

# **Impacts of AB 340 on CalSTRS Members**

California Public Employees' Pension  
Reform Act of 2013

# Comprehensive Hybrid System



## What is the Current Benefit Program?

- For full-time and electing part-time educators
- Defined Benefit Program
  - Formula-based benefit
    - Age at retirement
    - Years of service (up to one year annually)
      - » Service credit can be enhanced through purchases of service credit or unused sick leave
    - Final compensation (one year or three year highest)

## What is the Current Benefit Program?

- Defined Benefit Supplement
  - Benefit based on contributions and guaranteed interest credited to account
  - Contributions paid on compensation for more than one year of annual service
  - Limited-time compensation
- Pension2

## What is the Current Benefit Program?

- For electing part-time educators (adjunct faculty)
  - Cash Balance Benefit Program
    - Similar to DBS Program
    - No service credit
    - Contributions at least equal to 8 percent on all creditable compensation
    - Benefits payable as lump sum or monthly annuity
  - Pension2

## Pension Reform Impact

- What changes apply to current CalSTRS members and retirees?
- When will the changes take place?

## Assembly Bill 340 Approved

- 9/12/ 2012 Governor Brown approves Assembly Bill 340
  - California Public Employees' Pension Reform Act of 2013 (PEPRA)
- Takes effect 1/1/ 2013
- Impacts current and new CalSTRS members

## New Members

- ***New Members are subject to the new benefit structure***
- ***New*** members: Individuals who are first hired to perform CalSTRS creditable activities on or after January 1, 2013



## Current Members

- ***Current Members are subject to the existing benefit structure***
- ***Current*** members: Individuals who are first hired to perform CalSTRS creditable activities on or before December 31, 2012. This includes those who:
  - Were CalSTRS members before 2013, terminated membership, and return to active membership on or after January 1, 2013
  - Performed CalSTRS creditable activities even if they were subject to coverage under a different retirement system

## Current Members continued

- Potential clean-up legislation in early 2013 may expand who is considered a **current** member to:
  - Individuals who were first employed by a public employer to perform service subject to coverage in a concurrent retirement system on or before December 31, 2012
  - These individuals must have been employed to perform creditable service in the concurrent retirement system within the last six months

## Equal Share of Pension Costs

- *Applies to New Members*
- **New** member contribution rate based on greater of either:
  - At least 50 percent of normal cost of new plan, or
  - Current member contribution rate

## Equal Share of Pension Costs continued

- Employer contribution rate is at least the normal cost minus the member contribution rate
- Under the law, the Teachers' Retirement Board must establish the normal cost of the new benefit plan

## Retirement Age & Age Factor Changes

- ***Applies to New Members***
- Normal retirement age increases to age 62 with a 2% age factor
- Minimum retirement age increases to age 55
- Maximum age factor increases from 63 to 65
- Eliminates the career factor

## Current and New Age Factors

AGE	52	53	54	55	56	57	58	59
CURRENT	1.22%	1.28%	1.34%	1.40%	1.52%	1.64%	1.76%	1.88%
NEW	n/a	n/a	n/a	1.16%	1.28%	1.40%	1.52%	1.64%

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AGE	60	61	62	63	64	65	66	67
CURRENT	2.00%	2.13%	2.27%	2.40%	2.40%	2.40%	2.40%	2.40%
NEW	1.76%	1.88%	2.00%	2.13%	2.27%	2.40%	2.40%	2.40%

## Creditable Compensation Cap

- ***Applies to New Members***
- Compensation cap equal to 120% of 2013 Social Security wage base
  - 2013 cap equals \$136,440
  - Adjusted annually - Consumer Price Index
  - No defined benefits (including DBS) on compensation above cap
  - Employers can offer DC plan for compensation above the cap.

## Creditable Compensation Defined

- ***Applies to New Members***
- Only salary paid on salary schedule counts toward CalSTRS benefit
  - Excludes allowances, bonuses, cash in-lieu payments
- Three-year final compensation
- No Replacement Benefits Program



## Postretirement Employment

- ***Applies to Current and New Members***
- AB 178 increased postretirement earnings limit
  - Earnings limit for 2012-13 is \$40,011
  - Based on 50% of average final compensation vs. 50% of average active member's salary
- Some third-party contract employees excluded

## Postretirement Employment

- ***Applies to Current and New Members***
- Narrow exemption in AB 178 extended through 2013-14
  - Applies to appointments with financially or academically distressed schools
  - Adds restrictions based on the receipt of retirement incentives

## Postretirement Employment

- ***Applies to Current and New Members***
- AB 340 expands \$0 earnings limit for the first 180 days after most recent retirement to all members, regardless of age
- Members at or above normal retirement age are subject to the \$0 earnings limit if their most recent retirement date is on or after January 1, 2013

## Postretirement Employment

- ***Applies to Current and New Members***
- Narrow exemption from \$0 earnings limit granted for critical vacancies
  - Must be at or above normal retirement age
  - Governing body approval thru resolution at public meeting
  - No retirement incentive or financial inducement to retire from any public employer
  - Termination of services not a factor in hiring justification

## Airtime Purchases Prohibited

- *Applies to Current and New Members*
- Nonqualified service credit or “airtime” purchases prohibited effective 1/1/2013
  - Request to purchase must be received **prior to 5 p.m., 12/31/2012**
  - Does not affect purchase of other service credit or redeposits
  - No change in crediting of unused sick leave

## Forfeitures & Benefit Prohibitions

- ***Applies to Current and New Members***
- Forfeiture of benefits for work-related felony convictions
  - Employer and member must notify CalSTRS within 90 days of the conviction.
- No retroactive benefit enhancements
- No pension holidays

## Impact of AB 340 on Adjunct Faculty

- No provision individually applies to adjunct faculty
  - Unused sick leave continues to convert to service credit
  - If first hired to perform service subject to CalSTRS before 2013, subject to rules in effect for existing members
    - Current benefit formula
    - Current determination of final compensation
    - Currently creditable compensation

## Senate Concurrent Resolution 105

- Establishes framework for development of a funding plan
- Directs CalSTRS to work with stakeholders
- Develop 3 options & submit to Legislature by Feb. 15, 2013
- Legislature intends to address funding in 2013-14 session



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