Which Retirement Plan is Right for You?

A Primer for Adjunct Faculty
By Phyllis Eckler
Spring 2013
What Are My Choices?

- California State Teachers’ Retirement Defined Benefit Plan (CalSTRS DB)
- California State Teachers’ Retirement Cash Balance Plan (CalSTRS CB) – DEFAULT PLAN
- PARS
- Social Security
CalSTRS Defined Benefit (DB)

- A true pensions plan. Monthly benefits are not directly dependent on contributions.

- Uses a formula to derive the monthly benefit amount.

- Monthly retirement payments (or benefits) are lifelong and can include other family members.
How STRS DB Pension is Calculated

Formula for retirement benefits is based on:

- Accumulated service credit years

- Avg. hrly. wage X annual FTE load hrs. = annual earnable (final compensation)

- Your age factor when you take retirement

Service credit X annual earnable X age = $AnnualBenefit
What is FTE Load?

- FTE Load = Full-time Equivalent Load

- Refers to the hours that an adjunct WOULD be teaching or working if allowed to teach 100% of a full-timer’s load in a week.
Defining ANNUAL FTE Load

Hourly load worked (taught) by a full-time faculty member in a particular discipline area

\[
\text{X}
\]

Number of paid work weeks in an academic year (does not include intersessions)

\[+
\]

Office hours/week \(\times\) weeks in an academic year

- In L.A.C.C.D. formula is: FTE load/week \(\times\) 40 weeks = annual FTE
Examples of Annual FTE

- **English Composition:**
  - 12 hours/wk. X 40 weeks in academic year = 480 FTE

- **History:**
  - 15 hours/wk. X 40 weeks in academic year = 600 FTE

- **P.E.:**
  - 18 hours/wk. X 40 weeks in academic year = 720 FTE

If one office hour/wk. required: Add 40 hours to FTE
How is FTE Used by STRS?

• Annual FTE is used to determine an adjunct faculty member’s “annual earnable”
  WHICH

1. Determines the annual earnable (final compensation) in their retirement formula
2. determines an adjunct faculty member’s annual service credit under the Defined Benefit program
What is Annual Earnable?

- **Annual earnable** is:
- Annual FTE X the hourly pay earned in a particular district.

**EXAMPLES:**
- FTE 600 x $100/hr. = $60,000 annual earnable
- FTE 525 X $100/hr. = $52,500 annual earnable
- FTE 720 X $100/hr. = $72,000 annual earnable

- Districts are required to report this $ amount to CalSTRS every pay period
How Does STRS Use Annual Earnable for Service Credit?

- STRS uses annual earnable to determine an adjunct’s annual service credit (used in the final retirement benefit formula) by:
  - comparing the $ amount actually earned by the adjunct to the annual earnable.
Example of How FTE is used to Determine Service Credit

- District A pays adjuncts $100/hour.
- The FTE in P.E. is 720
- Therefore the annual earnable for teaching P.E. is $72,000 ($100 X 720FTE)
- If an adjunct earns $36,000 teaching P.E. he/she receives 50% of a year service credit
- In an adjunct earns $23,760 he/she receives 33% of a year of service credit
How CalSTRS DB Pension is Calculated

- Formula for retirement benefits is based on **three** components:
  1. Avg. hrly. wage $\times$ full-timer’s load hours per week $\times$ 40 weeks per year = *annual earnable*
  2. Your age when you take retirement (63 gives you the best *age factor* of .024)
  3. *Years of Service* (work) based on max. of 600 hours in one year (each hour paid is credited)

$$\text{Annual earnable/12} \times .024 \times \text{years of service} = \text{Monthly Benefit}$$
How Do I Determine MY Annual Earnable?

Go to MyCalSTRS
### Retirement Progress Report

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<thead>
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<th>Year</th>
<th>Account Type</th>
<th>Document Type</th>
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<tbody>
<tr>
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<td>2003</td>
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#### Annual Statement Estimate Letter

Click on Employer Details
Here are the Annual Earnables

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<tr>
<th>Employer/ Assignment</th>
<th>Earnings</th>
<th>Contributions</th>
<th>Earnables</th>
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<td>$4,835.42</td>
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How to Calculate Your Monthly Final Benefit

Go to:

www.calstrs.com

to calculate your virtual benefit
CalSTRS Defined Benefit Supplement (DBS)

- A supplement to the CalSTRS DB plan.
- Similar to a 401K or CalSTRS Cash Balance Plan
- If one earns more than one year’s service credit (by teaching over 100% of FT load), employee contributes 8% while the district contributes 8%, tax deferred
- Immediate vesting
- Benefits are paid out in a lump sum or can be annuitized if over $3,500 in account (go to www.calstrs.com to calculate your virtual benefit by using the DBS calculator)
Example CalSTRS DB Benefit

- Joe accumulated 4 years of service credit in 4 years by working a 60% load during the spring and fall and taking on one class (20%) in each of two intersessions.
- Joe also received $1,000 for ancillary activities each year. 8% contributions from this goes into his DBS savings plan.
- In the last five years of work Joe taught only one class a year and received 20% of a year service credit for each of five years = 1 more year of service credit.
- In total he now has 5 years of service credit and so he is vested.
- Although he decides to retire at age 60 and begin to take his lifelong benefit, he may still continue working but must earn less than $41,000 in public school teaching in 2013-14.
Joe’s Benefit Formula

- Take Joe’s avg. hourly rate for the last three years ($88) \times 600 (full-time hrs. per year) = $52,800 annual earnable
- Annual earnable $52,800 \div 12 = $4,440
- Joe’s age factor at 60 years old = 2.0
- Joe’s years of service = 5 years

Formula: $4,400 \times 0.02 \times 5 = $440/month

NOTE: Joe also receives a lump sum payment of $640+ interest from his DBS account

He may also continue working; earning up to $41,000/yr. in STRS covered employment.
CalSTRS Defined Benefit (DB)

- Employee contributes 8% of salary while the district contributes 8.25%, tax deferred

- Vesting requires 5 “service credit years” (approximately 5-10 actual years)

- Each “service credit year” is equivalent to a full year of classroom hours that a full-time faculty member would be putting in (i.e. FTE load).

- Under PEPRA new CalSTRS members must work until age 65 for (best) .024 age factor
Q: Is there anything one can do to maximize one’s DB Final Benefit?

• Teaching the last three years in one district with the highest “annual earnable” hourly salary $x$ virtual number $= $ annual earnable

• Buy permissive service credit to boost your service credit. You can use Cash Balance $\$ \text{ or other tax-deferred savings to do this.}$
Q: What if I don’t vest by getting my 5 years of service credit in CalSTRS DB? Do I get anything?

A: Yes, you will receive YOUR 8% contribution along with any interest on that money. However you will not receive the district’s 8.25% contribution. You will also receive any DBS funds in your account.
CalSTRS Cash Balance (CB)

- Similar to a 401K plan
- Benefits are paid out in a lump sum or can be annuitized (go to www.calstrs.com to figure out monthly benefit using the DBS calculator)
- Employee pays in 3.75% of salary while LACCD contributes 4.25%, tax deferred
- Vesting is immediate
- Guaranteed principal + annual interest rate (This is why it is more secure than a 401K.)
Example CalSTRS CB Benefit

- Jane also works four years teaching 60% in spring and fall and 20% for each of two intersessions.
- She also slows down in her last few years and only teaches 20% of a load for five years.
- In total, she and the district have put away $21,120 at the end of the nine years plus interest totaling $1,056.
- Jane decides at age 60 to retire.
- Jane may take all of her $22,176 out at one time, roll her benefit over to an IRA or she has a choice of annuities.
How CalSTRS CB Monthly Benefit is Calculated

<table>
<thead>
<tr>
<th>DBS Account Balance</th>
<th>Benefit Recipient’s Age At Retirement</th>
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<tr>
<td></td>
<td>50</td>
</tr>
<tr>
<td>$3,500</td>
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<td>$50,000</td>
<td>$352</td>
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Jane’s Benefit Amount

- According to the chart Jane ends up receiving around $173/month from her Cash Balance Lifetime Annuity.
- Jane can take a lump sum cash, roll $ over into an IRA or (if she has more than $3,500) choose to annuitize her payout over her lifetime or a fixed timeframe.
- She may also continue working earning up to $41,000/yr. in STRS-covered employment.
PARS

- 401k type plan but principal is guaranteed
- Benefits are paid out in a lump sum upon retirement
- Employee contributes 3.50% of salary while employer contributes 4%
- No guaranteed interest rate
Social Security

- Requires 40 quarterly “credits” (in 2013 each credit = $1,160 earned in the quarter) in order to vest
- Monthly retirement benefits are lifelong. There is a spousal benefit.
- Employment Taxes: 6.2% from employee (using after-tax pay), and 6.2% from employer
How Social Security Benefits Are Calculated

1. Your wages are indexed for inflation
2. Social Security uses the average of your 35 highest earnings years
3. Result is *Average Indexed Monthly Earnings* (AIME)
How SS Monthly Benefit is Derived from AIME

Formula for someone age 62 in 2013. (Salary amounts in formula change each year)

Step 1: The first $791 of AIME is multiplied by 90%

Step 2: The next $3977 of AIME is multiplied by 32%

Step 3: The rest of the AIME (i.e. amount over $4,768) is multiplied by 15%
Example of Social Security Benefit

- **AIME = $4932**

1. \(90\% \times 791 = \$712\)
2. \(32\% \times 3977 = \$1273\)
3. \(\$4932 - (\$712 + \$3977) = \$164\)
4. \(15\% \times \$164 = \$25\)

Total monthly benefit \((\$712 + \$1273 + \$25) = \$2010/month\)
Windfall Elimination Provision

WEP

- If any part of your government pension, such as CalSTRS Define Benefit OR Cash Balance, is based on work not covered by Social Security, you may be affected by the Windfall Elimination Provision.
Example of WEP Effect on Social Security Benefit

- **AIME = $4932**
  1. **90%** 40% X $791 = $316 (lose $396)
  2. 32% X $3977 = $1273
  3. $4932-($712+$3977) = $164
  4. 15% X $164 = $25

**Total monthly benefit ($316+$1273+$25) = $1614/month** (as opposed to $2010)
Example of WEP Effect on Social Security Benefit

- **AIME** = $4,620
- 1. **90%** \( \times \) 40% \( \times \) $749 = $300
- 2. 32% \( \times \) $3,768 ([$4,517 - $749]) = $1,206
- 3. 15% \( \times \) $103 = $15

**Total monthly benefit** = $1,521 (vs. $1,895)
**Difference** = $374

**Maximum difference** = \( \frac{1}{2} \) of government (CalSTRS) pension
Exception of the Windfall Elimination Provision For Those Who Were Covered by Social Security in Another Job

<table>
<thead>
<tr>
<th>Years Worked in Social Security</th>
<th>% of First Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 or more</td>
<td>90</td>
</tr>
<tr>
<td>29</td>
<td>85</td>
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<tr>
<td>28</td>
<td>80</td>
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<td>22</td>
<td>50</td>
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<tr>
<td>21</td>
<td>45</td>
</tr>
</tbody>
</table>
If **you or your spouse** receive a government pension (such as CalSTRS), based on work **not** covered by Social Security (such as teaching) your Social Security spouse’s or widow(er)’s benefits may be reduced
Example of Effects of GPO on Social Security Benefits

Spouse’s Benefits Only

2/3 of amount of Government pension will be used to reduce the Social Security spouse’s benefits

Example:

Primary breadwinner Social Security = $1,000/mo.
Social Security Spouse Benefits = $500/month
2/3 x $440 CalSTRS pension received = $290/mo.
Social Security benefit payable = $210/month
($500-$290)
Other Issues to Consider

- Adjunct faculty may NOT be in Social Security if they wish to enroll in the district’s CalPERS medical plans.
- If one is in CalSTRS CB or DB program when one retires and also in the district’s health benefits program, one can require the school district to continue to offer this group plan to the ex-employee and his/her spouse on a “buy in” basis.
- The CalSTRS DB program offers 85% purchasing power over the life of the pension (not guaranteed).
- Once in CalSTRS CB you can move into CalSTRS DB but you cannot switch from Defined Benefit (DB) into Cash Balance (CB), Social Security or PARS.
Frequently Asked Questions

Q: If I am really expecting to get most of my pension from Social Security how do I avoid the WEP, the GPO or save my spouse from being subject to the GPO?

A: If most of your earnings are from SS you probably have enough “substantial earnings” (30 years) not to be affected by the WEP. You will STILL be affected by the GPO if you expect to get some of your SS from your spouse’s earnings.

• You can either not receive your retirement from CalSTRS at all or not sign up for CalSTRS in the first place.

• Your spouse is affected by the GPO only if he/she receives his/her own government pension from CalSTRS. What you do, does not affect the GPO unless you option part of your CalSTRS benefit to your spouse.
Q: What if I expect to get a full-time job in the community colleges eventually, which retirement program should I go into?

A: When you get a full-time teaching job you will be required to contribute to CalSTRS DB. If you have already begun contributing to CalSTRS Cash Balance your money will stay there until you retire or can be rolled over to buy years of CalSTRS DB service credit but at a considerable cost. Cost calculators are available on www.calstrs.com
More F.A.Q.s

Q: If I have chosen one of the two CalSTRS plans in this district can I switch out of CalSTRS into Social Security later on?

A: No, once you choose a CalSTRS plan, you cannot switch your retirement plan in this district to Social Security. However you may still be covered by Social Security with other outside employers.
The Truth about the 180 Day Sit–out Period

- Under PEPRA (effective January 2013) any employee who receives a pension from CalSTRS will be docked a pension dollar for each earned dollar, if he/she works within the first 180 days of retirement in CalSTRS covered employment.

- You will not lose more than your STRS pension benefit.

- Therefore one needs to decide if it is worthwhile working or not within those first 180 days.
Questions? Contact

- Rudy Lopez
- Lopezr@email.laccd.edu
- 1-213-891-2486