

# Employer Information Circular

## CALSTRS

Volume: 19 Issue: 9
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Date: October 9, 2003
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Service Retirement • P.O. Box 15275 • Sacramento, CA 95851-0275

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## CalSTRS Retirement Incentive Programs

Assembly Bill 1207 (Corbett), enacted as Chapter 313, Statutes of 2003, reestablished and made permanent an existing retirement incentive program (often referred to as the “Golden Handshake”) that provides an additional two years of service credit to members of the Defined Benefit (DB) Program who are employed by participating school employers that are able to demonstrate a cost savings. A new retirement incentive program was also established in Chapter 313 effective January 3, 2004, through December 31, 2004, (inclusive). Under the new incentive program, a school employer may provide, at the employer’s cost, an additional two years of service credit and two years of age to be added to a member’s age at retirement to increase the amount of the member’s monthly retirement allowance. This new incentive program is often referred to as the “2 + 2”. The purpose of this circular is to provide some immediate information to employers that may be interested in participating in one of these programs. An employer directive will be issued to provide further direction to employers on the new retirement incentives. CalSTRS expects this directive to be issued in December 2003.

### Summary of the Retirement Incentive Programs

Eligible CalSTRS DB Program members may receive

- Two additional years of service credit to be used in their benefit calculation OR
- An additional two years of service credit and an additional two years of age added to increase the age factor which is used in determining the member’s retirement allowance.

The additional two years of service credit granted under either retirement incentive program doesn’t count towards eligibility for benefit enhancements or towards qualifying for a retirement benefit. Employers, including charter schools, may offer one or both of the retirement incentives, but may not combine or use a portion of either incentive.

All members of the CalSTRS DB Program who are eligible to retire may receive the retirement incentive if their current employer agrees to offer either retirement incentive within a designated period of time (referred to as the “window period”). A DB Program member is eligible to retire at:

- Age 55 with at least five years of service credit,
- Age 50 with at least 30 years of service credit (excluding unused sick leave or service credit granted under either retirement incentive), or

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- Age 55 with less than five years of service credit but eligible for concurrent retirement with another California public retirement system such as the California Public Employees' Retirement System.

### **Cost of the Retirement Incentives**

The cost of the retirement incentive for each member will vary depending on his or her specific age, service credit and final compensation. For example, a member who is age 60 with 30 years of service credit and has a monthly final compensation amount of \$5,000 per month would receive an additional \$220 per month for two additional years of service credit or an additional \$520 per month for two additional years of service credit and two additional years of age. The employer's cost would be approximately \$35,400 for the two years of service credit and approximately \$86,894 for two years of service credit and two years of age.

The maximum age factor anyone can receive continues to be 2.4 percent, including the career factor and/or retirement incentive. For members needing less than two additional years to reach the maximum age factor, only the number of years necessary to reach the maximum age factor will be added. Employers are only required to pay for the actual increase in the benefit amount. For those members ages 63 and older, or ages 61.5 and older with 30 or more years of service, no additional years will be added to their age factor calculation, and will not be used to calculate employer's cost because those members are already at the maximum age factor.

The employer may pay for the incentive in one payment or via a deferred payment plan over eight years. Deferred plans may be paid early with no early payment penalty. Regular interest compounded monthly will be charged on the balance for deferred payment plans. Each year, the Teachers' Retirement Board establishes the regular interest rate. Once established for a specific deferred plan, that interest rate will not change. CalSTRS will accept payments for the cost of the retirement incentive only from the employer; we are prohibited from receiving payments directly from members to pay for the retirement incentives.

### **Calculating the Cost for a Specific CalSTRS Member**

The actual cost of the retirement incentive will be provided by CalSTRS after the appropriate forms are submitted. The process for submitting the forms and other information will be included in the upcoming employer directive. Employers can, however, estimate the cost for any specific eligible employee by following the steps below.

#### **For 2 years Service Credit incentive**

1. a. For members with 25 or more years of credited service, determine the highest fiscal year of the member's earnable (contract) salary plus special compensation creditable to the DB Program.  
b. For members with less than 25 years of credited service, add the three highest fiscal years of the member's earnable (contract) salary (plus special compensation) and divide the sum of the three years salary by 3 to get the average yearly salary.

2. Multiply the highest annual compensation earnable or average annual compensation earnable (result from number 1 above) by the factor which is based on the member's age in years and months at retirement from Table 1 on Exhibit A (less than 30 years service credit) or Table 2 (more than 30 years service credit).

Example:

John Reed has 29 years of service credit, is 59 years old (even) and his annual compensation earnable is \$59,000. Calculate the total cost of offering the 2 years service credit retirement incentive for John:

$$\$59,000 \times .514 \text{ (from Table 1)} = \mathbf{\$30,326} \text{ Employer's Estimated Cost*}$$

**For 2 years service credit and 2 years of age increase incentive**

1. Calculate 2 years additional service credit using 1 and 2 from above.
2. Find the value in Table 3 (less than 30 years service credit) or Table 4 (more than 30 years service credit) corresponding to the member's age in years and months and multiply the factor times the member's years of service credit (including the two years of service credit granted under the incentive).
3. Multiply the result by the highest final compensation.
4. Add this figure to the employer's estimated cost total in number 1.

This is the estimated cost of the 2+2 retirement incentive for that employee.

Example:

Using John Reed's employment information (29 years of service credit, prior to the retirement incentive, 59 years old and annual compensation earnable of \$59,000), calculate the cost of offering the 2+2 retirement incentive to John:

Step 1: Calculate 2 years additional service credit cost. (Already done above: \$30,326)

Step 2: Find factor based on age in years and months in Table 3, .03458 X 29 (years of service credit) plus 2 (years of service credit under the retirement incentive) X annual compensation earnable = \$63,246.

Step 3: Total cost for 2+2 is: \$30,326 + \$63,246 = **\$93,572** Employer's Estimated Cost\*

\* Estimated employer's cost excluding administrative fee and regular interest for deferred payment plans.

**Offering the Retirement Incentive**

Offering either of the retirement incentive programs is not mandatory, but is at the discretion of each employer. School districts, county offices of education or community college districts must agree pursuant to a memorandum of understanding between the employer and the representative employee organization to offer the program. Members who are not represented by an employee

organization may receive the retirement incentive if the governing board of the school district, community college district, or county office of education takes formal action to provide the benefit to all of its employees who are members of the DB Program. In addition, the school district, county office of education or community college district must be able to certify to its County Office of Education, the Superintendent of Public Instruction or Community College Chancellor's Office, respectively, a net cost savings for offering the program. It is not necessary that the employer realize a cost savings for each individual employee; the net savings may be realized through the retirement of all of its employees who retire under the incentive.

Forms will be available in the employer directive that

- Certify the cost savings and the "window period",
- Certify information related to participating CalSTRS members and cost savings for each as well as the total cost savings, and
- Provide employer certification of eligibility for each member including the desired payment plan.

These forms will have to be completed and submitted to CalSTRS.

#### **Conditions Imposed on Employers Offering a Retirement Incentive**

Two year service credit incentive. The governing board of a participating school district that grants the two years of service credit incentive must take formal action by adopting a resolution to offer the benefit to all its employees who are DB Program members and eligible to retire. The employees must retire during the "window period" of 60 to 120 days, as specified in the formal action. The "window period" must begin after the adoption of the board resolution

Two years of service credit and two years of age incentive. A school district that grants the two years of service credit and two years of age to employees who are DB Program members and eligible to retire must either: 1) provide the benefit pursuant to a memorandum of understanding between the employer and a representative employee organization, or 2) in order to grant the benefit to members who are not represented by an employee organization, have its governing board take formal action to offer the benefit to all eligible members of the DB Program. The member must retire within the window period designated in the Board's resolution.

#### **Duration of the Incentive Program**

The authorization to grant two years of service credit does not expire. The provisions of the two years of service credit and two years of age incentive expire on January 1, 2005. Unfortunately, Chapter 313 is not clear whether a district can, prior to January 1, 2005; offer the retirement incentive for those members who plan to retire beyond December 31, 2004. CalSTRS is currently evaluating the appropriate interpretation of this provision and expects that a decision on this matter will be included in the employer directive. In the meantime, it is clear that employers may designate window periods for the 2+2 retirement incentive from January 3 to December 31, 2004.

### **Restrictions on post-retirement employment**

Members who retire and receive either of the retirement incentives and then return to work would forfeit the benefit increase received through either of the incentives. This includes

- The retired member reinstating to active CalSTRS member status. The benefit is forfeited as of the reinstatement date and will not be included in future retirement allowance calculations.
- The member continuing to receive the retirement benefit and returning to work in any job for any California public school district within one year of the retirement date. The law does not provide any exemption from this restriction, unlike exemptions from post-retirement earnings limits that currently exist for those members who retire without receiving a retirement incentive. The benefit increase is forfeited effective on the first day of the month in which the member worked. Even if the benefit increase is forfeited, any remaining balance due to CalSTRS must still be paid by the employer.
- The member continuing to receive the retirement benefit and returning to work in any job with the school district that granted the retirement incentive within five years of the retirement. The law also does not provide for any exemption from this restriction. The benefit increase is forfeited effective on the first day of the month in which the member worked. Even if the benefit increase is forfeited, any remaining balance due to CalSTRS must still be paid by the employer.

In addition, a member who receives unemployment insurance payments within a year of his or her retirement date will forfeit the benefit increase received through either incentive.

### **Obtaining More Information on the Retirement Incentive Programs**

As indicated earlier, CalSTRS is preparing a detailed employer directive which will include more information, instructions, procedures and forms employers can use in order to participate in the incentive programs. The directive is scheduled to be published and distributed sometime in December of 2003. Until that time general inquiries may be forwarded to Nancy Thomas of Service Retirement at (916) 229-3280 or Terence Hung of Accounting Services at (916) 229-4786. If you will be offering either of these programs, you are encouraged to notify your local CalSTRS Benefits Counseling office and let them know which incentive and when you are planning to offer it so that CalSTRS can plan for the necessary benefit workshops and the increased demand for pre-retirement interviews.

**Table 1**  
**Less Than 30 Years of Service**  
**Use for 2 Years of Additional Service Credit**

AGE	MONTHS OF AGE			
	0-2	3-5	6-8	9-11
<b>50</b>	<b>0.345</b>	<b>0.349</b>	<b>0.353</b>	<b>0.357</b>
51	0.359	0.363	0.367	0.371
52	0.373	0.376	0.379	0.382
53	0.386	0.389	0.392	0.395
54	0.398	0.401	0.404	0.407
<b>55</b>	<b>0.410</b>	<b>0.417</b>	<b>0.424</b>	<b>0.431</b>
56	0.438	0.445	0.452	0.459
57	0.465	0.471	0.477	0.483
58	0.490	0.496	0.502	0.508
59	0.514	0.520	0.526	0.532
<b>60</b>	<b>0.536</b>	<b>0.542</b>	<b>0.548</b>	<b>0.554</b>
61	0.561	0.567	0.573	0.579
62	0.584	0.589	0.594	0.599
63	0.604	0.601	0.598	0.595
64	0.591	0.588	0.585	0.582
<b>65</b>	<b>0.577</b>	<b>0.574</b>	<b>0.571</b>	<b>0.568</b>
66	0.563	0.560	0.557	0.554
67	0.549	0.545	0.541	0.537
68	0.534	0.531	0.528	0.525
69	0.520	0.516	0.512	0.508
<b>70</b>	<b>0.505</b>	<b>0.501</b>	<b>0.497</b>	<b>0.493</b>
71	0.490	0.486	0.482	0.478
72	0.475	0.471	0.467	0.463
73	0.459	0.455	0.451	0.447
74	0.443	0.439	0.435	0.431
<b>75</b>	<b>0.426</b>	<b>0.422</b>	<b>0.418</b>	<b>0.414</b>
76	0.409	0.405	0.401	0.397
77	0.392	0.388	0.384	0.380
78	0.375	0.371	0.367	0.363
79	0.359	0.355	0.351	0.347
<b>80</b>	<b>0.343</b>	<b>0.339</b>	<b>0.335</b>	<b>0.331</b>

**Table 2**  
**30 or More Years of Service**

**Use for 2 Years of Additional Service Credit**

AGE	MONTHS OF AGE			
	0-2	3-5	6-8	9-11
<b>50</b>	<b>0.408</b>	<b>0.411</b>	<b>0.414</b>	<b>0.417</b>
51	0.421	0.424	0.427	0.430
52	0.434	0.437	0.440	0.443
53	0.446	0.449	0.452	0.455
54	0.458	0.461	0.464	0.467
<b>55</b>	<b>0.468</b>	<b>0.475</b>	<b>0.482</b>	<b>0.489</b>
56	0.495	0.502	0.509	0.516
57	0.521	0.527	0.533	0.539
58	0.546	0.552	0.558	0.564
59	0.569	0.574	0.579	0.584
<b>60</b>	<b>0.590</b>	<b>0.596</b>	<b>0.602</b>	<b>0.608</b>
61	0.613	0.614	0.615	0.616
62	0.618	0.615	0.612	0.609
63	0.604	0.601	0.598	0.595
64	0.591	0.588	0.585	0.582
<b>65</b>	<b>0.577</b>	<b>0.574</b>	<b>0.571</b>	<b>0.568</b>
66	0.563	0.560	0.557	0.554
67	0.549	0.545	0.541	0.537
68	0.534	0.531	0.528	0.525
69	0.520	0.516	0.512	0.508
<b>70</b>	<b>0.505</b>	<b>0.501</b>	<b>0.497</b>	<b>0.493</b>
71	0.490	0.486	0.482	0.478
72	0.475	0.471	0.467	0.463
73	0.459	0.455	0.451	0.447
74	0.443	0.439	0.435	0.431
<b>75</b>	<b>0.426</b>	<b>0.422</b>	<b>0.418</b>	<b>0.414</b>
76	0.409	0.405	0.401	0.397
77	0.392	0.388	0.384	0.380
78	0.375	0.371	0.367	0.363
79	0.359	0.355	0.351	0.347
<b>80</b>	<b>0.343</b>	<b>0.339</b>	<b>0.335</b>	<b>0.331</b>

**Table 3**  
**Less Than 30 Years of Service**

**Use for the 2 + 2 Program**

AGE	MONTHS OF AGE			
	0-2	3-5	6-8	9-11
<b>50</b>	<b>0.01881</b>	<b>0.01875</b>	<b>0.01869</b>	<b>0.01863</b>
51	0.01858	0.01852	0.01846	0.01840
52	0.01834	0.01828	0.01822	0.01816
53	0.01809	0.02025	0.02241	0.02457
54	0.02674	0.02884	0.03094	0.03304
<b>55</b>	<b>0.03512</b>	<b>0.03498</b>	<b>0.03484</b>	<b>0.03470</b>
56	0.03457	0.03443	0.03429	0.03415
57	0.03400	0.03385	0.03370	0.03355
58	0.03341	0.03370	0.03399	0.03428
59	0.03458	0.03489	0.03520	0.03551
<b>60</b>	<b>0.03580</b>	<b>0.03562</b>	<b>0.03544</b>	<b>0.03526</b>
61	0.03509	0.03060	0.02611	0.02162
62	0.01712	0.01284	0.00856	0.00428
63 or older	0	0	0	0



**Table 4**  
**30 or More Years of Service**

Use for the 2 + 2 Program

AGE	MONTHS OF AGE			
	0-2	3-5	6-8	9-11
<b>50</b>	<b>0.01881</b>	<b>0.01875</b>	<b>0.01869</b>	<b>0.01863</b>
51	0.01858	0.01852	0.01846	0.01840
52	0.01834	0.01828	0.01822	0.01816
53	0.01809	0.02025	0.02241	0.02457
54	0.02674	0.02884	0.03094	0.03304
<b>55</b>	<b>0.03512</b>	<b>0.03498</b>	<b>0.03484</b>	<b>0.03470</b>
56	0.03457	0.03443	0.03429	0.03415
57	0.03400	0.03385	0.03370	0.03355
58	0.03341	0.03370	0.03399	0.03428
59	0.03458	0.03264	0.03070	0.02876
<b>60</b>	<b>0.02682</b>	<b>0.02232</b>	<b>0.01782</b>	<b>0.01332</b>
61	0.00881	0.00661	0.00441	0.00221
62 or older	0	0	0	0