

HOW FURLOUGHS AND/OR PAYCUTS AFFECT YOUR RETIREMENT

(1) CAL PERS MEMBERS (FULL TIME /12 MONTHS)

A member's retirement allowance is computed based on: Service Credit, Benefit Factor and Final Compensation. Your benefit factor is the percentage of pay to which you are entitled for each year of service. It is determined by your age at retirement and the retirement formula for school employees, which is 2% at 55. **The benefit formula is unaffected by a furlough.** However, there **may** be an impact on final compensation and service credit.

FINAL COMPENSATION

Final compensation is the highest average full-time **pay rate** and special compensation for the last 12 months of employment. Your full-time pay rate, **not your earnings** is used to determine final compensation. **A furlough does not change pay rate.** (Pay rate is your base pay, paid on a full-time basis during normal working hours). Most of us do not receive "special" compensation but there are certain items that are considered PERSABLE

You don't have to necessarily use your final year compensation to determine your retirement formula. If you think there was another 12 consecutive months during which your final compensation was higher you can let PERS know that when you apply for retirement. PERS will use that time period to determine your final compensation.

A pay cut reduces your pay rate that is reportable to PERS. Your "new" reduced pay rate will be used to determine your final compensation.

SERVICE CREDIT

One year of service credit is granted for full time employment for any of the following: 10 months of service for persons employed on a monthly basis; 215 days of service for persons employed on a daily basis; or 1,720 hours of service for persons employed on an hourly basis.

Since one year of service credit can be accrued in less than a year, a full time member employed continuously throughout the fiscal year will be able to accrue a full year of service credit. **For example, a full time member working continuously during a two day per month furlough plan would still earn a full year of service credit.**

MEMBER/EMPLOYER CONTRIBUTION

The Public Employees' Retirement Law (PERL) provides that member contribution rates are to be applied to actual earnings, not compensation earnable. **Therefore, when the member contribution rate is multiplied by the furlough-reduced member earnings, it will result in reduced member contributions payable to CALPERS.**

The employer contribution rates set by the CALPERS Board are a percentage of pay roll, and thus tied to actual earnings. Therefore, a furlough that reduces payroll would necessarily result in reduced employer contributions to CalPERS.

SERVICE PURCHASE OPTION

There is no provision in the PERL which allows members to purchase furlough time.

(2) CAL PERS MEMBERS (11 and 10 months work year)

There is a major difference with how a furlough affects employees currently working 10 months per year.

SERVICE CREDIT

If you are a 10-month employee you will accrue service at a slower rate during the fiscal year if you are furloughed. Again, one year of service credit = 10 months or 215 days; or 1,720 hours. If a furlough of five days forces you to go below these numbers you will accrue less than 1 year service credit during that fiscal year.

*11 month employees exceed the minimum number of months, days and/or hours required to earn one year of service credit.

Part-time employees do not accrue a full year of service credit. A furlough will affect ,

(3) CAL STRS EMPLOYEES

MANDATORY FURLOUGHS

Q. What is the effect on a mandatory staff furlough on members of CALSTRS Defined Benefit program?

A. If an employer reduces the number of base days required for a class of employees, the employer shall report the actual earnings of each employee as well as the adjusted compensation earnable for the school year. As a result, the employee's final compensation will be lowered while their credited service will remain the same.

Compensation earnable represents the compensation the employee would earn if he or she worked full time. Full time is defined as the number of days or hours required for full-time employment.

Q. How does a staff furlough affect the employee's retirement benefit?

A. Non-voluntary furloughed employees may have a lower final compensation if the furloughed year is part of the highest one year or three year final compensation period.

Q. How does a salary reduction impact the employee's retirement benefit?

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 will automatically determine the most advantageous final compensation by searching the past 15 years of records. In some cases it may be advantageous for the member to designate an earlier period. For those members who earned higher salaries earlier in their careers, a benefits counselor can help them find the final compensation period that is best for them. With nonconsecutive final compensation, upon verification by the employer, CalSTRS will use any three nonconsecutive school years to determine final compensation.

* If you retire with 25 or more years of service credit, CalSTRS uses your highest one-year earnable compensation as the final compensation component in your retirement calculation.

If you have fewer than 25 years of service credit, your final compensation is based on your highest average earnable compensation during any period of 36 consecutive months of paid employment covered by CalSTRS.