CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

Employer Information Circular

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Effects of Reduction in School Funds

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While there is no state mandate to reduce school funds in the 2020-21 state budget, CalSTRS recognizes that some schools may be experiencing other reductions in school funds. Due to budget constraints, some school districts may be considering furloughs, salary reductions and retirement incentives. The following is information about the potential impact of furloughs, salary reductions and retirements to employers and CalSTRS members.

If you have questions regarding this circular, please contact CalSTRS Employer Help at EmployerHelp@CalSTRS.com.

Q. What is the impact of a staff furlough on members of the CalSTRS' Defined Benefit (DB) Program?

There are several ways to report staff furloughs to CalSTRS. The most common scenarios are outlined below. It is important to consider and communicate the impacts of whichever scenario is chosen when adjusting for reduced days.

Scenario 1: If a member's annualized pay rate[1] is adjusted due to a reduction in the number of base days required for a class of employees during the school term, the actual earnings of each member must be reported, as well as the adjusted annualized pay rate for the school term. As a result, the member's calculated service credit will remain the same.

For example, the base days for a class of employees are reduced from 185 days to 182 days due to bargained budgetary cuts. The new annualized pay rate would be calculated by multiplying the member's daily rate x 182 (the new base day total). If the base days are reduced mid-year, please reverse the original Contribution Code 1 line and re-report the pay adjustment using Contribution Code 3[2]. An example of the F496 lines for a CalSTRS 2% at 60 member is provided on the next page.

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[1] Annualized pay rate represents the salary or wages an employee would earn if they worked full time during a school term. Full time is defined as the number of days or hours of creditable service required to be performed in order to earn the annualized pay rate. While this may vary by employer or class of employee, Education Code section 22138.5 establishes minimum standards. In no circumstance can the base days be below the minimum standard as described in Education Code section 22138.5.

[2] By reversing the incorrect line and re-reporting using a Contribution Code 3, penalties and interest will be assessed on the contributions. You can submit a dispute to the penalties and interest through the Contribution Account Portal (CAP) on the Secure Employer Website (SEW). Please provide supporting documentation that you re-reported the adjusted payroll line within 90 days of the effective date of the written employment agreement.

Mbr/ Assign Code	Annualized Pay Rate	Pay Code	Earnings	Contrib Rate	Contrib Code	Contrib Amt	Serv Per Beg/End	Serv Cred
1-57	37000.00	3	3700.00	.1025	1	379.25	0901-0930	.1000
1-57	37000.00	3	-3700.00	.1025	1	-379.25	0901-0930	-.1000
1-57	36400.00	3	3640.00	.1025	3	373.10	0901-0930	.1000

While the member's calculated service credit will remain the same in this scenario, if this school year is part of the member's final compensation period, the member's final compensation will be lowered.

Scenario 2: If the number of base days required for a class of employees is not reduced, the annualized pay rate for a class of employees would not be adjusted even if furloughs are taken. In this scenario, the actual earnings of each member must be reported, as well as the non-adjusted annualized pay rate for the school term. As a result, the member's calculated service credit will be lowered. An example of the F496 line for a CalSTRS 2% at 60 member is provided below:

Mbr/ Assign Code	Annualized Pay Rate	Pay Code	Earnings	Contrib Rate	Contrib Code	Contrib Amt	Serv Per Beg/End	Serv Cred
1-57	37000.00	3	3640.00	.1025	1	373.10	0901-0930	.0984

While the member's calculated service credit will be reduced in this scenario, if this school year is part of the member's final compensation period, generally the member's final compensation should remain the same as if the reduction in earnings did not occur.

Q. How would a staff furlough impact a DB member participating in the Reduced Workload Program (RWP)?

A. If a member who is participating in RWP fails to work at least one-half of the time required for full-time employment in the position for any reason, including furloughs, the member will be in default of the RWP agreement and will receive only service credit for time actually worked. Employers are encouraged to advise their members of these scenarios and suggest that members work at a percentage above the 50% minimum if a furlough is contemplated.

Q. How does a staff furlough impact a DB member's retirement benefit?

A. CalSTRS retirement benefits are calculated based on a member's final compensation, the amount of service credit they've earned, and the age at which they retire. Changes in any one of these factors will impact a member's retirement benefit.

Furloughed members under Scenario 1 above may have a lower final compensation if the furloughs occur in a year that is part of their final compensation period.

Furloughed members under Scenario 2 will earn less service credit during the year in which the furloughs occur. Performing any additional assignments that are creditable may help them reach a full year of service credit.

For more information on how a member's benefit may be impacted, employers can direct members to talk with a CalSTRS Benefits Specialist.

Q. How does CalSTRS minimize the impact of a salary reduction on members?

A. Members who receive a salary reduction due to a reduction in school funds may be eligible for nonconsecutive final compensation. This applies to members who do not qualify for the one-year final compensation. In all cases, CalSTRS determines a member's most advantageous final compensation period.

With nonconsecutive final compensation, upon verification by the employer, CalSTRS will exclude the periods of the reduction in school funds to determine the highest 36 consecutive months of compensation earnable if doing so would result in a higher final compensation. The employer must certify that the member is eligible for this final compensation calculation because the member's salary was reduced due to a reduction in school funds for the specified school year.

Q. Can the district offer a retirement incentive?

A. Yes, school districts may offer retirement incentives. There are generally two types of retirement incentives: (1) a school district incentive to retire, and (2) the CalSTRS Retirement Incentive Program. Each affects a member's retirement differently.

(1) School district incentive to retire – Compensation paid as part of a school district incentive to retire meets the definition of remuneration in addition to salary, also known as special compensation. However, how a district's incentive to retire is paid, and a member's CalSTRS benefit structure, will determine if the compensation is creditable to the member's DBS account or not at all.

For CalSTRS 2% at 60 members, if the district's incentive to retire is earned prior to a member's retirement, and because retirement incentives are generally limited-term payments, the compensation is creditable directly to the member's DBS account. The compensation must be reported to CalSTRS using Assignment Code 71, and the service period reported must be prior to the member's retirement date. If the incentive is earned after the member's retirement, the compensation is not creditable to CalSTRS.

For CalSTRS 2% at 62 members, because retirement incentives are generally one-time or ad hoc payments, the compensation is not creditable to CalSTRS.

(2) CalSTRS Retirement Incentive Program – Pursuant to Education Code section 22714, the CalSTRS Retirement Incentive Program adds two years of service credit to the monthly benefit of eligible members. In order to offer the CalSTRS Retirement Incentive Program, districts are required to, among other things: demonstrate a cost savings over a period of time, be agreed to by the county superintendent, Superintendent of Public Instruction or chancellor, as appropriate; pay for the entire cost, including the

administrative fee, in a lump-sum payment or in deferred payments over no more than an eight-year period of time (regular interest compounded monthly will be charged on the balance for the deferred payment plan); and offer the retirement incentive within a designated period of time (referred to as the window period). It is important to note that the CalSTRS Retirement Incentive Program places limitations on a member returning to work with the same employer, while school district incentives to retire may not.

For more information about the CalSTRS Retirement Incentive Program, please contact retirementincentive@calstrs.com