NOTES

Welcome
Ed opened meeting by explaining the goal
  - Come to a consensus on which alternative plan designs to pursue
  - His understanding from the March meeting is we’re down to two alternatives
    - Load and CB/DBS
    - Minimum earnings (Colorado PERA model) is not desirable

Item 1 – University of California Retirement Program
Julie provided follow-up information requested at March meeting
  - University of California allows employment on a basis of less than 50 percent
    - Participation in retirement program determined by nature of appointment
      - Employed less than 50 percent contributes to Social Security
  - Tenured UC teachers cannot be recruited by other campuses
    - Non-tenured teachers can work at multiple campuses
  - Service credit is aggregate from all campuses over lifetime of service
  - UC plan cannot be duplicated for CalSTRS’ purposes
    - UC has one, uniform system
    - 72 community college districts, each with distinct employment arrangements

Item 2 – Minimum earnings model benefit estimates for full-time employees
Colorado PERA minimum earnings model
  - At the March meeting, task force determined this model was not desirable but wanted to see examples of benefits for full-time employees
  - Minimum amount needed for one month of service credit = 80 x federal hourly minimum wage
  - Three examples based on different full-time working patterns
  - Final compensation based on full-time salary earned during full-time employment
    - Example A – Employed full-time entire length of 20-year career
      - Benefit under DB and minimum earnings is the same
      - Final comp and service credit are the same
    - Example B – Employed full-time for most of career, with some part-time employment, total of 20-year career
      - Benefit under minimum earnings is bigger
      - Earned full year of service under minimum earnings due to meeting earnings requirement during part-time employment
The same employment did not generate full year under DB
The increased service credit weighed more than the decreased final comp (which uses actual earnings, not earnable) to provide a bigger benefit
  - Example C – Employed part-time at beginning of career and full-time at end, total of 15-year career
    - Benefit under minimum earnings is bigger
    - Same as in Example B, earned a full year of service due to meeting minimum monthly earnings requirement during part-time employment
    - The same employment did not generate a full year under DB
    - The increased service credit weighed more than the decreased final comp (which uses actual earnings, not earnable) to provide a bigger benefit
  - When the plan measures service credit, there is an inherent trade-off between earnings and service credit
    - CalSTRS would have to determine/establish what is creditable and non-creditable towards service credit
      - Compensation that is currently creditable would continue to be creditable
    - This model has no concept of earnable or Full-Time Equivalent
      - Employer reports what they paid the employee
      - Employee receives service credit in proportion to the minimum level of earnings required
      - Service credit accrual is faster so using actual earnings should balance the equation
    - Discussed multiple assignments and varying pay patterns
      - How would CalSTRS deal with employees working multiple assignments for the same district?
      - How would CalSTRS determine the portion that contributes to the minimum earnings/one month of service credit and the portion that goes to DBS?
        - Full-time employee who teaches overload or summer school would have that excess credited to DBS
      - What would CalSTRS do with someone who works full-time at a K-12 and part-time at a community college?
      - How should CalSTRS deal with separate pay for office hours and other duties?
      - Minimum earnings could be annualized
        - Solves the problem with mid-year retirements
          - Could meet an annualized earnings requirement in one-half of a year
        - Task force likes the idea of annualized earnings because it simplifies the sporadic pay patterns of part-timers
        - Administratively difficult to separate a yearly salary into monthly earnings for service credit
        - Annual salary cap for crediting to DB, all income above limit goes to DBS
        - Contract salary could go to DB with all else going to DBS
        - Limits could be crafted to prevent abuse by full-time employees
• This plan would provide an incentive to work part-time during majority of career and change to full-time at end of career for purposes of final compensation
  o This distorts the plan’s financing
• Carolyn likes this plan because it is so simple
  o It addresses primary concerns of plan complexity and desire to eliminate earnable
  o New employees would be able to understand how they accrue service credit
  o The “unknown” is the final compensation piece of the equation because no one knows what their final salary will be
    ▪ This is the same for any defined benefit that uses the last or highest salary
    ▪ Julie will verify Colorado PERA’s final comp is 5 years
  o Plan would be major improvement for part-time faculty but could be abused by full-time faculty
• Julie will develop this alternative
  o Address questions that have come up and recommend solutions based on what Colorado does and what is politically feasible
  o Identify how CalSTRS would transition to this new plan
  o Identify how full- and part-time would be treated
  o Phyllis would like to see some of the different scenarios that part-timers deal with addressed
    ▪ Full-timers push part-timers out of employment
    ▪ 67% rule limits part-timers to how much they can earn
    ▪ In a bad economy, part-timers lose classes and lose earnings, which in the years before retirement, reduces the retirement benefit they’ll receive
• Discussed returning to work, the need to work after retirement
  o Bargaining agreements currently provide some return rights (seniority) so employees can return to work after retirement
    ▪ There are other reasons for returning not associated with retirement, applies to many situations where there is a break in service
    ▪ Starting July 1, DB retirees under age 60 must wait 6 months prior to returning to work
  o Ed stated the contract cannot provide protections for returning to work after retirement, violates federal in-service distribution rules
    ▪ Retirees must have a bona fide break in service to establish they are retired and not receiving an in-service distribution
    ▪ CalSTRS should do an employer bulletin to clarify these contract rules

Item 3A – Results of Community College employee survey
Julie presented the results of the community college faculty survey
• Carolyn asked for clarification of the total responses and the response rate
  o Update: Julie has verified there are 45,156 part-time community college faculty statewide
    ▪ A total of 19,794 part-time faculty received the survey
    ▪ Of those that received the survey, only 880 took it (this is 4.46% of those who received the survey)
- 880 out of 45,156 part-time faculty statewide took the survey (1.9%)
  - Survey was sent to the community college district HR offices
    - 40 percent of districts sent out the survey to their faculty
  - Survey targeted part-time faculty only but some districts sent to full- and part-time
  - Results generally show lack of knowledge and confusion surrounding retirement
  - Discussed survey responses that indicated a lack of outreach to part-timer
    - Ed noted CalSTRS is working to increase the knowledge of our staff and counselors about part-time issues
    - CalSTRS could increase the frequency of part-time workshops
      - Workshop doesn’t provide comparisons of CB and DB benefits for part-timers
      - Phyllis has sent Julie a copy of the CalSTRS presentation that she gives, which includes these comparisons *(Julie will provide to task force members)*
      - Julie will provide survey data related to CalSTRS customer service to CalSTRS leadership
  - Discussed the need to provide members with their district earnables on the annual retirement progress report so they can use the online calculator
    - The online statement shows the earnings and service credit by district, which can be used to calculate the earnable
  - Carolyn spoke generally about the inadequate data that California has about its community college faculty
    - Constituency groups should pressure policy makers to get better data
    - Chancellor’s office is creating a part-time faculty group for this reason
  - Julie noted the survey responses from Chaffey Community College District indicate their faculty is knowledgeable and generally happy with CalSTRS
    - Julie will ask Chaffey about their retirement outreach when employers are contacted for input

**Item 3B – Obtaining Community College employer input**

Julie discussed plans for obtaining employer input regarding alternative plan designs
- The goals are to
  - Receive employer support for any new plan that is pursued
  - Learn from employers what type of plan would be easiest for them to administer (in the context of the three alternatives we’re exploring)
    - Administrative ease is one of many criteria for a new plan
  - Learn whether any employers will be undergoing IT system changes that would impact our ability to implement a new plan

**Item 4 – Reporting load for the purposes of accruing service credit**

Julie discussed one of the alternative plan designs with a member of the payroll office at Santa Rosa Community College District
- There are several complicating factors when measuring service credit by load
 Task force members relayed that every district already calculates the load of the classes they assign the instructor
  o In previous discussions, the task force expressed the desire to provide part-timers with service credit for all paid activities
    ▪ To receive service credit for everything an instructor is paid to do, the employer must report a load for everything that receives pay
  • Task force discussed the alternative of receiving service credit for only the teaching service, with additional duties being credited to DBS
    o Activities that receive pay but no load would be credited to DBS
    o Doing or not doing office hours increases earnings, it does not have to increase service credit
  • Task force is concerned there could be confusion over load for the purposes of reaching the 67% threshold and load for the purposes of crediting to CalSTRS
    o District HR and payroll offices do not communicate, which may cause administrative problems
    o CalSTRS would identify creditable compensation and the employer would report all creditable comp to CalSTRS
    o The employer tells CalSTRS what percentage of a full-time load was worked during the year
    o The earnable would be the amount of creditable compensation received, divided by the load
  • Discussed parity money paid in a lump-sum at the end of the school year and other special pay, such as stipends
    o Under current DB plan, when earning less than a year of service, member receives DB service credit for stipend
      ▪ When earning one full year of service, stipend would go to DBS
      ▪ New plan could require that all stipends are credited to DBS because they are not associated with a load
        ▪ Some districts have figured out that they need to fold stipends into the load
    o Julie should provide comparisons of how this stipend issue (and others) would impact full- and part-time employees
  • Julie raised the issues of load banking and load sharing
    o Task force members explained these are not common for part-time faculty
      ▪ These things may not be common but CalSTRS needs to know how to administer them when they do arise
  • The employer would report the same thing to CalSTRS as they report to the Chancellor’s Office vis-à-vis the load of their faculty
  • Discussed whether this load system would apply to full- and part-time
  • Employer should be able to report load and earnings without doing any calculations or conversions
    o Everyone understands load; no one understands earnable
Julie will follow-up with Peter Haley and Member Account Services about administering a load-based program and whether the employer would have to report earnable.

- Peggy noted a challenge would be in identifying all of the types of pay and which pay is creditable.
  - If there is compensation that is creditable to CalSTRS but not associated with the load, then it cannot factor into the service credit.
  - Ed noted the result of this plan design will be that some activities, which are currently credited to DB, would become creditable to DBS and would not generate DB service credit.
  - The task force members are comfortable with this.

- Valorie Farris, CalSTRS Member Account Services, provided a copy of Education Code Section 22119.2 “creditable compensation,” and 22119.5, “creditable service.”
  - Task force members believe there are very few exceptions.
  - Vast majority of part-timers would fall under basic rules of creditable compensation.

- Several members of the task force are not thrilled about the minimum earnings model.
- Task force can’t resolve any more of the load issues themselves.
  - Julie will get input from employers.
  - CalSTRS staff should discuss load internally.
  - Several questions need to be answered.
    - What is the limit of what goes into DB?
    - Are there any categories of earnings that won’t go into DB?
    - What are the advantages of reporting for employer?
    - How easy is it for members to understand?
    - How easy is it for CalSTRS to administer?

**Item 5 – Inactive Cash Balance Benefit Program accounts**

Julie provided information about inactive CB accounts, as requested at last meeting.

- **Update**: There are 28,552 total CB accounts (11,332 active, as of June 30, 2009).
- Discussed why there may be so many inactive accounts.
  - Employees placed in CB incorrectly, account was created but contributions never made.
    - Employee may end up electing another plan after employer has already set-up a CB account.
  - May be established because CB is the default when no other election is made.
    - This is a problem with defaulting into and not electing the plan.
- Empty, inactive accounts could be closed.
  - Inactive accounts could be closed.
  - CalSTRS should look into communicating with inactive participants to see if inactive accounts can be closed.
  - Also possibly inform inactive CB participants that they could purchase DB service credit with their CB funds.
    - Participants may be unaware of how to consolidate their benefits.
    - May not be able to afford consolidation.
May not be interested in consolidating CB with DB

- Current law does not permit rolling CB balance into DBS
  - Teachers’ Retirement Board has approved allowing rollovers into DBS
  - Proposal would allow CB, as well as IRAs and 401(k)s to be rolled into DBS
    - Not sure when proposal would be introduced as legislation
    - Not part of the current legislative priorities

- These inactive accounts, as well as many other issues, would be cleaned up if we consolidate CB with DBS and create a “super plan” for part-time community college faculty

- Carolyn’s overall impression of CB is that it hasn’t worked
  - Others noted there are worse plans that are alternatives to CB
  - Julie noted there are 34 districts, statewide, that offer CB

**Item 6 – Cash Balance return-to-work provisions**

Julie discussed how CalSTRS administers Cash Balance post-retirement employment

- The law requires employers to report for retired CB participants
  - CalSTRS does not follow-up on this
  - Most employers do not report earnings for CB retirees
    - Employers have to report earnings for DB retirees because they are measured against the post-retirement earnings limit
  - No employer-reported information means CalSTRS has no visibility when CB retirees return to work
  - The CalSTRS corporate data base doesn’t allow for automated tracking of work performed by CB annuitants

  **Update:** Julie incorrectly stated that any retired participant, who takes a retirement annuity, is 100% restricted from returning to work
  - **Correction:** The 100% restriction on returning to work goes away after a time
  - If retired younger than 60, then prohibited from returning to work until age 60
  - If retired at or older than 60, then prohibited from returning to work for 12 months
    - **After which, there are no restrictions on employment and CalSTRS will not terminate the CB annuity**

- No restrictions if the participant retires with a lump-sum
- Post-employment restrictions established to comply with federal rules against in-service distributions
- Carolyn asked that, if the task force accomplishes nothing else, it should at least clean-up CB’s post-retirement earnings provisions

**Item 7A – Consolidating the features of the CB and DBS programs to create one, new program**

Julie went over the differences between CB and DBS and proposed ways to consolidate and make the provisions consistent

- Part-time and adult education community college employees would not be allowed in the DB program
“Super DBS” plan *(not the official name)* would be default plan if they do not elect an alternative plan

- All earnings for part-time CC service would be credited to DBS
  - Employer and employee contributions would be equal to contributions DB (8 and 8.25%, respectively)
  - State’s contribution would be the same (approximately 1.856%)
- Benefit would be based on account balance of contributions and interest
- No service credit under this plan
- If part-time employee gets full-time employment, can leave DBS balance on account and allow it to earn interest until retirement
  - Full-time employees retain their DBS account
    - Will continue to make contributions to DBS through excess earnings and limited term salary enhancements
  - In the future will also be able to use DBS account balance to purchase service credit in DB
    - The Board has approved a proposal to use DBS funds in this way
    - Not sure when legislation would be introduced

**Item 7B – Estimated costs associated with creating a new CB/DBS Program**

Julie reviewed the estimates of benefits that could be payable under this plan, as prepared by the CalSTRS Actuary

- Examples use demographic information that represents the part-time faculty who are members of CalSTRS
  - Chose a member who is age 59 and has been a DB member for 9 years
  - Projected earnings for one additional year to bring member to age 60, normal retirement age for CalSTRS
    - This results in 10 years working under CalSTRS and 7.152 years of DB service credit
- Provided comparison of DB benefit that would be payable for same service
  - Comparable DB benefit is $348.54 per month
- Benefit examples show various levels of benefits, beginning with basic service retirement
  - If only paying service retirement benefit, the full 18.106% contribution goes towards the retirement benefit (8+8.25+1.856=18.106)
  - When additional levels of benefits are added, fewer contributions go towards the retirement benefit
- Beginning service retirement benefit, not including the 2-percent COLA or purchasing power, would be $425.09 (if assuming a 5% interest credit rating)
  - This amount would not go up but would remain flat for the life of the retiree
- If the 2% COLA and purchasing power are added to the benefit, beginning benefit is less ($353.02/month) but it will increase over time with inflation
- If plan includes disability benefits, beginning service retirement is reduced to $343.16
- If plan includes death benefits, beginning service retirement benefit is reduced to $319.17
• Rick Reed, CalSTRS Actuary, provided additional, clarifying information about the estimates, specifically cost of COLA and purchasing power
  o Purchasing Power is not included in cost of benefits provided by current DB Program
  o If this “super DBS” plan had the exact same funding scheme as current DB Program, funding for Purchasing Power would come from the SBMA
  o In these examples, the PP and COLA are paid out of the total contributions
• Death benefit cost estimate is for benefits paid to survivors/beneficiaries of active and retired members
  o Beneficiary receives lump-sum of $6,163 upon member’s death (active or retired)
  o Survivors can also receive either lump-sum refund of contributions and interest or an on-going annuity of 50% of the member’s final compensation (+10% for each child)
• Retirement benefit must be reduced to pay for disability and survivor benefits
  o Carolyn asked whether the service retirement benefit paid under DB Program would be bigger if disability and survivor benefits were not included
  o Rick clarified the basic service retirement would not go up because it is based on a formula, not an account balance
    ▪ The service retirement in the regular DB Program does not pay for the COLA, disability or survivor benefits
    ▪ In this proposed plan, the money that goes in is distributed in retirement or disability, and death
• The DB Program is more expensive than the contributions going
  o Technically, DB Program does not have sufficient funding to pay all of the retirement, disability, survivor, COLA, and purchasing power benefits
    ▪ Carolyn is concerned about requiring community college members fund their own disability, survivor, COLA and Purchasing Power benefits
    ▪ K-12 members of the DB Program, which is supposed to be “the same” do not fund those benefits through their contributions
  o If we create a plan that is the same as the DB Program with the same contributions, it will either be underfunded or will provide slightly lower benefits
• Rich Hansen clarified that the new program is fully self-funded and the benefits are not much different than what would be paid if the member worked the same service under DB Program
• DB Program is safer than defined contribution plan because the payment is guaranteed, though the amount of the payment is not much greater
  o In CB/DBS plan, member cannot lose contributions
  o When converted to annuity, the amount is also guaranteed
• Discussed how large the membership population needs to be to make this plan work
  o Rick thinks 20,000 is big enough to make this type of plan work
  o The more people, the better because in good times the plan/fund builds-up money
  o Legislation should specify that contributions for this plan would keep pace with the DB Program
  o Any increase in contributions will happen across the board
• Discussed the interest credit rate assumption
  o Would be equal to what is currently used for the DBS Program
  o Rick explained how interest crediting works and how additional earnings are credited when there is sufficient surplus of investment earnings
• Discussed some additional issues related to the proposed DBS plan
  o Transitional rules need to be established (transitioning from part- to full-time)
    ▪ Can the program be designed so the DBS account could be rolled into DB and possibly rolled back to DBS?
    • Temporary appointments to full-time employment often results in employee being placed in DB and then unable to come back out of DB when the temporary appointment is over
    • Teachers on tenure probation would also fall into this category
    • Could craft something where the non-vested DB member could have the option to consolidate into DBS at retirement
  o There is already an online benefit estimate calculator for DBS
  o Social Security offsets would apply to this plan because no SS contributions would be made
    ▪ Julie would like to include a provision in any legislation that all districts have to at LEAST offer Social Security
  o Post-retirement employment restrictions would have to be established
    ▪ Same technical rules should apply as under DB
    ▪ 6 month break in service for all and earnings limit
    ▪ Administer it the same way as DB is administered
  o Legislation that would establish this plan could include provisions to allow for rollovers into the DBS account
• Task force members generally like this plan
  o It achieves ease of administration for CalSTRS and employers
  o Also solves some of the member education/communication problems
  o Resolves part-time to full-time transition issues
  o Very easy for employees to understand what they’re getting and what their benefit is based on
• Carolyn is not sure that an annuity is best for all situations and believes people with less than 5 years of service credit will especially want to take a lump sum
  o Termination benefits for those who determine teaching isn’t for them and they aren’t going to continue include the employer and employee contributions, plus interest
  o CalSTRS could establish rules around taking lump-sum distributions to protect the member’s only source of retirement income
    ▪ The plan’s funding cannot afford members taking large lump sums
    ▪ Could possibly craft something that is based on a percentage of the balance, similar to the current Partial Lump Sum DB benefit
• Discussed how we make it attractive for those employees who didn’t elect CalSTRS
  o Educate potential members about the increased benefit they’ll get because of the increased member and employer contributions
• This plan would only be for temporary, part-time, adult education instructors at the community college level
  o Adult Ed, part-time hourly wage employees at the K-12 level don’t have the same complications
  o Their salary is exactly proportional to a full-time salary
• CB participants are angry because they don’t receive service credit for unused sick leave and they only contribute 4%
  o Under proposed DBS plan, employer contributes an additional .25%, which increases the amount that goes into their retirement benefit
  o The service retirement benefit is higher than it otherwise would be because the employer is contributing more
• Discussed whether CalSTRS would be successful getting a bill through the legislature that includes these provisions
  o Carolyn thinks it may be a good time to try it because of the recent losses in 401(k)s, etc.

Wrap-Up
Julie wrapped-up the meeting and summarized the decisions
• Create a table of the pros and cons for the three alternatives – load, minimum earnings, and DBS
• Identify which alternative solves the reporting problems
• Which is easy for members to understand
• What are the potential problems it could create
• Try to identify known problems
• Don’t want to constantly keep reinventing this

Future meetings
Julie is not planning to schedule another meeting at this time
• Julie will develop the three alternatives and would like to vet them through the task force
• Not sure of the timeline
• Could possibly vet over email, may not be necessary to come together for a meeting
• We’ve seen a lot of information about the benefit examples
• Task force members asked whether they can share the three models with their groups
• Specifically asked that none of this go out in print or in public
• Need to ensure it’s clear that these are tentative alternative plan design proposals
• Does not want inaccurate information about CalSTRS’ benefit plans spreading to the public
• Julie is provide the Teachers’ Retirement Board with an update on the status of the plan design effort in September
• Will present the plan design alternatives with a recommendation in February 2011
• Group wants to meet in the Fall to come to consensus about which alternative will be the recommendation
• Conduct focus groups with faculty organizations to obtain their support
• Need to get employer support
• Discussed the fact that employers don’t tell new employees that they have a choice in their retirement plan
• Need to get employers to tell us upon making a new hire
• CalSTRS can reach out to new employees immediately