

Employer Information Circular



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Impact of Staff Furloughs or Salary Reductions on CalSTRS Members

The current state fiscal crisis has generated several inquiries to the California State Teachers' Retirement System (CalSTRS) regarding the potential impact upon our members if employers address budgetary constraints through staff furloughs or salary reductions. The following information is provided in response to such inquiries.

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

A. If the employer reduces the number of base days required for a class of employees, the compensation earnable for the school year is also reduced. The employer must report the actual earnings of the each employee and the adjusted compensation earnable for the school year. By adjusting the compensation earnable to reflect the reduction in the number of days the class of employees is required to work in the school year, the employees will receive the appropriate amount of credited service for the year.

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. So if an employer decides to reduce the number of base days required for a class of employees in order to reduce their payroll expenses the reduction must be for the entire class of employees and cannot be less than the minimum standard.

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

A. In the event that the employee applies for a retirement benefit within the next three years a reduction in the compensation earnable for any of these years may reduce the final compensation used in the calculation of the member's DB Program benefit. If this occurs, the employee should be advised to determine the beginning date of the consecutive 12 month (if 25 or more years of credited service) or 36 month period for which their average annual compensation earnable was highest and to specify that beginning date on their retirement application.

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If the employer reduces the base days, the employer MUST report the actual earnings of the employee and the correct compensation earnable. You cannot report a higher earnable in order to maintain the inflated compensation earnable.

Q. What if employees voluntarily participate in a furlough?

A. In the event that an employee voluntarily reduces their time base, their compensation earnable remains unchanged. However, the employee's credited service will be reduced as the result of their reduced earnings without a reduction in their compensation earnable. Employees can purchase additional service credit, but any purchased nonqualified service does not count as credited service required to qualify for One-year Final Compensation, the Career Factor or Longevity Bonus. If the reduction is not voluntary, the employer MUST report a lower compensation earnable. Accordingly, the employee's service credit would not be reduced.

Q. Can the district offer a retirement incentive?

A. An employer may offer a retirement incentive. However, the retirement incentive will not be used in the calculation of the member's final compensation for the member's retirement benefit. The compensation and associated member and employer contributions must be reported to CalSTRS and will be credited to the member's Defined Benefit Supplement account.

Q. What if the member retires before the end of the school year and performs creditable service following their retirement date?

A. The member will be subject to the post-retirement employment earnings limitation. For the 2002/2003 school year the earnings limitation is \$24,934. This limit is adjusted each July 1, by the Teachers' Retirement Board.

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