

# Which Retirement Plan is Right for You?

A Primer for Adjunct Faculty

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(NOTE: Financial data from Fall 2012)

# What Are My Choices?

- State Teachers Retirement Defined Benefit Plan (STRS DB)
- State Teachers Retirement Cash Balance Plan (STRS CB)

# STRS Defined Benefit (DB)

- A true pension plan that uses a formula based on **years of service**, **age** and **average equivalent full-time earnings** to derive the monthly benefit amount.
- Employee puts in 8% of salary while the district contributes 8.25%, tax deferred
- Vesting requires **2625 hours** (**4375 hours for non-credit**) of any paid work in any combination of districts (approximately 5-10 years)

# STRS Defined Benefit (DB)

- Monthly retirement payments are lifelong and one can include other family members.
- Go to [www.calstrs.com](http://www.calstrs.com) to calculate your virtual benefit

# How STRS DB Pension is Calculated

- Formula for retirement benefits is based on:
  1. Avg. hr. wage X 525\* hrs. (15 hrs./wk X 35 weeks) = annual earnable
  2. Your age when you take retirement (63 gives you the best multiplier of 2.4)
  3. Years of Service based on max. of 525 hours in one year.

Annual earnable X 2.4 X years of service = \$ Best Benefit

\*For non-credit annual earnable is 875 hours per year. The hours per year according to discipline may change due to new legislation.

# Example DB Benefit

- Jane has accumulated 4 years of service credit (SC) in 4 years by working a 60% load during the spring and fall and taking on one class (20%) in each of two intersessions each year.
- Jane also received pay for 2 office hours which goes into her DBS savings plan as 16.25% of \$682.50/year
- In the last four years of work Jane only taught one class per year and receiving 20% of a year's SC plus 4.4% SC for office hours plus .06% SC for paid ancillary activities= 1 year of service credit after four years.
- In total she now has 5 years of service credit after working 8 years and so she is vested.
- Although she decides to retire at age 60 and begin to take her lifelong benefit, she may still continue teaching but must earn less than \$40,011 in teaching.

# Jane's Benefit Formula

- Take Jane's avg. hourly rate for the last three years (\$60) and multiply times 525 (full-time hrs. per year) = **\$31,500 annual earnable**
- Jane's age factor at 60 years old = **2.0**
- Jane's years of service (SC) = **5 years**

**Formula: \$31,500 X 2.0 X 5 = \$262.50/month**

**NOTE:** Jane also receives a lump sum payment of \$2,866 from her DBS account or can annuitize it

# STRS Cash Balance (CB)

- More of a hybrid 401K type plan - no loss of principal
- Benefits are paid out in a lump sum or can be annuitized (go to [www.calstrs.com](http://www.calstrs.com) to figure out monthly benefit using the DBS calculator) to pay out a monthly benefit
- Employee pays in 4% of salary tax deferred while district contributes 4% also
- Vesting is immediate.
- Guaranteed annual interest rate (in 2012 it is 3.75%)



# Example CB Benefit

- Joe also works four years teaching 60% in spring and fall and 20% for each of two intersessions and receives 2 hours of office pay during regular semesters.
- He also slows down in his last few years and only teaches 20% of a load for five years.
- In total, he and the district have put away \$10,000 in his CB account at the end of the nine years plus interest totaling \$500.
- Joe decides at age 60 to retire.
- Joe may take all of his \$10,500 out at one time or he may decide to receive a monthly lifetime annuity like Jane has.

# How STRS CB Monthly Benefit is Calculated

The screenshot shows a web browser window displaying a table from the California State Teachers' Retirement System (STRS) website. The table is titled "DBS Account Balance" and "Benefit Recipient's Age At Retirement". The table is displayed in a yellow and cyan color scheme. A red box highlights the value \$77 at the intersection of a \$10,000 account balance and a 60-year-old recipient.

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

# Joe's Benefit Amount

- According to the chart Joe ends up receiving around \$77/month from his Cash Balance Lifetime Annuity.
- He may also continue teaching after retirement earning a maximum annual amount of approximately \$40,011

# Social Security

- A true pension plan that requires 40 “credits” (in 2007 each credit = \$1,000 earned in each calendar quarter) in order to vest
- Monthly retirement benefits are lifelong and include family members
- Contributions: 6.2% from employee, 6.2% from employer, and not tax deferred

# How Social Security Benefits Are Calculated

1. First your wages are indexed for inflation
2. Then you find the average of your 35 highest earnings years
3. Result is Average Indexed Monthly Earnings (AIME)

# Example of Social Security Benefit

- **AIME = \$5235**

1.  $90\% \times \$767 = \$690$

2.  $32\% \times \$3857 = \$1,234$

3.  $15\% \times \$611(\$5235 - (\$767 + 3857)) = \$92$

**Total monthly benefit:**

**$\$690 + \$1234 + \$92 = \$2,016$**

# Windfall Elimination Provision

## WEP

- If any part of your government pension, (such as STRS 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 Effects on Social Security Benefits

- **AIME** = \$5235

1. ~~90%~~ **40%** X \$767 = \$307

2. ~~32%~~ X \$3857 = \$1,234

3. **15%** X \$611 [ $\$5235 - (\$767 + 3857)$ ] = \$92

**Total monthly benefit = \$1,633 (vs. \$2016)**

**Difference = up to \$383**

**Maximum difference = ½ of government (e.g. STRS) pension** (therefore for Jane only \$131...half of her \$262 STRS 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 receive a government pension based on work not covered by Social Security, 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 (STRS benefit) will be used to reduce the Social Security spouse's benefit

## Example:

Social Security Spouse Benefits = \$500/month

\$262 STRS pension received mthly  $2/3 = \$173/\text{month}$

Benefit payable by Social Security = \$327/month

No amount of social security years will reduce this.

# The Affect on Jane's SS Benefit

- Jane expects to receive \$262/month from her STRS DB retirement pension.
- She worked outside of teaching and is supposed to receive a Social Security pension of \$500/month for her own work.
- The most her own SS benefit can be reduced is equal HALF of her STRS benefit = \$131
- $\$500 - \$131 = \$369 + \$262 = \$631$  mo. pension

# Spousal SS Benefit

- Jane is entitled to more than her own SS Benefit because her spousal (or widow's) benefit which is (half her husband's benefit) is higher
- Husband's benefit = \$2200/mo
- Jane is entitled to \$1,100 from Social Security. Her own benefit of \$500 plus an additional \$600 for a spousal benefit

# Your STRS Benefit May Hurt You

- For Jane the WEP would affect the \$500 Social Security benefit she expects to get for her own work:
- $\$262 - 50\% \text{ (max)} = \$131$  subtracted from SS
- $\$500 - \$131 = \$369$
- For Jane the GPO would affect the \$600 SS benefit from her husband:
- $\$262 - 66\% = \$172$  subtracted from SS
- $\$172 + 131 = \$303$  subtracted from SS (more than the entire STRS benefit!)

# Using Sick Days

- GCC District gives an hour of sick leave for every hour worked in one week of a semester
- If you are in Defined Benefit, STRS will convert these hours into service credit(SC) at a rate of 6 hrs. = one day. (175 days = one year SC)
- Linda Watkins can give you your accumulated sick hour balance.
- Sick days must be moved from all employers to be consolidated under one employer to get SC for all days/hours.

# More Using Sick Days

- Adjunct faculty in Cash Balance receive no value for their sick hours. It's use it or lose it upon retirement.
- Sick hours may be donated pre-retirement to GCC's Catastrophic Illness Pool for the use of other adjunct faculty who do not have enough sick leave to cover their needed leave.
- The Payroll Office (Menchie Braza) has more information.



# 403B & 457 Savings

- 403B, Roth 403B & 457 for certified and classified school employees only
- Tax sheltered savings
- Employee may contribute to BOTH a 403B & a 457
- May withdraw \$ from 457 Savings acct. before age 59 1/2 with no penalty for emergencies
- Contribution limits \$16,500 (2010) & \$22,000 over age 50
- See Jean Antonitis in payroll to enroll

# Other Issues to Consider

- If one is in Cal STRS CB or DB program when one retires and also in the group health benefits program of that district one can require the school district to continue to offer this group plan to the ex-employee and their spouse on a “buy in” basis.
- Cal STRS DB offers lifetime disability coverage for those who cannot continue to work but the benefit is related to the actual earnings of the individual.
- The CalSTRS DB program offers guarantees 85% purchasing power over the life of the pension.

# More Issues to Consider

- As of January 1, 2013 anyone who retires from any CalSTRS plan is supposed to “sit out” for 180 days or else every dollar earned will be deducted from that month’s pension payment (only to the max of pension) for 180 days.
- The ability to purchase “air-time” (non-teaching years of service credit) will also expire on that date.

# 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 part of your 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: What if I don't vest by getting my 5 years of service credit in CalSTRS DB? Do I get anything? How will my social security be affected?*

*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. There will not be any WEP or GPO affect if the money is rolled over into an IRA or other retirement savings vehicle.*



The End



Questions?