

Employer Information Circular

Volume 24; Issue 5

April 30, 2008

Effects of Reduction of Funds to Schools

Due to budget constraints, some school districts may be considering furloughs, salary reductions and retirement incentives. Following is information about the potential effects of furloughs, salary reductions, and retirements to employers and CalSTRS members.

Q. What is the impact of a mandatory staff furlough on members of CalSTRS' Defined Benefit (DB) Program?

A. If an employer reduces the number of base days required for a class of employees, the employer shall report the actual earnings of each employee as well as the adjusted compensation earnable for the school year. As a result, the employees' final compensation will be lowered while their credited service will remain the same.

Compensation earnable represents the compensation the employee would earn if they worked full time. Full time is defined as the number of days or hours required for full-time employment. While this may vary by employer or class of employee, Education Code Section 22138.5 establishes minimum standards.

Q. What if employees voluntarily participate in a furlough?

In the event an employee voluntarily reduces his or her time base, the actual earnings should be reported to CalSTRS. The compensation earnable should remain unchanged. As a result, the employee's credited service will be reduced.

Q. How does a staff furlough impact the employee's retirement benefit?

A. Non-voluntary furloughed employees may have a lower final compensation provided the furloughed year is part of the highest one year or three year final compensation period.

Voluntary furloughed employees will have less service credit when they retire.

Q. How does a salary reduction impact the employee's retirement benefit?

A. Members who receive a salary reduction due to a reduction in school funds may be eligible for nonconsecutive final compensation. With nonconsecutive final compensation, upon verification by the employer, CalSTRS will use any three nonconsecutive school years to determine final compensation. The employer must certify on the member's Express Benefit

Report (SR 0554E) that the member is eligible for this final compensation calculation because the member's salary was reduced due to a reduction in school funds for the specified school year.

CalSTRS will automatically determine the most advantageous final compensation by searching the past 15 years of records. In some cases, it may be more advantageous for the member to designate an earlier period. For those members who earned higher salaries earlier in their careers, a benefits counselor can help them find the final compensation period that is best for them.

Q. How does a mid-year retirement affect the employee's retirement benefit?

A. If a member retires in the middle of the school year, his or her final compensation may be lower than expected. This is because, unless the employee had higher salaries earlier in his/her career, CalSTRS is required to include the average of the salary from the last school year as part of the 12 months used to calculate final compensation. For members planning mid-year retirements, CalSTRS recommends that they meet with a benefits counselor to ensure they understand the impact on their retirement benefit. If you are contemplating offering an incentive for employees to retire in mid-year, please contact CalSTRS at (800) 228-5453 to schedule a workshop for your employees so they can understand the implications of a mid-year retirement on their benefits.

Q. Can the district offer a retirement incentive?

A. Yes, an employer may offer a retirement incentive. There are two types of incentives, a school district incentive and the CalSTRS Retirement Incentive. Each affect an employee's retirement differently.

Cash paid as a retirement incentive is not creditable to the Defined Benefit Program; however, it is credited to the member's Defined Benefit Supplement account.

The CalSTRS Retirement Incentive Program increases the monthly benefit for eligible members. For information about this incentive program, please refer to Employer Directive 2003-06, Retirement Incentive Programs for CalSTRS Members Authorized by Assembly Bill 1207 (Chapter 313, Statutes of 2003).

Q. Can members who receive employer incentives return to work?

A. Yes, but if an employee who received a CalSTRS Retirement Incentive returns to work with the same employer who granted the retirement incentive within five years, he or she will forfeit the retirement incentive from the date they returned to work. Work as a substitute or summer school employment will trigger the forfeiture of the retirement incentive.

All retired members are subject to the post-retirement employment earnings limitation unless the position falls under one of the post-retirement earnings limit exemptions. This limit is adjusted each July 1 by the Teachers' Retirement Board. An annual directive informs employers of the post-retirement earnings limitation for the fiscal year, any legislative changes to the post

retirement earnings law, and CalSTRS post-retirement excess earnings process, including the financial implications of a retiree exceeding the earnings limit. Additionally, the directive specifies the employer's responsibilities to inform CalSTRS retired members of the earnings limitation, how to report post retirement earnings, and retirement incentive restrictions and the classified position restriction.

If you have any questions regarding the reporting of compensation, please contact your county office of education or a CalSTRS representative.