Welcome and Introductions

- Ed Derman welcomed everyone to the meeting
- Each person around the table introduced him or herself and their organization
- Ed reviewed the agenda
  - CalSTRS staff, Virginia Johnson, will present some information that was requested at the meeting in November
    - Examples of a CalSTRS Defined Benefit and a Social Security benefit if a person works a career contributing to Social Security and also works part-time and contributes to the DB Program
  - Julie Gallego, CalSTRS staff, will present some follow-up information that was requested in November
    - The federal guidelines regarding annual service credit limits
  - Julie will present two models for crediting service:
    - One model uses load, which was discussed as an idea at the November meeting,
    - One model uses minimum monthly earnings, which Julie found is used by the Colorado Public Employees Retirement Association, either model could be developed and used for CalSTRS community college employees

Social Security vs. Defined Benefit

- Virginia Johnson presented examples of Social Security and DB benefits if the person has contributed to Social Security for private sector employment and to the DB Program for community college employment
  - The earnings and service credit data used in the examples come from the 2008 Benefit Adequacy Study, as provided by the Actuary, and represents actual members
  - CalSTRS staff clarified a common misconception that DB members “lose” their Social Security benefits
    - The maximum amount that Social Security will reduce the Social Security benefit is by one half; the DB Program benefit is not reduced at all
The maximum Social Security benefit in 2009 was $2,366
The average Social Security benefit for 2009 was $1,153
The maximum offset to the Social Security benefit if age 62 in 2010 and take the Social Security benefit at full retirement age is $381

Caroline Widener explained that her concern is with a person who has a career of less than 20 years in Social Security and another career of 10-15 years in the DB Program
The task force would also like examples to compare Social Security to DB for a person who spent 25-30 years teaching at a community college and earned 0.7 or 0.8 of a year of service credit each year
Staff will provide estimates at next task force meeting

Social Security benefits are calculated to provide higher benefit to workers with lower wages
The formula for SS uses average compensation over 35 years, DB uses average over highest 3 years
The replacement ratio for a low-wage earner is approximately 55 percent
The replacement ratio for a high-wage earner is approximately 25 percent
Social Security considers “low wages” to be $761/month
Part-time community college instructors typically don’t qualify as “low wage earners” under Social Security

Caroline noted that she remains concerned that those who are covered by Social Security have access to disability benefits; most community college adjunct faculty do not have similar access

Community College faculty may perceive an inequity among the three tiers of public higher education in California: University of California, California State University and Community Colleges
Many Community College faculty teach in both the CSU and the Community College
They receive both Social Security and a public pension (CalPERS) for their CSU employment but do not receive Social Security for their Community College employment
CalSTRS staff noted that they pay Social Security contributions for their CSU employment but not their Community College employment
CalSTRS staff will research and provide information about the pension options available to UC faculty

Ed noted that the DB Program would provide a much higher benefit if members and employers contributed to CalSTRS an amount equal to both Social Security in addition to their DB contributions
The policy question is whether there is a good reason, from a plan design aspect, to require that Social Security be the sole source of retirement for Community College faculty or whether it is CalSTRS or another retirement plan
The DB benefit is, in almost every case, a better benefit than Social Security.

- Contributing 6.2 percent to Social Security and 8 percent to the DB Program would provide a lower benefit than if all 14.2 percent went to DB.
- CalSTRS tries to counsel younger members that they take home 6 percent more pay than their co-workers (because they don’t contribute to Social Security), and that they should put the additional 6 percent into a supplemental account.

It is not possible to require or allow Community College faculty to contribute to both Social Security and a qualified retirement program because teachers, as a profession, elected not to be covered by Social Security.

- Caroline is persuaded by the data that the DB Program provides a better benefit than Social Security.
- The Cash Balance Benefit Program is an alternative to Social Security – employees do not contribute to CB and Social Security for the same employment.
  - The group would like to know, and CalSTRS staff will provide, the following information:
    - The average CB account balance
    - The total number of CB participants

The problem remains that the DB Program is not mandatory for part-time faculty.

- Anecdotally, part-time faculty do not intend to make part-time teaching their career, so they choose the retirement option that represents the lowest cost to them, personally.
  - Results in disjointed retirement accounts – accounts under APPLE, PARS, and CB.
  - Employees don’t take an interest in their retirement accounts until they are ready to retire, at which point it is too late.
  - Must keep in mind that part-time employment cannot be expected to provide a benefit equal to what full-time employment would have provided.

- The CB Program was designed and intended for a part-time employee who would never become a mandatory DB member, it is meant to be compared to APPLE and PARS.
- If contributions to the CB Program were the same as the DB Program, CB account balances would be higher.
  - Uniform contribution rates would also make it easier for participants to transition into DB Program membership once they have full-time employment.
  - Biggest flaw of the CB Program is the lower contribution rate and the subsequent cost to convert to the DB Program.

**Annual Service Credit Limits - Federal Guidelines**

- Julie addressed the question of whether there are federal restrictions on the amount of service credit that an employee can earn on an annual basis.
• The Internal Revenue Code and U.S. Treasury Regulations use the concept of a 12-month period for earning only one year of service credit
  o This restriction is one reason why the CB Program was designed based on contributions not service credit
  o This is also why, under the DB Program, service credit in excess of one year goes to the Defined Benefit Supplement Program
    ▪ Ernest recalled that, when the CB Program was developed, staff identified more than one public pension system that allows more than 1.00 service credit to be earned in a year
    ▪ CalSTRS staff is not aware of those systems, the vast majority of public systems cap service credit at 1.00 annually
• The group discussed service in excess of the typical 10-month school year
  o Part-time faculty can work as much in during intercessions as they can during the fall or spring semesters. However, they are not able to track how much service credit they earn or which portion of it goes to the DBS Program
  o CalSTRS uses a school year calendar - July 1-June 30 – and tracks contributions for the entire year
  o At year end, CalSTRS compares the earnings to the earnable and the lowest pay rate that represents service over 1.00 is credited to the DBS Program

Alternative Plan Design 1 – Service credit based on workload
• At the November meeting, the task force discussed whether using load might be a more appropriate way to credit service for Community College faculty
  o Julie presented information that she compiled from Community College faculty collective bargaining agreements
    ▪ Not all bargaining agreements specify different loads for different disciplines, even though the requirements for each discipline may vary
  o The group discussed the different ways their colleges state load
  o The discussion highlighted the difficulties that may arise if CalSTRS bases service credit on load, as reported by each of the 72 community college districts
• Every district knows the load of its adjunct faculty because loads in excess of 67 percent of a full-time load entitle adjunct faculty to various employment benefits, including tenure
  o Part-time faculty understand that they are limited to teaching 67 percent of a full-time load
  o Each school should be able to identify the full-time load on which the 67 percent threshold is based
  o Districts should be able to report the portion that an adjunct works as a percentage of a full-time load
    ▪ Human Resources knows and understands load
Payroll, which reports to CalSTRS, may not know or understand load.

It may be possible for Human Resources to report load to Payroll, who would then add that information to the reports that come to CalSTRS.

- Establishing loads for individual disciplines is done at the bargaining table; therefore, every community college knows load and each college’s load factors are different.
  - CalSTRS cannot affect the fairness of the negotiations that take place at each district.
  - CalSTRS’ primary concern is that the retirement program is administered fairly across the system.

Caroline noted that a big problem with the DB Program, as it relates to part-time Community College faculty, is that it bases service credit on the concept of a Full-Time Equivalent.

- Despite CalSTRS’ efforts since 1996, Community Colleges continue to apply incorrect FTEs to their teaching assignments.
- This results in some members receiving more or less service credit than is appropriate.

CalSTRS is concerned that members do not currently receive accurate amounts of service credit.

- CalSTRS does not want to create a program where members receive service credit based on arbitrary factors.

It is unlikely that using load would simplify and streamline the reporting process.

- If districts use load inconsistently, then using load for service credit may result in an exchange of one set of problems for another.
- Using load would increase difficulty for those faculty who work for more than one district.
- If load is used, all portions of an assignment must be treated consistently across the state, even those portions of an assignment that are not converted to load by the employer.
- We have to figure out all of the details so we don’t create new problems.

- Perhaps using pay to determine service credit may be simpler.

**Alternative Plan Design 2 – Service credit based on minimum earnings**

- Julie explained the model used by the Colorado Public Employees Retirement Association that bases service credit on monthly earnings.
  - This model uses actual earnings and does not measure the full-time salary rate.
  - Annual salary increases are capped for the purposes of final compensation, if the final three years of employment are used for the final comp period:
    - Colorado PERA’s salary cap is 15 percent.
    - CalSTRS’ cap could be lower to increase spiking protections.
• Julie provided examples of actual monthly earnings for some part-time faculty to show the levels of service credit that could be earned under this model
  o The result is that service credit is earned at a faster rate
  o Equity among part-time and full-time faculty is maintained through the use of actual earnings (which are comparably lower for part-time faculty than full-time faculty)
  o The Community College districts could report all pay to CalSTRS
• If CalSTRS adopted this model, earnings for service in excess of 1.00 would likely continue to be credited to the DBS Program
• The group discussed the different pay schedules that are possible for part-time faculty
  o Faculty may receive compensation once in the semester for teaching during the semester
  o A solution may be to annualize the minimum monthly earnings
• The group discussed whether a minimum earnings model creates an incentive to work more at the end of a career
  o There is concern that part-time faculty do not have the sufficient influence on campus and may not be able to get additional assignments towards the end of a career
• This approach likely eliminates or reduces:
  o The need to drop the lowest paying job in the final compensation period
  o The frequency of community college district audits and member appeals
  o Complexity in administration and will likely save money, as a result

Open discussion - Other pension options for Community College faculty
• One solution may be to put part-time faculty into DBS
  o All schools must offer the DBS Program along with the DB Program
  o Part-time employees would become DB Program members upon receiving a full-time assignment
  o The DBS Program has the same contribution rates as the DB Program
  o Later conversion to the DB Program would be simple
  o The DBS Program is not dependent upon service credit
  o CalSTRS staff will provide examples of benefits
• The “best” retirement option for faculty depends on the career path
  o DBS or CB is better when more work is performed earlier in a career because the contributions have more time grow with investment earnings
    ▪ These programs can provide a lifetime annuity based on the account balance
  o DB is better for late-career employees because benefits are not based on the account balance; they are based on a formula
• Community College faculty tend to be older; few are under age 40
Follow-Up For Next Meeting

1. CalSTRS staff will provide the following estimates:
   a. Benefits if a person contributed to Social Security over a 20-year private sector career and subsequently contributed to the DB Program for a 10-15 year teaching career
   b. Benefits if a person contributed to Social Security for the life of a career, compared to benefits if a person contributed to the DB Program for the life of a career, assuming that career is 25-30 years long, and the person earned 0.7 or 0.8 of a year of service credit each year
   c. The CB Program benefit that could be paid if CB required the same level of contributions as the DB Program requires
   d. Benefits for members in different situations under the minimum earnings model
   e. Benefit examples if part-time faculty contributes 8 percent (with employers contributing 8.25%) to DBS for their entire career, with a lifetime annuity

2. CalSTRS staff will research information about the pension options available to UC faculty (Social Security or the University of California Retirement Program)

3. CalSTRS staff will identify:
   a. The average CB account balance
   b. The total number of CB participants
Part-Time Community College Faculty
DB Program Members - Based on Data as of December 2009

- Currently there are 22,123 DB members who are employed strictly on a part-time basis in one community college.
- In addition, there are 3,637 DB members employed on a part-time basis in more than one community college district (a.k.a. “freeway fliers”).
- All total, there are 25,760 DB members employed part-time in one or more community college.

What are the ages of these members?

<table>
<thead>
<tr>
<th>Age (in years)</th>
<th>Count</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>80-89</td>
<td>54</td>
<td>0.21%</td>
</tr>
<tr>
<td>70-79</td>
<td>576</td>
<td>2.24%</td>
</tr>
<tr>
<td>60-69</td>
<td>4,226</td>
<td>16.41%</td>
</tr>
<tr>
<td>50-59</td>
<td>7,753</td>
<td>30.10%</td>
</tr>
<tr>
<td>40-49</td>
<td>6,330</td>
<td>24.57%</td>
</tr>
<tr>
<td>30-39</td>
<td>5,664</td>
<td>21.99%</td>
</tr>
<tr>
<td>20-29</td>
<td>1,154</td>
<td>4.48%</td>
</tr>
</tbody>
</table>

25,757* 99.99%

*3 member records do not include birth dates

How long have they been members of CalSTRS?

<table>
<thead>
<tr>
<th>Length of Membership (in years)</th>
<th>Count</th>
<th>% of Total Part-Time Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>56+ years</td>
<td>14</td>
<td>0.054%</td>
</tr>
<tr>
<td>50-55</td>
<td>9</td>
<td>0.035%</td>
</tr>
<tr>
<td>45-49</td>
<td>34</td>
<td>0.132%</td>
</tr>
<tr>
<td>40-44</td>
<td>149</td>
<td>0.578%</td>
</tr>
<tr>
<td>35-39</td>
<td>512</td>
<td>1.988%</td>
</tr>
<tr>
<td>30-34</td>
<td>714</td>
<td>2.772%</td>
</tr>
<tr>
<td>25-29</td>
<td>810</td>
<td>3.144%</td>
</tr>
<tr>
<td>20-24</td>
<td>1,409</td>
<td>5.470%</td>
</tr>
<tr>
<td>15-19</td>
<td>2,217</td>
<td>8.606%</td>
</tr>
<tr>
<td>10-14</td>
<td>4,685</td>
<td>18.187%</td>
</tr>
<tr>
<td>5-9</td>
<td>7,164</td>
<td>27.811%</td>
</tr>
<tr>
<td>1-4</td>
<td>7,034</td>
<td>27.306%</td>
</tr>
<tr>
<td>less than 1</td>
<td>1,009</td>
<td>3.917%</td>
</tr>
</tbody>
</table>

25,760 100.000%
How much DB service credit do these members have?

<table>
<thead>
<tr>
<th>Service Credit (in years)</th>
<th>Count</th>
<th>% of Part-Time Total Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>41-44.999</td>
<td>8</td>
<td>0.031%</td>
</tr>
<tr>
<td>36-40.999</td>
<td>80</td>
<td>0.3%</td>
</tr>
<tr>
<td>31-35.999</td>
<td>241</td>
<td>0.9%</td>
</tr>
<tr>
<td>26-30.999</td>
<td>362</td>
<td>1.4%</td>
</tr>
<tr>
<td>21-25.999</td>
<td>664</td>
<td>2.6%</td>
</tr>
<tr>
<td>15-20.999</td>
<td>1,280</td>
<td>5.0%</td>
</tr>
<tr>
<td>10-14.999</td>
<td>2,488</td>
<td>9.7%</td>
</tr>
<tr>
<td>5-9.999</td>
<td>5,588</td>
<td>21.7%</td>
</tr>
<tr>
<td>0-4.999</td>
<td>15,049</td>
<td>58.4%</td>
</tr>
<tr>
<td></td>
<td>25,760</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service Credit</th>
<th>Count</th>
<th>% of Total Part-Time Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 years</td>
<td>20,637</td>
<td>80%</td>
</tr>
<tr>
<td>Less than 15 years</td>
<td>23,125</td>
<td>90%</td>
</tr>
<tr>
<td>Less than 25 years</td>
<td>24,978</td>
<td>97%</td>
</tr>
<tr>
<td>More than 25 years</td>
<td>782</td>
<td>3%</td>
</tr>
</tbody>
</table>

What is the statewide part-time community college population (including those who are not members of CalSTRS)?

Statewide Community College Faculty: 63,313  
Full-time (or otherwise Tenure) Faculty: 18,175  
Part-time/Temporary Faculty: 45,156  
Percent of Faculty that is Part-Time/Temporary: 71.30%  

25,760 are members of CalSTRS’ DB Program  
19,396 are NOT DB members
FW: PT Task force
Butcher Craig
Sent: Monday, February 22, 2010 3:23 PM
To: Butcher Craig

I understand what you are trying to get at with the idea that the part-timer would not pay anymore if he or she ends up in DB, but I don’t think it works actuarially, for a few reasons.

1. The normal cost of DB service credit is more than the 16.25 percent the member and employer contribute. Remember the state makes contributions to DB as well, and as you outline this idea, and I suspect would have to be the case, the state would not be contributing to the enhanced CB program.

2. The normal cost is based on a fixed percentage being paid throughout a career. The marginal cost of service is actually higher for an older person than a younger person, because we don’t have as much time to invest the funds. If this program defers DB membership for, say, 5 years, this population will be older than average, and the normal cost will likely be higher.

3. I suspect that by introducing an element of choice, whether a person stays in CB or goes to DB, introduces an increased cost to DB because rationally, only those people who would benefit more from DB would elect it.

4. Given how CB is (at least currently) invested, the expected long-term rate of interest crediting in CB is lower than the inherent discount rate for DB. This means that the total amount of money in a person’s CB account is going to be less than the value of the assets that would have been contributed had he or she been in DB.

The additional cost of converting enhanced CB to DB would certainly be less than what the participant pays now; I just don’t think it can be free.

FYI, after our first meeting 11/20 and before second meeting 1/26, some other faculty reps and I met and discussed the issues. We tentatively concluded that we favored the following for pters (don’t remember details because notes not handy):

1) An enhanced CB plan for newly hired pters (contributions 8% employee and 8.25% employer), possibly with disability and survivor benefits more like DB;

2) After some period of time (e.g., 5 calendar yrs or 10 semesters of teaching), pter would be required to choose whether to stay in CB or convert to DB;

3) Service credit for DB would be based on load;

4) Rationale:

   a) New pters often don’t know how long or how much they plan on teaching part-time and are unable to make an informed decision about CB or DB. New pters, especially young ones, don’t understand or care about differences in retirement plans and often choose the one with lowest payroll deduction. 5 years or some other period of time would help resolve both of these problems.

   b) Higher CB contribution rates would result in better retirement benefits for pters who stayed in CB and would not tempt pters to choose CB over DB just because of lower contribution rate.

   c) If a pter chose to convert to DB, then the pter should not have to pay any additional money to get full service credit for time in CB because CB had same contribution rates as DB while the pter was in CB. Currently, pters who convert from CB to DB have to pay a lot to get full service credit for time they were in CB.

   d) Basing service credit on load should eliminate PTE problems.