

# Employer Information Circular

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## Effects of Reduction of Funds to Schools

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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 effect 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.

For example, an employer mandates that the base days for a class of employees will be reduced from 185 days to 182 days due to budgetary cuts, the employer would calculate the new annual rate of pay by multiplying the employee's daily rate by 182 (the new base day total) for the annual salary. The annual salary is then divided by the months in the school year to equal the monthly rate. If the base days are reduced mid-year, the employer must do a negative retroactive pay adjustment (CC5). An example of the F496 line and CC5 line is provided below:

Co/Dist	Mbr/Assn	Payrate	Pay Code	Earnings	Contrib Rate	Contrib Code	Contrib Amt	Serv Beg/End	Serv Cred
11/111	1-57	3700.00	3	3700.00	.0800	1	240.00	0901-0930	.1000
11/111	1-57	3640.00	3	-60.00	.0800	5	-4.80	0901-0930	

On the other hand, if an employer imposes a furlough as in the above example and does not reduce the annual pay rate for a class of employees, the employees will earn less service credit. An example of the F496 line is shown on the next page.

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Co/Dist	Mbr/Assn	Payrate	Pay Code	Earnings	Contrib Rate	Contrib Code	Contrib Amt	Serv Beg/End	Serv Cred
11/111	1-57	3700.00	3	3100.00	.0800	1	248.00	0901-0930	.0837

Compensation earnable represents the compensation the employee would earn if he or she 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. In no circumstance can the base days be below the minimum standard as described in Education Code 22138.5.

**Q. What if employees voluntarily participate in a furlough?**

In the event an employee voluntarily reduces his or her time base, the compensation earnable should remain unchanged. Because the actual earnings that would now be reported to CalSTRS have been reduced, however, the employee’s credited service will be reduced.

For example, the employer is giving a class of employees the option of taking three furlough days during the school year and the employer requires 185 days in the base year, the base days remain at 185. The service credit earned will be less in the month the person chose to take a furlough day and the employee’s earnings will be reduced by the number of furlough days taken. An example of the F496 lines is provided below when the furlough day is voluntarily taken:

Non-furloughed employee

Co/Dist	Mbr/Assn	Payrate	Pay Code	Earnings	Contrib Rate	Contrib Code	Contrib Amt	Serv Beg/End	Serv Cred
11/111	1-57	3700.00	3	3700.00	.0800	1	296.00	0901-0930	.1000

Furloughed employee

11/111	1-57	3700.00	3	3100.00	.0800	1	248.00	0901-0930	.0837
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An employee who is on voluntary furlough could make up the service credit lost by performing extra duties, such as teaching summer school.

**Q. How would a staff furlough affect an employee participating in the Reduced Workload Program?**

A. If an employee who is participating in the Reduced Workload Program fails to attain .500 year of service credit for actual service for any reason, including furlough, an employee is considered to be in default of the RWP agreement and would receive only service credit for time actually worked. Employers are encouraged to advise their employees of these scenarios and suggest that employees work at a percentage above the 50 percent minimum if a furlough is contemplated.

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

A. Non-voluntary furloughed employees may have a lower final compensation if 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 if they do not perform additional service such as summer school service. If the contributions for this additional service would have been credited to the employee's Defined Benefit supplement account, his or her DBS benefit will be lower than it otherwise would have been.

**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. This applies to members who do not qualify for the one year final compensation. In all cases 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.

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.

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

A. If a member whose highest average compensation includes the last school year retires in the middle of the school year, his or her final compensation may be lower than expected. This is because 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, if the incentive is paid prior to retirement it is credited to the member's Defined Benefit Supplement account.

Pursuant to Education Code section 22714, the CalSTRS Retirement Incentive Program adds two years of service credit to the monthly benefit of eligible members. Please also note that while the 2+2 incentive (i.e. two years of service credit as well as a two-year increase to age factor) is no longer available, employers could have passed a resolution prior to the end of the 2004 calendar year offering the 2+2 incentive for future window periods. For more information about these incentives, please refer to Employer Directive 2003-06.

**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, even as a substitute or for summer school, the two additional years of service credit for the incentive will be forfeited on the date he or she returned to work.

All retired members are subject to the post-retirement employment earnings limitation unless the member qualifies for one of the post-retirement earnings limit exemptions. Please note that members who receive the retirement incentive are not eligible for the limited-term or emergency exemption under Education Code section 24216 for at least one year from the effective date of their retirement. The earnings 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 responsibilities to inform CalSTRS retired members of the earnings limitation, how to report post retirement earnings, and of retirement incentive restrictions and the classified position restriction. The earnings limitation is 2008-09 is \$29,700, and will be \$30,580 in 2009-10.

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