Which Retirement Plan is Right for You?

A Primer for Adjunct Faculty

By Phyllis Eckler

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What Are My Choices?

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

CalSTRS Defined Benefit (DB)

- Uses a formula based on **years of service**, **age** and average **equivalent full-time earnings** to derive the monthly benefit amount.
- Monthly retirement payments (or benefits) are lifelong and can include other family members.
- Employee contributes 8% of salary while the district contributes 8.25%, tax deferred
- Vesting requires 5 years of service credit, which is 3,000 hours of any paid work in any combination of districts (approximately 5-10 years)
- 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)

How CalSTRS DB Pension is Calculated

- Formula for retirement benefits is based on **three** components:

1. Avg. hrly. wage X 600 hrs.= **annual earnable**
2. Your age when you take retirement (63 gives you the best **age factor** of 2.4)
3. **Years of Service** (work) based on max. of 600 hours in one year (each hour paid is credited)

Annual earnable/12 X **2.4** X **years of service** = Monthly Benefit

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 $30,580 in teaching in 2009-10 ($31,200 in 2010-11).

Joe's Benefit Formula

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

Formula: $ 4,400 X 2.0% X 5 =$440/month

NOTE: Joe also receives a lump sum payment of $640+ interest from his DBS 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 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 interesessions.
- 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 or she has a choice of annuities.

Jane's Benefit Amount

- According to the chart Jane ends up receiving around $173/month from her Cash Balance Lifetime Annuity.
- She has to take at least one year off with no teaching before she teaches again or her CB annuity will stop.

How CalSTRS CB Monthly Benefit is Calculated

http://www.calstrs.com/Calculators/DBS_annuity_calcs_SR_REVISED.pdf - Windows Internet Explorer

DBS Account Balance	Benefit Recipient's Age At Retirement			
	50	55	60	65
$3,500	$24	$25	$27	$28
$5,000	$35	$36	$38	$41
$7,500	$53	$55	$57	$61
$10,000	$70	$73	$77	$82
$15,000	$105	$110	$115	$123
$20,000	$141	$146	$154	$164
$25,000	$176	$183	$192	$205
$30,000	$211	$219	$230	$246
$35,000	$246	$256	$269	$287
$40,000	$281	$292	$307	$328
$45,000	$317	$329	$346	$369
$50,000	$352	$365	$384	$410

Social Security

- Requires 40 "credits" (in 2010 each credit = $1,120 earned) in order to vest
- Monthly retirement benefits are lifelong. There is a spousal benefit.
- Employment Taxes: 6.2% from employee, 6.2% from employer, and <u>not</u> tax deferred

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 2010. (Salary amounts in formula changes each year)

Step 1: The first $761 of AIME is multiplied by 90%

Step 2: The AIME over $761 and <u>not</u> over $4,586 is multiplied by 32%

Step 3: The rest of the AIME over $4,586 is multiplied by 15%

Example of Social Security Benefit

- **AIME** = $4425

1. 90% X $761 =$685
2. 32% X $3664 ($4425-$761) = $1,172
3. 15% X $0 = $0

Total monthly benefit = $1,857

PARS

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

Windfall Elimination Provision WEP

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

Example of WEP Effect on Social Security Benefit

- **AIME** = $4425

1. 90% **40%** X $761 =$304
2. 32% X $3664 ($4425-$761) = $1,172
3. 15% X $0 = $0

Total monthly benefit = $1,476 (vs. $1875)

Difference = $381

Maximum difference = ½ of government pension

Exception of the Windfall Elimination Provision For Those Who Were Covered by Social Security in Another Job

Years of Coverage	% of First Factor in Benefit Formula
30 or more	90
29	85
28	80
27	75
26	70
25	65
24	60
23	55
22	50
21	45

Government Pension Offset GPO

If **you or your spouse** receives a government pension (such as CalSTRS), based on work <u>not</u> 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

<u>Spouse's Benefits Only</u>

2/3 of amount of Government pension will be used to **reduce** the Social Security spouse's benefit

<u>Example:</u>

Social Security Spouse Benefits =$500/month

2/3 x $440 CalSTRS pension received mthly = $290

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.
- 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 or save my spouse from being subject to the GPO?

A: 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 (i.e. CalSTRS). What you do, does not affect the GPO unless you option part of your CalSTRS benefit to your spouse.
- If you take just your DBS funds, you could get affected by the WEP because it includes both employee and employer contributions.
- If you were eligible to receive a pension and take a refund, you could still be affected by the WEP.

More F.A.Q.s

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

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.

More F.A.Q.s

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.

Questions? Contact

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

The End