CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Fact Sheet

Summary of AB 340, the California Public Employees' Pension Reform Act of 2013 and its Impact on CalSTRS Members

Reform Title	AB 340	Impact on CalSTRS Members	Applies To:
1. Require Equal Sharing of Pension Costs	Requires new members to pay at least 50% of the normal, ongoing cost of benefits or the current contribution rate, whichever is greater.	**Moderate.** Current members pay 8% in contributions, equal to 44% of normal costs. Fifty percent of the estimated normal cost of the new plan is less than 8%. Therefore, the new member contribution rate will likely be 8%, according to preliminary estimates.	New members
2. Places a Cap on Compensation used to Calculate a Defined Benefit	Places a cap equal to 120% of the Social Security wage base on compensation earnable. The cap is adjusted each year based on changes to the Consumer Price Index for All Urban Consumers. An employer may provide a contribution to a defined contribution plan on compensation in excess of the cap.	**Significant impact to a minimal number of members.** The cap significantly affects members who earn above 120% of the Social Security wage base (or $132,120 in 2012). Approximately 4,500 current members make more than that amount.	New members
3. Change Age Factors and Eliminate Career Factor	Changes the normal retirement age from 60 to 62 with a 2% age factor. Changes the maximum age factor from 2.4% at age 63 to 2.4% at age 65. Changes the age factor for early retirement at age 55 with five years of service from 1.4% to 1.16%. Eliminates the ability for members with 30 years of service to retire as early as age 50. Eliminates the career factor.	**Significant impact to a significant number of members.** Current normal retirement age is 60. Current maximum age factor is 2.4% at age 63. Actual average retirement age is about 62. Age factors will be lower for new members retiring before age 65. The current career factor applies to members with 30 or more years of service, which represents about 39% of recently retired members.	New members
4. Require Three-Year Final Compensation	Extends the final compensation period to three years for all new members, regardless of years of service.	**Moderate impact to a significant number of members.** Current members who retire with 25 years of service have their final compensation based on the highest 12 consecutive months of average annual compensation. Approximately 52% of recently retired members qualify for the one-year calculation.	New members
5. Eliminate Replacement Benefits Program	Limits benefits from the Defined Benefit Program to the federal 415 limit ($171,202 at age 65 in 2012).	**Significant impact to a minimal number of members.** Federal law allows payment of benefits in excess of the 415 limit. There are 317 members currently receiving benefits under this provision.	New members

All changes are proposed to take effect January 1, 2013

see reverse

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6. Calculate Benefits Based on Regular, Recurring Pay	Excludes allowances, bonuses and cash in lieu from the Defined Benefit Program.	**Significant impact to a minimal number of members.** Compensation related to “overtime” work, such as summer school or after school activities, is already *not* counted toward the Defined Benefit Program. Allowances (auto and housing), bonuses and cash in lieu no longer count toward any benefit for new members.	New members
7. Limit Post-Retirement Employment	Extends the $0 earnings limit to all members during the first 180 days of retirement. Extends a very limited earnings limit exemption until June 30, 2014, and includes additional restrictions based on the receipt of retirement incentives.	**Moderate impact to minimal number of members.** Current earnings limit is $40,011 in 2012-13, based on 50% of the median final compensation for recently retired members. Currently, members under age 60 are subject to a $0 earnings limit during the first six months of retirement. Only 1,100 retired members, including those with prior exemptions, earned over the limit in 2010–11.	All (retired, current active and new members)
8. Felons Forfeit Pension Benefits	Requires that a member forfeit pension and related benefits if convicted of a felony in carrying out official duties, in seeking an elected office or appointment or in connection with obtaining salary or pension benefits.	**Minimal.** Only elected members currently have such forfeiture requirements, but felony convictions are very rare.	Current active and new members
9. Prohibit Retroactive Benefit Increases	Prohibits applying pension improvements to prior service.	**No immediate impact.** In the past, when pension benefits were improved, the improvement usually would apply to service that was performed in the past as well as future service.	All (retired, current active and new members)
10. Prohibit Pension Holidays	Prohibits all employers from suspending employer and/or employee contributions necessary to fund annual pension costs. Contributions may not be less than the normal cost.	**Minimal.** CalSTRS contributions are currently fixed in statute and cannot be reduced without legislation. The only reductions have been in 1998 and 2000 when the state reduced its contribution from 4.607% to the current level of 2.541%. However, since 2002 the contributions fixed in statute that are paid by the state (as plan sponsor) and the employers have been less than the amounts required actuarially to fund CalSTRS in full.	Current active and new members
11. Prohibit Purchase of Nonqualified Service	Prohibits the purchase of nonqualified service, or airtime, for requests submitted on or after January 1, 2013.	**Moderate impact to minimal number of members.** Current members may purchase up to five years of nonqualified service (as allowed by the IRS) and pay the entire cost based on the actuarial assumptions. About 700 members purchase this type of service each year.	Current active and new members

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