employer information
- **Billing and payment:** Employer submission of present value and administrative costs for CalSTRS payment of additional benefit to eligible recipient

I. Eligibility Requirements

- A. The employer must have entered into a written agreement with the exclusive representative for classroom teachers in the district pursuant to Title 1, Division 4, Chapter 10.7 of the Government Code (Section 3540 et seq.) (Refer to Attachment I, Sample Agreement.)
- B. Employers and employee organizations should ensure that their agreements address the treatment of members with fewer than 25 years of credited service and who retire, become disabled, or die prior to the date the agreement is signed by including a statement specifying the period during which one-year final compensation is available.
- C. The member must meet the eligibility requirements for service retirement, a disability allowance, disability retirement, or have survivors eligible to receive an ongoing survivor benefit as a result of the member's death on or after July 1, 1990.
- D. The employer must certify that the member has been employed as a classroom teacher, as defined in Education Code Section 22135, by the same employer for the last ten years immediately preceding the retirement effective date, the disability effective date, or the date of death. (See Attachment II, Education Code Section 22135.)

II. Participation Requirements

- A. The member's service retirement or disability effective date must be on or after July 1, 1990. The beginning date of ongoing survivor benefits must be on or after July 1, 1990.
- B. The employer must certify on a form prescribed by CalSTRS that the member meets the eligibility requirements.
 - 1. The service retirement certification document is the *Express Benefit Report* (SR 0554E) or the *Employment Termination and Sick Leave Report* (SR 0554).
 - 2. The disability certification document is the *Certification of Last Day of Paid Service* (MS 318 or MS 889).
 - 3. The ongoing survivor benefit certification document is the *Express Benefit Report* (SR 0554E) or the *Employment Termination and Sick Leave Report* (SR 0554).

III. Billing and Payment Requirements

- A. After calculating the increased benefit, CalSTRS will determine the associated present value and administrative costs and bill the employer for those costs. The administrative fee is \$250 per applicant if paid in a lump sum. If paid over four years, the administrative fee is \$280. The present value and administrative costs are subject to change as experience dictates. (Refer to Attachment IV, Present Value Factors and Example of Present Value Costs.)
- B. The employer is required to reimburse CalSTRS within 30 days of receiving an invoice for the total amount of the costs identified by CalSTRS.
- C. Interest will accrue at the regular interest rate for any payment not received within 30 days of receipt of the invoice. Payments not received within 30 days of the receipt date of the invoice may be collected pursuant to Education Code Section 23007.

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ACTION

This directive is intended to serve as a reference for administration of the one-year final compensation benefit enhancement. Please refer to it whenever any issue related to this benefit enhancement arises.

If additional information is needed, please contact Mr. Ricardo Pardell, Assistant Director of Service Retirement at (916) 229-3567.

JACK EHNES
Chief Executive Officer

Attachments

SAMPLE AGREEMENT

CalSTRS Benefits—One-Year Final Compensation

_____ (Employer) and _____ (Union) agree as follows with respect to benefits under the California State Teachers' Retirement System (CalSTRS) for members of _____ (bargaining unit) who are classroom teachers represented exclusively by _____ (Union) and who retire, become disabled or die after _____, _____.

1. Pursuant to Education Code Section 22135, final compensation for each affected classroom teacher shall be the highest annual compensation earnable by the teacher during any school year during his or her membership in CalSTRS.
2. The employer shall determine who is a classroom teacher in accordance with Education Code Section 22135.
3. Notwithstanding this agreement, the _____ (Employer and Union) understand that CalSTRS will not pay benefits in excess of the benefits payable under the laws governing CalSTRS.
4. All benefits provided by this agreement shall be paid through employer and employee contributions as follows:

In accordance with Education Code Section 22135, a trust fund will be established by _____ (Employer) and maintained solely to collect, retain, and disburse such contributions for the benefits provided by this agreement and associated costs.

5. _____ (Employer) shall remit to CalSTRS, at the time and in the amount determined by CalSTRS in accordance with the Education Code, the cost of the benefits provided under this agreement, including any associated administrative costs.
6. This agreement is made pursuant to Title 1, Division 4, Chapter 10.7, of the Government Code.
7. Upon execution of this agreement, _____ (Employer) shall notify all of its certificated employees of this agreement and of their ability, if applicable, to elect to terminate membership in the California Public Employees' Retirement System within ninety days of the notification date and to become a member of CalSTRS.

8. _____ (Employer) shall submit a signed copy of this agreement immediately after its signing to the following:

Mr. Ricardo Pardell
MS 60
CalSTRS
P.O. Box 15275
Sacramento, CA 95851-0275

Employer Signature

Date

Union Representative Signature

Date

“Final Compensation”; “Classroom Teacher”

22135. # (a) Notwithstanding subdivisions (a) and (b) of Section 22134, “final compensation” means the highest annual compensation earnable by an active member who is a classroom teacher who retires, becomes disabled, or dies, after June 30, 1990, during any period of 12 consecutive months during his or her membership in the plan’s Defined Benefit Program. The last 12 consecutive months of employment shall be used by the system in determining final compensation unless designated to the contrary in writing by the member.

(b) Section 22134, except subdivision (a) of that section, shall apply to classroom teachers who retire after June 30, 1990, and any statutory reference to Section 22134 or “final compensation” with respect to a classroom teacher who retires, becomes disabled, or dies, after June 30, 1990, shall be deemed to be a reference to this section.

(c) As used in this section, “classroom teacher” means any of the following:

(1) All teachers and substitute teachers in positions requiring certification qualifications who spend, during the last 10 years of their employment with the same employer which immediately precedes their retirement, 60 percent or more of their contract time each year providing direct instruction. For the purpose of determining continuity of employment within the meaning of this subdivision, an authorized leave of absence for sabbatical or illness, or other collectively bargained or employer-approved leaves shall not constitute a break in service.

(2) Other certificated personnel who spend, during the last 10 years of their employment with the same employer that immediately precedes their retirement, 60 percent or more of their contract time each year providing direct services to pupils, including, but not limited to, librarians, counselors, nurses, speech therapists, resource specialists, audiologists, audiometrists, hygienists, optometrists, psychologists, driver safety instructors, and personnel on special assignment to perform school attendance and adjustment services.

(d) As used in this section, “classroom teacher” does not include any of the following:

(1) Certificated employees whose job descriptions require an administrative credential.

(2) Certificated employees whose job descriptions include responsibility for supervision of certificated staff.

(3) Certificated employees who serve as advisers, coordinators, consultants, or developers or planners of curricula, instructional materials, or programs, who spend, during the last 10 years of their employment with the same employer that immediately precedes their retirement, less than 60 percent of their contract time in direct instruction.

(4) Certificated employees whose job descriptions require provision of direct instruction or services, but who are functioning in nonteaching assignments.

(5) Classified employees.

(e) This section shall apply only to teachers employed by an employer that has, pursuant to Chapter 10.7 (commencing with Section 3540) of Division 4 of Title 1 of the Government Code, entered into a written agreement with an exclusive representative, that makes this section applicable to all of its classroom teachers, as defined in subdivision (c).

(f) The written agreement shall include a mechanism to pay for all increases in allowances provided for by this section through employer contributions or employee contributions or both, which shall be collected and retained by the employer in a trust fund to be used solely and exclusively to pay the system for all increases in allowances provided by this section and related administrative costs; and a mechanism for disposition of the employee’s contributions if employment is terminated before retirement, and for the establishment of a trust fund board. The

trust fund board shall administer the trust fund and shall be composed of an equal number of members representing classroom teachers chosen by the bargaining agent and the employer. If

the employer agrees to pay the total cost of increases in allowances, the establishment of a trust fund and a trust fund board shall be optional to the employer. The employer, within 30 days of receiving an invoice from the system, shall reimburse the retirement fund the amount determined by the Teachers' Retirement Board to be the actuarial equivalent of the difference between the allowance the member or beneficiary receives pursuant to this section and the allowance the member or beneficiary would have received if the member's final compensation had been computed under Section 22134 and the proportionate share of the cost to the plan's Defined Benefit Program, as determined by the Teachers' Retirement Board, of administering this section. The payment shall include the cost of all increases in allowances provided for by this section for all years of service credited to the member as of the benefit effective date. Interest shall be charged at the regular interest rate for any payment not received within 30 days of receipt of the invoice. Payments not received within 30 days after receipt of the invoice may be collected pursuant to Section 23007.

(g) Upon the execution of the agreement, the employer shall notify all certificated employees of the agreement and any certificated employee of the employer, who is a member of the Public Employees' Retirement System pursuant to Section 22508, that he or she may, within 60 days following the date of notification, elect to terminate his or her membership in the Public Employees' Retirement System and become a member of this plan's Defined Benefit Program. However, only service credited under the Defined Benefit Program subsequent to the date of that election shall be subject to this section.

(h) An employer that agrees to become subject to this section, shall, on a form and within the timeframes prescribed by the system, certify the applicability of this section to a member pursuant to the criteria set forth in this section when a retirement, disability, or family allowance becomes payable.

(i) For a nonmember spouse, final compensation shall be determined pursuant to paragraph (2) of subdivision (c) of Section 22664. The employer, within 30 days of receiving an invoice from the system, shall reimburse the retirement fund pursuant to subdivision (f). Interest shall be charged at the regular interest rate for payment not received within the prescribed timeframe. Payments not received within 30 days of invoicing may be collected pursuant to Section 23007.

1. *Added by Chapter 1184, Statutes of 1989;*
2. *Amended by Chapter 83, Statutes of 1990 - Effective 5-3-90;*
3. *Amended by Chapter 543, Statutes of 1991;*
4. *Recodified from former Section 22127.1 by Chapter 893, Statutes of 1993;*
5. *Amended by Chapter 933, Statutes of 1994 - Effective 9-27-94;*
6. *Amended by Chapter 383, Statutes of 1996;*
7. *Amended by Chapter 939, Statutes of 1999.*

California State Teachers' Retirement System
 Present Value (\$1.00 per month) of Normal Allowance + 2% Increases
 Weighted 45%M – 55%F
 (Effective 1-1-2002)

<u>Age</u>	<u>Even</u>	<u>+1/4</u>	<u>+1/2</u>	<u>+3/4</u>
50	168.211	167.812	167.412	167.013
51	166.613	166.193	165.772	165.352
52	164.931	164.489	164.048	163.606
53	163.164	162.700	162.236	161.771
54	161.307	160.820	160.334	159.847
55	159.360	158.850	158.341	157.831
56	157.321	156.787	156.252	155.718
57	155.183	154.624	154.064	153.505
58	152.945	152.361	151.777	151.192
59	150.608	150.000	149.392	148.784
60	148.176	147.546	146.916	146.285
61	145.655	145.003	144.351	143.699
62	143.047	142.374	141.701	141.027
63	140.354	139.660	138.967	138.273
64	137.579	136.866	136.153	135.439
65	134.726	133.995	133.265	132.534
66	131.803	131.056	130.309	129.561
67	128.814	128.051	127.288	126.525
68	125.762	124.983	124.204	123.425
69	122.646	121.849	121.052	120.254
70	119.457	118.638	117.820	117.001
71	116.182	115.337	114.493	113.648
72	112.803	111.930	111.057	110.183
73	109.310	108.409	107.507	106.606
74	105.704	104.778	103.851	102.925
75	101.998	101.049	100.099	99.150
76	98.200	97.227	96.254	95.280
77	94.307	93.309	92.310	91.312
78	90.313	89.377	88.442	87.506
79	86.570	85.637	84.705	83.772
80	82.839	81.914	80.990	80.065
81	79.140	78.228	77.316	76.404
82	75.492	74.533	73.574	72.614
83	71.655	70.767	69.878	68.990
84	68.101	67.239	66.376	65.514
85	64.651	63.815	62.979	62.143
86	61.307	60.506	59.705	58.904
87	58.103	57.290	56.477	55.663
88	54.850	54.067	53.284	52.501
89	51.718	50.973	50.228	49.482
90	48.737	48.034	47.330	46.627
91	45.923	45.264	44.606	43.947
92	43.288	42.676	42.063	41.451
93	40.838	40.260	39.682	39.104
94	38.526	37.985	37.443	36.902
95	36.360	35.855	35.351	34.846

EXAMPLE OF PRESENT VALUE COSTS

The teacher is 56 years old (exactly) with 24.050 years of service credit.

Three-year formula

Salaries:	2002-2003	60,000	
	2001-2002	56,000	
	2000-2001	<u>52,000</u>	
			\$168,000 ÷ 36 months = \$4,666.67 (final compensation)

<u>Service Credit</u>		<u>Age Factor</u>		<u>Final Compensation</u>		<u>Monthly Benefit</u>
24.050	x	0.0152	x	\$4,666.67	=	\$1,705.95

One-year formula

Salary: 2002-2003 \$60,000 ÷ 12 months = \$5,000.00 (final compensation)

<u>Service Credit</u>		<u>Age Factor</u>		<u>Final Compensation</u>		<u>Monthly Benefit</u>
24.050	x	0.0152	x	\$5,000.00	=	\$1,827.80

Present Value Cost Calculation

One-year formula benefit	\$1,827.80
Three-year formula benefit	<u>\$1,705.95</u>
Difference	\$ 121.85

<u>Difference in Monthly Benefit</u>		<u>Present Value Factor</u>		<u>Present Value Cost to Employer</u>
\$121.85	x	157.321	=	\$19,169.56