PURPOSE OF THE ITEM

The purpose of this item is to provide information about the status of efforts to address the inadequacies of, and the administrative complexities inherent in, the Defined Benefit (DB) Program when members are employed on a part-time basis or in adult education at a community college.

RELATIONSHIP TO THE BOARD’S STRATEGIC PLAN

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<th>Proactively develop benefits that meet customer needs</th>
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BACKGROUND

The vast majority of California public educators working in pre-kindergarten through community college (preK-14) are members of the DB Program because, by statute, all full-time certificated employees of preK-14 school employers are in that program. Educators employed on a part-time basis, or employed in adult education, may elect to be covered by the DB Program. Although over 95 percent of preK-12 certificated staff is employed full-time, the California Community College Chancellor’s Office indicates that 67.5 percent of the community college faculty in 2009-10 was employed on a part-time basis. This is an increase in the number of part-time community college faculty from 63.4 percent in the 2000-01. Approximately 62 percent of these part-time faculty are members of the DB Program.

The design of the DB Program appears to be appropriate for full-time employees, but a number of issues have arisen over the years about its application to part-time and adult education community college staff. The most significant issue has been the difficulty in reporting compensation in order to establish the appropriate levels of service credit. In addition, there have also been concerns about calculations of final compensation for those with multiple employers and the conversion of unused sick leave to service credit upon retirement.
Although many changes have been made to the retirement benefits provided to part-time and adult education community college faculty, issues continue to persist. In October 2009, CalSTRS staff again began looking at alternative benefit plans for part-time and adult education community college instructors. To facilitate this effort, staff formed a task force including CalSTRS members and union representatives, Teachers’ Retirement Board members, CalSTRS staff, and community college employers. Over the course of several meetings, the task force categorized the problems with the DB Program, discussed alternatives for resolving these problems, and looked at different plan design options and the benefits that could be provided by those plans.

While the task force included part-time instructors who are already members of CalSTRS, input from non-members was also needed. Staff was interested in understanding the work and retirement needs of all part-time instructors – the preponderance of community college employment as a second or supplemental career, the rate of Social Security participation for college and other employment, and the need for disability and survivor benefits to be part of the retirement plan. Staff also wanted a general understanding of the level of knowledge surrounding retirement planning. To obtain this information, staff developed a questionnaire that was sent statewide to all part-time faculty in April and May of this year. The responses to the questionnaire clearly show there is:

- Extreme frustration over obtaining information about retirement plan options,
- Strong desire to contribute to Social Security when community college employment supplements another career,
- Substantial confusion surrounding the effect that CalSTRS membership has on receiving Social Security benefits,
- The need for more equity between employment and retirement benefits provided to full- and part-time faculty,
- Significant uncertainty and lack of knowledge regarding retirement planning.

EXISTING CALSTRS BENEFIT PROGRAMS FOR PART-TIME FACULTY

Community college faculty hired on a less-than-full-time basis have choices in their retirement plans, which depend, in part, on what their employer offers. Depending on the options made available by employers, part-time faculty may elect the DB Program, the Cash Balance Benefit (CB) Program, or another alternative retirement program administered by a private firm or Social Security.

Defined Benefit Program
The retirement benefit paid by the DB Program is based on the age at retirement, the amount of service credited to the member and the highest average annual compensation earnable over one or three consecutive years, depending on the amount of the member’s service credit at retirement. Service credit is equal to the ratio of the member’s earnings to the full-time salary rate. For full-time employees, the earnings are equal to compensation earnable, resulting in the accrual of 1.000 year of service credit per school year. For part-time employees, determining the
full-time salary rate becomes critical to the calculation of service credit. The full-time salary rate equals the number of hours or days of service the employer requires a full-time employee in that same position to perform in a year (known as the full-time equivalent, or FTE) multiplied by the hourly or daily rate of pay for a position. Prior to 1996, the full-time earnable salary was based on performing 1,050 hours of creditable service because a full-time community college instructor is required to complete 1,050 hours of creditable service. The service performed by full-time faculty includes a wide range of duties besides classroom instruction. However, part-time and adult education instructors may not be required or expected to fulfill duties outside of the classroom. As a result, part-time and adult education faculty members were earning service credit at a rate that did not properly reflect the amount of work they performed.

As a result, in 1998, CalSTRS sponsored AB 1166, enacted as Chapter 678, to establish an FTE for part-time and adult education faculty that reflects only the number of classroom instruction hours that such faculty might perform if hired on a full-time basis. Consequently, the minimum requirement for part-time community college is 525 hours of classroom instruction, and for adult education, 875 hours. If a part-time or adult education instructor is required to complete, and receives pay for, duties in addition to classroom instruction, the FTE is increased appropriately. The result of these changes is that part-time and adult education instructors accrue service credit faster when it is based on a minimum requirement of 525 and 875 hours of classroom instruction, respectively.

While service credit accrues faster with a reduced minimum standard, an unintended consequence is that the multiplier for calculating the earnable salary is also reduced. Such a trade-off is inherent in a defined benefit plan because the benefits paid are a reflection of the income earned over at least a portion of a career. When one factor is increased (in this case, service credit) the other factor must be decreased (i.e. earnable salary) to avoid calculating and paying benefits that are inconsistent with the compensation earned while employed. This trade-off has no impact on an employee who works an entire career under the same benefit structure. However, when the benefit structure is changed mid-way through an employee’s career, the impact is dramatic and can result in an impairment of benefits.

A further complicating factor of the DB Program for part-time instructors is the expectation that each community college district will determine FTE that is specific to the type of instruction (i.e. English Lecture, Science Lab) and report those standards to CalSTRS. Unfortunately, many community college employers look to the 525-hour minimum established in law and report that standard for all of their part-time instructors. CalSTRS has made efforts over the years to educate employers about the importance of calculating accurate minimum standards, but many employers continue to have difficulty and report inaccurate data.

The administrative difficulties experienced by the community college employers in determining FTE, and the risk of impairing members’ benefits, led CalSTRS to sponsor AB 1586 in 2004, which was enacted as Chapter 442. This legislation requires CalSTRS to pay members the better of the two benefits after comparing the benefit that would be paid under the pre-1996 standards (pro rata service credit based on 1,050 hours) to those that would be paid under the reduced minimum standards (minimum of 525 hours for part-time and 875 for adult education faculty).
For about one-third of the retired part-time community college instructors who have received these comparison calculations, the pre-1996 plan design provided a bigger benefit than would be paid under the reduced minimum standards. This experience shows that the reduced minimum standard was not necessarily the solution for accommodating part-time and adult education community college employment.

**Cash Balance Benefit Program**
Because of the five year vesting requirement in the DB Program, part-time instructors are less likely to qualify for DB benefits. However, federal law requires public employees to either participate in Social Security or a qualified alternative. Therefore, the CB Program was established in 1996 to provide an alternative plan that included immediate vesting for participants. The availability of the CB Program depends on the employer adopting the program for its part-time employees. Identical to the Defined Benefit Supplement (DBS) Program, the benefits paid under the CB Program, whether in a lump sum or monthly annuity, are based on the amount contributed by the participant and the employer, plus the interest credited to the participant’s account from those contributions. The total contribution rate paid to the program is at least eight percent, and generally is equally divided between the participant and the employer.

Because (1) employers are not required to offer the CB Program and (2) subsequent changes to the DB Program made that program more attractive to part-time employees, relatively few have chosen to offer it to their part-time instructors (as of 2010, there are 34 districts offering CB).

**PLAN ALTERNATIVES**

Through research in pension plans provided to part-time instructors at other institutions of higher learning in California and across the United States, three alternative plan designs were identified:

1. Determine DB Program service credit for all community college members (both full- and part-time) on the assigned teaching load, as reported by the district (known as the “load model”);
2. Determine DB Program service credit for all community college members (both full- and part-time) based on their earning a minimum level of salary within a specific period (the “minimum earnings model”);
3. Exclude part-time and adult education community college instructors from DB Program membership, and credit all contributions to the DBS Program (the “DBS model”).

**Load Model**
All community college instructors are hired to teach a specific load, whether it is a full-time load (100 percent) or a fraction of a full-time load. Under this alternative, service credit for community college employees would equal the instructor’s load. The employer would report the instructor’s load assignment to CalSTRS. Contributions on earnings associated with the load would be credited to the DB Program, and contributions for all other earnings would go to the DBS Program. The benefits provided by this model would continue to be based on highest average compensation earnable, consistent with the existing DB Program. While there is a myriad of administrative issues to be resolved relative to this plan design, discussion and research indicate this model can provide benefits that more accurately reflect the service of part-time instructors than the current DB Program and potentially simplify reporting for employers.
Minimum Earnings Model
The minimum earnings model, used by the Colorado Public Employees’ Retirement Association, is based on earning a minimum amount of creditable compensation each month. In Colorado, the monthly minimum required earnings are equal to 80 times the federal hourly minimum wage, which in 2010 is $580. Once an employee earns this amount, he or she is credited with one month of service, or a proportionate amount if monthly earnings are less than $580. After accruing 10 months of service credit, the employee is credited with one full year (this accommodates 10-month pay patterns that are common for instructors). The retirement benefit is based on a calculation of service credit and the average of the highest three years of creditable compensation. Actual compensation is used, rather than compensation earnable, to balance the more rapid accrual of service credit.

This model would apply to all community college employees, whether full- or part-time; it would not apply to employees of K-12 institutions. Staff anticipates most existing DB Program provisions would remain in place for affected members, including vesting requirements and the ability to receive disability and survivor benefits. The primary differences would be (1) how service credit is accrued and (2) the use of average creditable compensation, rather than average compensation earnable in determining benefits. Preliminary estimates show this model provides benefits that are not only appropriate for the service performed, but also replace an adequate portion of the employee’s working salary.

DBS Model
Under this model, CalSTRS would close the DB Program to part-time and adult education community college employees and instead, designate the DBS Program as the default program for this population; full-time employees would continue to be mandatory members of the DB Program. All contributions related to compensation paid to part-time and adult education employees would be credited to the DBS Program if no other retirement plan election was made. Members of this tier would contribute eight percent, and employers would contribute 8.25 percent of the employees’ compensation. The community college employees in this DBS Program who work a specified amount of time would also be eligible for disability and survivor benefits, as well as annual benefit adjustments, similar to those under the DB Program, which would funded from the contributions made on the employee’s compensation. The remaining contributions would be credited to the member’s DBS account for distribution upon retirement or termination of employment. This would probably be the easiest of the three alternative plan designs for CalSTRS and employers to administer from a reporting standpoint. The accrual of benefits to individual members, however, would be significantly affected by how long the contributions were credited. As a result, a member who earns compensation earlier in their career would receive a higher benefit than one who is credited with the same contributions later in their career.
CONCLUSION

During the next few months, CalSTRS staff will obtain input from a sampling of community college districts on the three alternative plan designs being explored. Because one of the goals of any new plan is ease of administration for employers, it is important to determine whether:

- District staff has access to the data that will be required under the suggested plan,
- The data would need to be converted prior to being reported, and
- The District’s electronic payroll system can accommodate reporting new or additional data.

In addition, CalSTRS staff will evaluate each alternative in greater detail to determine how each would be administered at CalSTRS, including addressing the implications of maintaining the existing programs for current members, rather than transitioning them to the new plan design, as well as the impact of each alternative on the retirement income of affected members and any actuarial impact on the DB Program. Following this more intensive review of these alternative designs, staff will reconvene the task force with the desire to have them adopt a recommended alternative, which will be presented to the committee early in 2011, which could be incorporated into a recommendation for board-sponsored legislation to be introduced in 2012.