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 CalSTRA 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

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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
CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?