RETIREMENT COMMITTEE

Maggie Ellis, Chairperson
Denise Bradford, Vice Chairperson
Dana Dillon, Board Liaison
Christine Balentine, Co-Consultant
Rose Luna-Nuñez, Co-Consultant
Jennifer Baker, Legislative Advocate

<u>MAJOR POLICY</u> – Immediate Action (2/3 vote required)

Retirement Principles (p. 238 - Insert into third paragraph, second sentence)

CTA believes that CalSTRS and CalPERS defined benefit programs are the primary earned retirement benefit. Defined contribution plans are voluntary, supplementary, tax-deferred savings plans, such as 4039b) and 457 plans, **<u>including those collectively bargained</u>**.

Retirement Voluntary Savings Plans (Pages 242-243 – Change title)

Retirement ~~Voluntary~~ Savings Plans

Paragraph 4, 2nd sentence

CTA believes selection of vendors shall be mutually agreed upon **<u>or affirmatively negotiated</u>** between the bargaining units and the district.

Retirement Savings Plan – Automatic Enrollment (New section inserted after Retirement Savings Plans Pages 242-243)

Retirement Savings Plans - Automatic Enrollment
CTA acknowledges that nationally, personal savings rates for retirement are woefully inadequate. While CTA recognizes that defined benefit plans are the foundation of retirement security, individual contribution plans (voluntary or collectively bargained automatic enrolled) are critical in providing an essential buffer to assure members have the financial security they deserve in retirement.

CTA believes automatic enrollment programs in retirement savings plans must include the following:

* *Be negotiated affirmatively and not subject to imposition*

* *The ability for employees to opt-out and/or choose an alternative plan*

* *The ability for an employee to self-select investment vehicles within the identified plan*

** The plan(s) must be portable without penalty*

CTA believes that members should be educated as to their rights as participants in auto-enrollment plans.

CTA believes that employees should not be solicited for additional products by the selected vendor of the auto-enrollment plan.

Auto-enrollment plans should meet the same criteria as the plans described in CTA Policy, "Retirement Savings Plans."

Rationale:

Members require a variety of retirement savings options in order to have the security they deserve in retirement. Voluntary savings for retirement fall far short of what a person needs for retirement security, with the median accumulated savings nationally for men at $36,875 and women $24,446 (as of 2014). Automatic enrollment in retirement savings plans increases the likelihood that members accumulate substantially more than the national median.

Currently, legislation is proposed to automatically enroll all public employees into a collectively bargained defined contribution retirement plan in addition to CalSTRS/CalPERS Defined Benefit Plans. This policy language is needed for CTA to put forth protections for our members.

MAJOR POLICY

NONE

OTHER ITEMS FOR IMMEDIATE ACTION

NONE

REFERRALS TO THE BOARD OF DIRECTORS

The committee requests that an article be published in the California Educator regarding the impacts of the Public Employee Pension Reform Act (PEPRA) on members hired after January 1, 2013. The article should also outline the impacts of credible compensation regulations on 2% at 60 members.

MATTERS PENDING

NONE

INFORMATIONAL ITEMS

If there are any questions regarding the items in this report, please contact the Committee leadership or staff.

1. The Retirement Committee took the following positions on legislation:

   AB 1878 (Jones-Sawyer), **Support**
   AB 2155 (Ridley-Thomas), **Support**
   AB 2650 (Nazarian), **Oppose**
   SB 1297 (Pan), **Watch**

2. The Committee was given information regarding the impact of the teacher shortage and the difficulty in hiring qualified substitutes. The link below connects to the CalSTRS Employer Circular that informs employers of the existing law allowing for local school boards to apply for the waiver to the 180 day separation from service requirement for new retirees. Specifics for the waiver are contained in the link below.
   http://www.calstrs.com/sites/main/files/file-attachments/eicvol32-issue3_separation-from-service.pdf

3. The Committee was given letters written by CalSTRS Chair, Harry Keiley and NEA in response on HR 711, Social Security and Public Servants: Ensuring Equal Treatment. The letters were submitted for the March 22, 2016, hearing by the Social Security subcommittee of the House Committee on Ways and Means. The position papers stated concerns regarding HR 711 and the treatment of educators subjected to the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP).

4. The Committee received education on the Public Employees' Pension Reform Act of 2013 (PEPRA) and the impact to employees hired on or after January 1, 2013. PEPRA members must be paid in the month in which the service was performed and the compensation must be consistent for it to be considered creditable. Compensation that is not creditable to CalSTRS for PEPRA members include one-time bonuses, overload and allowances. Some of these restrictions may also apply to the Creditable Compensation Regulations for CalSTRS 2% at 60 members. Negotiation teams need to be aware of these implications during negotiations.

5. Cathy Jeppson, Liaison to CalPERS - reported there are individuals going to CalPERS members' homes under the guise that they represent CalPERS. This is an attempt to solicit personal information to be used for fraudulent purposes. **CalPERS/CalSTRS and the IRS will not come to individuals' homes soliciting personal information, offering help to change plan information, or sell products.** Contact the relevant agency to report such fraud.

6. Alen Ritchie, CTA/NEA Retired announced their newly elected officers. Thanks to Alen for his leadership and many years of dedicated service to the committee and CTA/NEA Retired.

7. CalSTRS Annual Progress Reports are only delivered electronically via www.mycalstrs.com. If you have not created your mycalstrs.com account, YOU NEED TO! Anyone that wishes to continue receiving a hard copy needs to make

that request by contacting CalSTRS directly at 1-800-228-5453 to request a form or download the form through mycalstrs.com. Forms must be received by CalSTRS by July 1st.

8. Members that have worked with multiple employers over their career may want to request a CalSTRS Service Credit Breakdown to verify the accuracy of their Annual Progress Report. Members can call 1-800-228-5453 in order to make this request.

9. CTA/NEA – Become a CTA/NEA –Retired/Pre-Retired Life member. Lifetime dues are $450, don't wait, join now! Annual dues are $60. Come by the CTA/NEA-Retired table and pick up an enrollment form.

10. Websites to access retirement information include: www.mycalstrs.com www.cta.org www.leginfo.ca.gov www.calpers.ca.gov www.nea.org www.ctainvest.org www.nirsonline.org www.ssfairness.com letstalkpensions.com

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

Employer Information Circular

Volume 32; Issue 3 **February 24, 2016**

EXEMPTION TO THE SEPARATION-FROM-SERVICE REQUIREMENT

In response to concerns about the difficulty employers are having in hiring teachers, including substitute teachers, during the current teacher shortage, the purpose of this circular is to inform employers that existing law provides for an exemption to the separation-from-service requirement imposed immediately after retirement if the retired CalSTRS Defined Benefit Program member or Cash Balance Benefit Program participant receiving an annuity is hired in a critically needed position and meets other eligibility criteria.

Separation-from-Service Requirement
Pursuant to Education Code sections 24214.5 and 26812, there is a 180 calendar day separation-from-service requirement for all retired CalSTRS members and participants receiving an annuity, during which the postretirement compensation limit for the performance of retired member and participant activities is zero dollars ($0). This limitation applies whether the member or participant is providing services either an employee of an employer, an employee of a third party (except under certain circumstances) or as an independent contractor. Any compensation paid to the member or participant during the first 180 calendar days after retirement will result in a dollar-for-dollar reduction in the benefit or annuity paid to the member or participant.

Exemption to the Separation-from-Service Requirement
Under certain qualifying circumstances, a narrow exemption from the 180 calendar day separation-from-service requirement for a retired CalSTRS member or participant receiving an annuity would apply.

Requirements for Exemption Qualification
In order to qualify for this exemption:

- The retired CalSTRS member or participant must:
  - ☐ Be at or above normal retirement age at the time the compensation is earned.
    - ➢ For CalSTRS 2% at 60 members and participants not subject to the Public Employees' Pension Reform Act of 2013, the normal retirement age is age 60.
    - ➢ For CalSTRS 2% at 62 members and participants subject to the Public Employees' Pension Reform Act of 2013, the normal retirement age is age 62.
  - ☐ Not begin performing retired member or participant activities until CalSTRS receives all required documentation.

- The governing body of the employer must:
  - ☐ Approve the retired CalSTRS member or participant appointment by adopting a resolution in a public meeting.

- The resolution must (see attached sample resolution):
  - ☐ Be adopted before the retired CalSTRS member or participant begins performing retired member or participant activities under the exemption.
  - ☐ Not be placed on a consent calendar.
  - ☐ Include the following specific information and findings:
    - ➢ The intent to seek an exemption for the retired member or participant from the 180 calendar day separation-from-service requirement.
    - ➢ The nature of the employment.
    - ➢ A finding that the appointment is necessary to fill a critically needed position before the 180 calendar day separation-from-service requirement is fulfilled.
    - ➢ A finding that the retired member or participant did not receive a retirement incentive or any financial inducement to retire from any public employer.
    - ➢ A finding that the retired member's or participant's termination of employment is not the basis for the need to acquire his or her services.

  * In order to facilitate the process of reviewing the resolution, specify the retired member's or participant's full name.

- The superintendent, the county superintendent of schools or the chief executive officer of a community college must:
  - ☐ Complete the *Request for Separation-from-Service Requirement Exemption* (SR 1897) form, which is available in "Reference Items" on the Secure Employer Website.

- CalSTRS must:
  - ☐ Receive the *Request for Separation-from-Service Requirement Exemption* form and the aforementioned resolution before the retired CalSTRS member or participant begins performing service under the exemption.
  - ☐ Notify the employer and the retired member or participant within 30 days of receipt of all required documentation that the required documentation is in compliance with the law and the service performed is exempt from the 180 calendar day separation-from-service requirement.

If the separation-from-service requirement exemption is in compliance with the law, the retired CalSTRS member or participant will only be exempt from the separation-from-service requirement. Retired Defined Benefit Program members' earnings during the 180 calendar day period will still be subject to the annual postretirement earnings limit. In 2015-16, the annual is limit is $40,321, and in 2016-17, the limit is $41,732.

NOTE: If the required documentation is not in compliance with the law prior to performing retired member or participant activities, the exemption to the separation-from-service requirement does not apply, and the retired member or participant is subject to the zero dollar ($0) earnings limit. In addition, even if the retired member is exempted from the separation-from-service requirement, retired members lose the benefits of CalSTRS Retirement Incentive Program if they were previously granted service credit under the program and return within five years to any job, including substitute teaching, with their school district, community college district, or county office of education that granted the member's incentive credit.

[NAME OF EMPLOYER]

RESOLUTION FOR EXEMPTION TO THE SEPARATION-FROM-SERVICE REQUIREMENT PURSUANT TO SECTION 24214.5 OR 26812 OF THE EDUCATION CODE

[Resolution Number]

WHEREAS, pursuant to Education Code section 24214.5 and 26812, there is a 180 calendar day separation-from-service requirement for all retired CalSTRS members and participants; and,

WHEREAS, all retired CalSTRS members and participants are subject to a restriction if they perform retired member activities as defined by section 22164.5 of the Education Code or retired participant activities as defined by section 26135.7 of the Education Code, during the first 180 calendar days after their most recent retirement; and,

WHEREAS, if the retired CalSTRS member or participant performed retired member or participant activities during this period, CalSTRS will reduce his or her retirement benefit or annuity one dollar for each dollar earned for performing retired member or participant activities during the 180-day period; and,

WHEREAS, there is an exemption from the 180 calendar day separation-from-service requirement for a member or participant who retires for service and is at or above normal retirement age; and,

WHEREAS, in order to qualify for this narrow exemption, the employer must appoint the retired member or participant to a critically needed position that has been approved by the governing body of the employer in a public meeting as reflected in a resolution; and,

WHEREAS, this approval by the governing body of the employer in a public meeting as reflected in a resolution must be finalized and communicated to CalSTRS before the member or participant commences to perform retired member or participant activities; and,

WHEREAS, the *[TITLE OF CHIEF EXECUTIVE OFFICER OF EMPLOYER]* must complete the *Request for Separation-from-Service Requirement Exemption* form, which must be submitted to CalSTRS and received by CalSTRS before the member or participant commences to perform retired member or participant activities,

NOW, THEREFORE, BE IT RESOLVED that this Board does provide public notice that the district is in critical need of a *[POSITION]* to *[NATURE OF THE POSITION]* because *[DESCRIBE CRITICAL NEED]*;

AND BE IT FURTHER RESOLVED that the Board wishes to meet this critical need by hiring *[NAME OF MEMBER],* a member or participant who retired for service less than 180 days ago or who will retire;

AND BE IT FURTHER RESOLVED that this appointment is needed to fill this critical need before the 180 calendar day separation-from-service requirement is fulfilled;

AND BE IT FURTHER RESOLVED that this member or participant did not receive a retirement incentive or any financial inducement to retire from any public employer;

AND BE IT FURTHER RESOLVED that the retired member's or participant's termination of employment is not the basis for the need to acquire his or her services;

AND BE IT FURTHER RESOLVED that the earnings for retired member activities during the 180 calendar days will still be subject to the annual postretirement earnings limit for the Defined Benefit Program;

AND BE IT FURTHER RESOLVED that this member or participant will not commence to perform retired member or participant activities before this approval is authorized by the governing body of the employer in a public meeting as reflected in a resolution and received by CalSTRS;

AND BE IT FURTHER RESOLVED that this member or participant will not commence to perform retired member or participant activities before the *[TITLE OF CHIEF EXECUTIVE OFFICER OF EMPLOYER]* completes the *Request for Separation-from-Service Requirement Exemption* form and this is transmitted to and received by CalSTRS.

PASSED AND ADOPTED by the Governing Board of the *[NAME OF EMPLOYER]*, on this *[DAY]* OF *[MONTH]* IN THE YEAR *[YEAR]*.

AYES: NOES: ABSENT:

I, *[NAME]* , Secretary of the Governing Board, *[NAME OF EMPLOYER]*, County of *[NAME OF COUNTY]*, do hereby certify the foregoing to be a full, true and correct copy of a resolution adopted by the said Board at a regular meeting hereof held at its regular meeting place on *[DATE]* , which action is contained in the minutes of the meeting of said Board.

____
[NAME OF BOARD SECRETARY]
Secretary of the Governing Board
[NAME OF EMPLOYER]

____
[DATE]

HARRY KEILEY
CHAIR OF THE TEACHERS' RETIREMENT BOARD

OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

HEARING ON

SOCIAL SECURITY AND PUBLIC SERVANTS:
ENSURING EQUAL TREATMENT

BEFORE
THE SUBCOMMITTEE ON SOCIAL SECURITY OF
THE COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

March 22, 2016

SUBMITTED FOR THE HEARING RECORD

Introduction

Thank you for providing this opportunity to express the views of the California State Teachers' Retirement System regarding the assurance of equal treatment of public servants as it relates to Social Security. Because CalSTRS members do not participate in Social Security for their public education service, but often have earned Social Security benefits from other employment, existing federal policies have a significant impact on the educators of California's children.

CalSTRS provides retirement, disability and survivor benefits to almost 900,000 active and retired public school teachers and their beneficiaries. California public school teachers are the largest single group of state and local government employees in the country who do not participate in the Social Security system.

Established by state law in 1913, CalSTRS began operation 22 years before Social Security was created. At the time Social Security was established, California's teachers and all other state and local government workers were barred by Federal law from participating in Social Security. Through sound management over more than a century, CalSTRS has developed into the largest educator-only pension fund in the world, and second largest public pension system in the United States with over $184 billion in assets. CalSTRS pays more than $12 billion a year in benefits to more than 280,000 retired and disabled public school teachers and their beneficiaries. The State of California has prefunded its future retirement liabilities.

Harsh Impact of Current Federal Law on Retired Teachers with Modest Incomes

CalSTRS members do not pay the Social Security payroll tax on their earnings from CalSTRS-covered service, and therefore are not entitled to Social Security benefits for such service. Nonetheless, many CalSTRS members have earned and become eligible for Social Security benefits from other employment. When they receive their CalSTRS pensions, these teachers' Social Security benefits are reduced by the Windfall Elimination Provision (WEP) formula.

The Teachers' Retirement Board, which governs CalSTRS, has previously expressed its strong concerns about the significant adverse impact the WEP has on public education in California. Many California educators have complained that the WEP unfairly reduces the Social Security benefits that they have earned from other employment. In addition, the WEP adversely affects California's ability to recruit teachers into second careers from other professions as well as teachers from other states. Accordingly, the board has consistently supported California legislative resolutions requesting the President and U.S. Congress enact legislation that removes the burdensome effects of the WEP, and submitted statements to the U.S. Senate and the U.S. House of Representatives in 2007 and 2008, respectively, with our analysis of the issue and alternatives to the current offset.

Absent full repeal of the WEP, the board supports efforts to eliminate the inequities, arbitrary effects, and particularly the harsh impact on lower and moderate income retirees that result from its application. The WEP formula is arbitrary because there is little or no correlation between the offset formula and the public pension that triggers application of the offset.

WEP Hinders Efforts to Attract Qualified Teachers

The WEP creates an impediment to people who might otherwise want to become public school teachers in California, and hinder efforts by school districts to attract new talent to the California classroom. California is experiencing a significant teacher shortage, and the existence of the WEP hinders efforts to address that shortage. Although many enter the teaching profession at the beginning of their career, many others choose to become teachers as a second career, often after lengthy work in the private sector covered by Social Security. Still others may move to California after beginning their careers as educators in a state in which their earnings are covered by Social Security. In fact, 25 percent of those teachers receiving their initial California teacher credential in 2013–14 completed their teacher preparation program in another state. CalSTRS is very concerned that the WEP may cause people to decide not to become public school teachers in California because their Social Security benefits will be substantially adversely affected by their public school service. California would be better able to recruit and retain educators if these professionals did not face reductions in their future Social Security benefits.

Impact of WEP in Detail

While the intent of the WEP was to eliminate "windfall" benefits, often the actual effect is to reduce even modest Social Security benefits, which threatens the financial security of many state and local retirees. For example, many teachers earn Social Security coverage because of part-time jobs they had during their high school and college years or by working in private employment during the summer months after they became teachers. Such jobs will result in modest Social Security benefits, but these workers will be subject to the same WEP reduction as workers who receive much higher Social Security benefits. The reverse is also true. Workers who receive relatively modest public pensions see their Social Security benefits reduced under the WEP at the same rate as workers who receive more substantial public pensions.

Following are examples showing the benefits that are payable under two scenarios, including before and after the application of the WEP. The two workers' benefits change based on the years they worked in covered and non-covered employment, rather than their total number of years worked or their salaries. To ensure that it is the impact of the covered and non-covered employment pattern that is being gauged, not years of service or salary, we assume each of the two individuals retires at age 62 with a total of 30 years of employment, some in the private sector and some in the public sector, and annual wage increases equal to Social Security's national Average Wage Index over the course of their careers.

Impact of WEP Depending on Employment Pattern

	John	Diane
Years of Employment Covered Under Public System	20	10
Monthly Public Pension	$ 1,942	$ 971
Years of Employment Covered Under Social Security	10	20
Monthly Social Security Benefit Prior to WEP	$ 718	$ 1,053
Monthly Social Security Benefit after WEP Applied	$ 387	$ 722
Monthly Combined Benefits	**$ 2,329**	**$ 1,693**
WEP Impact	**$ 331**	**$ 331**

When the WEP is applied, the worker's Social Security benefit is reduced by the same maximum dollar amount regardless of the number of years of covered employment unless the worker has 21 or more years that were covered. (With covered years between 21 and 29, benefits are reduced on a sliding scale when the WEP is applied.) Each educator's monthly Social Security benefits are reduced by $331 (adjusted from the full retirement age offset of $428) with the application of the WEP.

Even though John and Diane have the same combined years of service and the same earnings patterns, Diane's combined benefits are $636 lower than John's combined benefits. This occurs because under the WEP, no allowance is made for additional years of covered employment until the worker has 21 or more years that are covered under Social Security.

In the example, both educators had the same earnings patterns throughout their careers. However, the same maximum WEP offset would apply to any individual of the same retirement age, including one with relatively low lifetime earnings who earns a much smaller combined benefit.

H.R. 711

Absent full repeal of the WEP, the board supports efforts to eliminate the inequities, arbitrary effects, and particularly harsh impact on lower income retirees. Accordingly, the board appreciates the bipartisan efforts of Ways and Means Chairman Brady and Rep. Richard Neal (D-MA) to address the inequitable impacts of the WEP.

H.R. 711, the Equal Treatment of Public Servants Act of 2015, provides an alternative calculation of the WEP with a formula based on actual work history for individuals turning age 62 after 2016. Under this bill, Social Security benefits would be calculated as if all the worker's earnings were subject to Social Security taxes (using the standard benefit formula). This amount would then be multiplied by the percent of earnings covered by Social Security. This ensures Social Security benefits are based only on Social Security wages. As a result, a person with 10 years of Social Security-covered employment would be less affected by the offset than would a person with 20 years of covered employment, and the Social Security benefit of a person with lower average monthly earnings would be reduced less than a similarly situated individual with higher lifetime earnings. Each of these measures is a positive step toward addressing the inequities of the current formula. In the earlier example, John's combined benefit under the H.R.

711 calculation would be $2,404, a reduction of $256, and Diane's combined benefit would be $1,895, a reduction of $129. The lower reduction in Diane's benefit reflects the fact that she had a shorter career not covered by Social Security than did John.

H.R. 711 is a significant improvement over the current WEP, and calculates the Social Security benefits for those who receive a CalSTRS benefit on a more equitable basis. There is one aspect of the proposal that concerns the Teachers' Retirement Board. Currently, the WEP applies only to those people who are eligible to receive a pension from noncovered employment, such as from CalSTRS. Under H.R. 711, a person's Social Security benefit would be reduced if the person had noncovered employment, even if the person never received a pension from noncovered employment. This could occur if the person worked a few years as a California public school teacher, and then left the profession. If the person worked for less than the five full years necessary for vesting, that former educator would never be eligible for a CalSTRS benefit, but her Social Security benefit would be reduced. As of June 30, 2015, there were almost 150,000 CalSTRS members no longer working in CalSTRS-covered service who did not work long enough to qualify for a future CalSTRS retirement benefit and their Social Security benefit would be reduced by some amount. (This compares to the 250,000 members currently receiving benefits from CalSTRS.) We recognize that applying this formula to individuals who will never receive a pension helps offset the cost of increased Social Security benefits that would be paid concurrently to those subject to the current WEP, but wanted to alert the Committee to the impact on this population.

Conclusion

If full repeal of the WEP offset proves too costly, CalSTRS believes that modifications would be appropriate steps to ameliorate the harsh adverse effects on retirees with relatively modest benefits that arise from the current arbitrary formula. Accordingly, CalSTRS appreciates the leadership that Chairman Brady, Rep. Neal, Rep. Becerra, and members of California's delegation have provided to address the issues associated with the WEP. CalSTRS looks forward to working with the Ways and Means Committee as the Committee continues its important work to address the current inequities of the WEP.

NATIONAL EDUCATION ASSOCIATION
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Great Public Schools for Every Student

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Executive Director

March 17, 2016

United States House of Representatives
Committee on Ways and Means
Subcommittee on Social Security
Washington, DC 20515

Dear Representative:

On behalf of the three million members of the National Education Association and the students they serve, we would like to offer our views on the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) in connection with the March 22 hearing, "Social Security and Public Servants: Ensuring Equal Treatment." NEA strongly supports the Social Security Fairness Act (H.R.973/S.1651), which would fully repeal both the GPO and WEP. We appreciate that the Equal Treatment of Public Servants Act (H.R.711) addresses inequities perpetuated by the WEP, but are concerned that it leaves the GPO intact and could actually broaden its application and enforcement.

Currently, the WEP reduces the Social Security benefits of 1.3 million people who also receive public pensions from work not covered by Social Security—for example, educators and other dedicated public servants who must take part-time or summer jobs to make ends meet. H.R.711 would replace the WEP with a new "public service fairness formula" for people who turn 62 during or after 2017. Under this formula, the Social Security Administration would take into account the years a public sector employee paid into Social Security versus the years that employee paid into a public pension system while working in a position not covered by Social Security. Under H.R. 711, Social Security benefits would be calculated as if all the worker's earnings were subject to Social Security taxes. This amount would then be multiplied by the percent of earnings covered by Social Security, thus taking into account that Social Security benefits are based on Social Security wages.

We recognize that H.R. 711 attempts to address existing inequities fairly. However, we have concerns regarding the:

- Potential impact on public employees who do not vest in a public pension plan and receive Social Security benefits subject to reduced benefits under the bill
- Fiscal challenges associated with the enforcement of the offset provisions for existing Social Security beneficiaries who are identified as having received overpayments
- Universe of beneficiaries who will no longer be exempt from the offsets because they have 30 years of Social Security-covered earnings

In addition, while we commend efforts seeking to address the harmful benefit reductions associated with the WEP, H.R. 711 fails to address the GPO, which reduces Social Security spousal and survivor benefits and affects a far larger number of people. Nationwide, more than one-third of educators and more than one-fifth of police officers, firefighters, and other public employees are not covered by Social Security and are, therefore, subject to the GPO. An estimated 9 out of 10 public employees affected by the GPO lose their **entire** spousal benefit, even though their deceased spouse paid Social Security taxes for many years. The impact is harshest for those who can least afford the loss: lower-income women. Once the GPO kicks in, some have so little money they must turn to food stamps.

The following excerpt from a letter to NEA is but one example of the devastating impact the GPO and WEP can have:

> *My husband was diagnosed with glioblastoma, the most aggressive type of brain cancer. After surgery, radiation and chemotherapy, his sight was affected so he could no longer drive or read. Therefore, he could no longer work as a real estate appraiser. We lived on my teacher retirement pension, my small Social Security benefit ($250 a month before Medicare), and his Social Security check of $1,600. It was an adjustment having one income totally lost, but with careful management and no unforeseen unexpected expenses we could do it. My husband lost his battle in April. Within two weeks of his death his Social Security benefit no longer was coming. After a phone interview with a Social Security representative, I found out that I would see none of it. Now my income was almost cut in half again. Trying to deal with his death was compounded immeasurably by this huge loss financially. I still wonder how I am going to make it. My husband worked all his life and paid into Social Security. He was in the Marines and the Army and was a Vietnam vet. I worked as a teacher of young children most of my life as well as other jobs to earn my Social Security benefit. The GPO and the WEP are devastating to me. What can I do to help get these repealed?—Heidi from Maine*

As noted above, NEA supports full repeal of both the GPO and the WEP. We are, however, open to incremental steps towards full repeal. We are neutral on H.R.711 pending the receipt of additional information on how H.R.711 would affect our members—specifically, who would gain and who would lose if it were to be enacted.

We thank the committee for calling attention to the vitally important issues associated with Social Security offsets—their resolution remains a priority for us and our members. We look forward to working with the committee to address these issues and thank you for the opportunity to offer these comments.

Sincerely,

Mary Kusler

Mary Kusler
Director, Government Relations

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 members under the 2% at 62 benefit structure to pay 50% of the normal, ongoing cost of benefits.	**Moderate.** The 2% at 62 member contribution rate is 8% for 2012-13. 2% at 60 benefit structure members pay 8% in contributions, equal to 44% of normal costs.	2% at 62 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 $136,440 in 2013). Approximately 4,500 current members make more than that amount.	2% at 62 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.** For 2% at 60 members, normal retirement age is 60, and the maximum age factor is 2.4% at age 63. Actual average retirement age is about 62. Age factors will be lower for 2% at 62 members retiring before age 65. The career factor applies to 2% at 60 members with 30 or more years of service, which represents about 39% of recently retired members.	2% at 62 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.** 2% at 60 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.	2% at 62 members
5. Eliminate Replacement Benefits Program	Limits benefits from the Defined Benefit Program to the federal 415 limit ($175,432 at age 65 in 2013).	**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.	2% at 62 members

All changes take effect January 1, 2013

see reverse

Reform Title	AB 340	Impact on CalSTRS Members	Applies To:
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 members under the 2% at 62 benefit structure.	2% at 62 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.** The earnings limit is $40,011 in 2012-13, and $39,903 in 2013-14, based on 50% of the median final compensation for recently retired members. Only 1,100 retired members earned over the limit in 2010–11.	All retired and active members who retire on or after Jan. 1, 2013
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.** Previously, only elected members had forfeiture requirements, but felony convictions are very rare.	All active 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 and active 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 2.791%. 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.	All active 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.** Prior to 2013, members could 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.	All active members

All changes take effect January 1, 2013