

# California Teachers Association Employees' Retirement Benefits Trust

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November 25, 2019

**UPDATED March 13, 2020 – See Revised Q/A-15 and New Q/A-19**

**UPDATED July 8, 2020 – See New Q/A-20 and New Q/A-21**

To: Participants and Beneficiaries of the California Teachers Association Employees' Retirement Benefits Plan

From: The Board of Trustees of the California Teachers Association Employees' Retirement Benefits Plan and Trust

The Board of Trustees is committed to educating participants about the Plan and upcoming changes. This information is intended to provide a basic summary of the current funding issues with the Plan, and potential benefit changes, in a question-and-answer format. Nothing in this information modifies the Plan or the parties' collective bargaining or participation agreements. This information is subject to change, and is not binding on the Board of Trustees. The California Teachers Association Employees' Retirement Benefits Plan is referred to in this set of questions and answers as "the Plan."

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Q-1 What is a multiemployer plan and why does it matter?

A-1 The Plan is a "multiemployer plan" which means more than one employer makes contributions to the Plan under collective bargaining or participation agreements and employees of more than one employer are covered by the Plan.

- CTA and Chapter affiliates contribute to the Plan and pay 38% of employee gross payroll to the Plan each month.
  - A multiemployer plan has a Board of Trustees, with equal management and union representation, that is responsible for making sure the Plan complies with the law.
  - Multiemployer plans must meet certain funding requirements under federal law, including the Pension Protection Act of 2006.
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Q-2 What is the Pension Protection Act of 2006?

A-2 The Pension Protection Act of 2006 ("PPA") is a law that made new rules about the funding status of multiemployer plans. The PPA is an amendment to the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan must comply with ERISA.

The PPA created three "zones" based on a plan's funding status:

- **GREEN** – healthy; no immediate funding problems.
  - **YELLOW** – funding problems that need to be addressed.
  - **RED or CRITICAL** – more significant funding problems.
- The Plan is **YELLOW** for 2019.
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- The Plan will be **RED** in 2020 (and was RED in 2016).  
When the Plan is in the Red Zone, the Board of Trustees must adopt a “rehabilitation plan” to improve the Plan’s funding status. The rehabilitation plan consists of changes in contributions and/or benefits designed to return the Plan to good financial health.
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Q-3 How is the Plan funded?

A-3 Employers make contributions to the Plan based on gross payroll. That money is invested by the Board of Trustees in a diversified mix of stocks, bonds, real estate, and other alternative investments, in accordance with the Plan’s Investment Policy.

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Q-4 What has been the “rate of return” for the Plan’s investments?

A-4 The value of the Plan’s investments changes every year depending on market performance. The total investment gain or loss every year is called the “rate of return.”

- For 2018, the Plan’s rate of return was -3.8%.
  - For 2017, the Plan’s rate of return was +14.1%.
  - Both of these returns are within the “normal expected range” of one-year returns, and were similar to other multiemployer plans in the U.S. for those years.
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Q-5 How do the Plan’s investment returns compare to other similar plans?

A-5 The Plan’s investment returns compare favorably to other multiemployer plans (the “peer universe”) over most long-term comparisons. (Performance is gross of fees as of 12/31/18.)

- Over the past 30+ years, the Plan ranks in the top 3% of the peer universe, with a 9% annualized return.
  - Over the past 15 years, the Plan ranks at the top 35% of the peer universe with a 6.2% annualized return. The past 15 years includes the 2008 market crash.
  - Over the past 10 years, the Plan ranks near the middle of the peer universe with a 7.8% annualized return.
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Although the Plan’s long-term returns have been good, dealing with short-term volatility in the rate of return may become harder as the number of retirees increases compared to active employees.

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Q-6 What does “funding status” mean?

A-6 The Plan’s is fully funded if there is projected to be enough money or “assets” to pay for all of the promised benefits or “liabilities.” The “funding status” is the Plan’s assets as a percentage of the benefit liabilities.

- The Plan is underfunded if liabilities are projected to be greater than assets.

The Plan's actuary determines the funding status based on certain assumptions including:

- How much interest the Plan's investments will earn over time – the “discount rate.”
- How long retirees will live.
- Factors that affect employer contributions, like pay increases and employee attrition.

The Plan's current funding status is 75% funded.

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Q-7 What is the discount rate?

A-7 The “rate of return” is the amount the Plan's investments actually earn each year. This is different from the “discount rate.”

- The “discount rate” is the actuary's assumption about investment returns for the Plan over long periods of time. The actuary sets the discount rate, in consultation with the Board of Trustees.
  - The current discount rate is 7.5%. It was recently changed from 8% to 7.5% because the actuary believes 7.5% is more realistic, based on projections of future investment returns. Lowering the discount rate makes the Plan's funding status worse, because it means the Plan's investments are expected to earn less interest over time.
  - If the discount rate is higher than what is actually earned by the Plan's investments (the actual rate of return) over a long period of time, the combination of projected benefits and contributions may prove to be not sustainable. For example, if the actuary assumes that the investment returns will be 8% over time, but the actual rate of return is 7.5% over time, then the Plan will have earned less than expected and will become underfunded.
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Q-8 Why was the Plan's discount rate lowered?

A-8 The Plan's actuary is responsible for estimating a reasonable long-term rate of return for the Plan, or the “discount rate.” The long-term forecast about the rate of return is based on current market conditions and economic projections for the future. Two concepts about Plan investments can help explain why these forecasts are being lowered:

- **BONDS:** Bonds pay interest based on the prevailing market interest rates. Low interest rates means low returns for investors. Interest rates are at or near historical all-time lows.
  - **STOCKS:** Usually, the more “expensive” the overall current market is, the lower future returns for stocks are likely to be. The US stock market today is at all-time historically high prices, leading many experts to project lower long-term returns from stocks.
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Q-9 Why is the Plan in the Red Zone again?

A-9 There are several contributing factors:

- The Plan's projected rate of return (discount rate) has been higher than what the investments have actually earned (rate of return).

- Lowering the discount rate decreases projected assets to pay for liabilities, or promised benefits.
  - The Plan's year-end measurement date meant that investment losses in December 2018 negatively affected the 2018 Plan year funding status.
  - The number of retirees receiving benefit payments from the Plan continues to increase disproportionately from the number of employees. As described in Q/A-1, CTA and Chapter affiliates contribute to the Plan by paying 38% of employee gross payroll each month.
  - Attrition, meaning employees leave or retire without being replaced. This lowers the amount of contributions that employers make to the Plan because lower payroll results in lower contributions paid into the Plan.
  - The Plan's benefits are unusually high compared to other multiemployer pension plans, which means the liabilities are relatively greater. Thus, when investment returns are lower than projected, it means relatively more contributions would be needed, if benefits do not change.
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Q-10 What is the Plan's benefit formula now?

A-10 The current benefit formula is:

3% X Highest Monthly Pay X Years of Credited Benefit Service

- In this formula, 3% is the "multiplier."
- Highest Monthly Pay is the "pay definition."

The Plan's "Normal Retirement Age" is 65, but at age 55, the benefit calculated under this formula is unreduced from the age 65 benefit, which means the Plan subsidizes early retirement. At age 50, the earliest age for retirement, the benefit is somewhat reduced, but the Plan still subsidizes the benefit.

Early retirement subsidies or "ERS" are explained in Q/A-12 and Q/A-13, below.

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Q-11 What Plan changes can be made to Plan benefits under the "rehabilitation plan"?

A-11 No changes can be made for anyone who is already receiving benefit payments from the Plan as of the date the Board provides notice of the Plan's critical or Red Zone status for the 2020 Plan Year, which will happen in Spring 2020.

For anyone who is NOT receiving benefits as of that date, the following changes can be made:

- The multiplier can change for benefits to be earned in the future, after the change takes effect ("future benefits"), but not for benefits already earned ("past benefits").
- The pay definition can change for past and future benefits.
- The early retirement subsidies or "ERS" can change for past and future benefits.
- The option to begin receiving retirement benefits before age 55 can be eliminated.

**PLEASE NOTE:** Changes under the rehabilitation plan cannot take effect until the Board of Trustees provides 30 days' advance notice to participants. And, regardless of any changes, the benefit earned through the date of change, payable at age 65, cannot be reduced.

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Q-12 What are “early retirement subsidies” or ERS?

A-12 The Plan’s “Normal Retirement Age” is 65, but participants can retire and receive a benefit at any time after turning 50, if they have at least five “Years of Credited Benefit Service,” as defined in the Plan.

- Without ERS, the value of benefits beginning at age 50 is the same as the value of benefits beginning at age 65:
  - At any age below 65, the benefit amount would be smaller to take into account the time value of money and the greater number of years of benefit payments, but the benefits are still equivalent.
  - For example, \$1,000 per month for life at age 65 has the same value as \$400 per month for life at age 55. ***This means that the Early Retirement adjustment percentage to calculate the benefit at age 55 is 40%, because 400 is 40% of 1,000.***
- With ERS, the value of benefits paid at age 50 to 64 is **greater** than the value of benefits paid at age 65. The Plan “subsidizes” benefits paid before age 65 that are greater in value.

Eliminating the ERS would make the value of benefits the same at all ages from 50 to 65.  
The rehabilitation plan can eliminate or modify the ERS.

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Q-13 What is an example of the effect of eliminating ERS for all past **and** future benefits?

A-13 In this example, the participant has 20 Years of Credited Benefit Service (“YOS”) at age 55, and 30 Years of Credited Benefit Service (“YOS”) at age 65.

- Under the current Plan, the benefit calculations at age 55 and at age 65 are:

$$\begin{array}{l} 3\% \times 20 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 55} \times 100\% = \underline{\$6,000/\text{month}} \\ 3\% \times 30 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 65} \times 100\% = \underline{\$9,000/\text{month}} \end{array}$$

- If ERS were eliminated for past **and** future benefits, the benefit calculations at age 55 and at age 65 would be:

$$\begin{array}{l} 3\% \times 20 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 55} \times 40\% = \underline{\$2,400/\text{month}} \\ 3\% \times 30 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 65} \times 100\% = \underline{\$9,000/\text{month}} \end{array}$$

To calculate the benefit at age 55 without ERS, the adjustment percentage of 40% is applied, as explained in Q/A-12.

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Q-14 What is an example of the effect of eliminating ERS for **future benefits only**?

A-14 In this example, a participant retires at age 55 with 20 Years of Credited Benefit Service (“YOS”). The participant was age 45 when the benefit change took effect (1/1/21), and had 10 Years of Credited Benefit Service (“YOS”) before the change (past benefits) and another 10 Years of Credited Benefit Service (“YOS”) after the change (future benefits).

- Under the current Plan, the benefit calculation at age 55 would be:

$$3\% \times 20 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 55} \times 100\% = \underline{\$6,000/\text{month}}$$

- If ERS were eliminated for benefits earned after January 1, 2021, the benefit calculation at age 55 would be:

$$\begin{aligned} 3\% \times 10 \text{ YOS accrued before 1/1/21} \times \$10,000 \text{ Monthly Pay} \times 100\% &= \$3,000/\text{month} \\ 3\% \times 10 \text{ YOS accrued after 1/1/21} \times \$10,000 \text{ Monthly Pay} \times 40\% &= \$1,200/\text{month} \end{aligned}$$

$$\text{Total benefit} = \underline{\$4,200/\text{month}}$$

To calculate the benefit at age 55 without ERS for the 10 Years of Credited Benefit Service earned after 1/1/21, the adjustment percentage of 40% is applied, as explained in Q/A-12. The past benefit does not change, but the future benefit is reduced by the 40%. The total benefit is reduced from \$6,000 to \$4,200.

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Q-15 When can benefit changes take effect? Should I retire before the Red Zone notice is distributed?

A-15 The Board of Trustees cannot provide advice to any participant about when to retire.

**Changes to past and future benefits can only be made if the bargaining parties agree on them.**

**No benefit changes under the rehabilitation plan will take effect until at least 30 days after the date the Board of Trustees provides notice to participants of the changes. If the “default schedule” is imposed, the Board of Trustees will provide at least 15 days’ notice of benefit changes that will apply when the default schedule takes effect. See Q/A-19 for information about the default schedule.**

- As noted in Q/A-11, the multiplier (3%) can only be changed for future benefits and cannot be changed for past benefits. For early retirement subsidies and the pay definition, past benefits can be reduced, even retroactively, if the bargaining parties so agree.
- However, benefits cannot be reduced for participants who retire within the meaning of the Plan before the effective date of the change, and the effective date of the change cannot be

earlier than 30 days after the date the Board of Trustees sends notice of the benefit change to participants.

### **Retirement Date Within the Meaning of the Plan**

For early retirement (before the Plan's normal retirement age of 65), your retirement date within the meaning of the Plan is the later of: i) the day after the last day for which you earn an "Hour of Service", (ii) the day after the day your retirement application is filed, or (iii) the early retirement date specified by you in the retirement application; provided that the application is filed no more than 90 days before the early retirement date.

An "**Hour of Service**" means an hour for which an employee is paid or entitled to be paid either: (1) for the performance of duties, or (2) for periods during which no duties are performed, due to vacation, holiday, illness, incapacity, layoff, jury duty, military duty or paid leave of absence. This means that you cannot retire while you are on a paid vacation, even though you're not working. And, because each hour of vacation pay counts as an Hour of Service, employees who receive a cash-out of unused vacation are credited with an Hour of Service on the date the cash-out is paid.

**Example:** The bargaining parties agree to benefit changes that will take effect as of January 1, 2021 and the collective bargaining agreement is ratified by all parties. The Board of Trustees amends the Plan and sends notice of the changes to Plan participants on December 1, 2020. Jane is a participant in the Plan and decides she wants to retire before the benefit changes take effect. Jane decides that her last day of work will be December 15, 2020 and files a retirement application listing December 31, 2020 as her retirement date. As of December 1, 2020, Jane has 20 days of earned, unused vacation. If Jane wants her retirement date to be prior to the January 1, 2021 benefit changes effective date, she will not be able to exhaust all of her earned days of vacation prior to the benefit changes, and will instead need to cash out her remaining unused vacation prior to her retirement date of December 31, 2020.

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Q-16 Are there restrictions on benefit options in the Red Zone?

A-16 Yes, while in the Red Zone, the Plan cannot offer the Social Security Adjustment option to new retirees, starting on the date the Board provides notice to participants of the Plan's critical or Red Zone status for the 2020 Plan Year, which will happen in Spring 2020. For more information about the Social Security Adjustment option, see the Plan's Summary Plan Description (SPD), which can be found on the participant website – see Q/A-18, below.

- **Retirees in pay status who are already receiving the Social Security Adjustment option are not affected.**

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Q-17 What is the timeline for addressing the Plan's Red Zone funding issues?

A-17 The Board will notify participants, employers, the unions, and the bargaining parties of the Plan's critical or Red Zone status, in Spring 2020.

- The Board will adopt a rehabilitation plan with schedules of benefit changes and/or contribution changes.

- The bargaining parties, meaning CTA, CAS and CSO, will bargain over the rehabilitation plan schedules.
  - If necessary, the Board will amend the rehabilitation plan to include any new schedule agreed to by the bargaining parties that meets the requirements of the rehabilitation plan.
  - Participation agreements for CTA and Chapter affiliates will be amended as needed.
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Q-18 Where can I get additional information?

A-18 The following additional resources are posted on the participant website at:

<https://www.ourbenefitoffice.com/ctapension/Benefits/PensionDocuments.aspx>

- Summary Plan Description
- Trust Bulletin Board
- Pension Estimator

If you need help with logging into the participant website, please contact the Plan Administrator, BeneSys, toll-free at (833) 265-2277.

If you're a CTA employee, you can also contact Human Resources at: 650-552-5100.

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Q-19 What happens if the bargaining parties don't agree on changes to benefits and/or contributions that will meet the rehabilitation plan requirements?

A-19 The PPA requires that the rehabilitation plan include one schedule of benefit and contribution changes that is called the "default schedule." Under the default schedule, **future** benefits must be reduced to the maximum extent permitted by law first, and then contributions are increased, if needed to meet the rehabilitation plan requirements. Under the PPA, if the bargaining parties are unable to reach an agreement by February 27, 2021 (180 days after the expiration of the current collective bargaining agreement), the Board of Trustees must impose the default schedule. The Board will provide at least 15 days' notice of the benefit changes under the default schedule. The default schedule only affects **future benefits** that are accrued after the date the default schedule takes effect.

The default schedule in the Plan's rehabilitation plan includes the following benefit changes:

- **For past benefits** – no change; the past benefit is "frozen" based on Highest Monthly Pay when the default schedule takes effect. The early retirement subsidy associated with your past service benefit is protected and is not changed.
- **For future benefits**
  - No change to the 3% multiplier
  - No change to the pay definition



- Early retirement subsidies eliminated – unreduced benefits for future service are paid at age 65, with reduced benefits paid at all earlier retirement ages.

**Example:**

In this example, a participant retires at age 55 with 25 Years of Credited Benefit Service (“YOS”). When the default schedule takes effect, the participant is age 45, has 15 Years of Credited Benefit Service (“YOS”) and a Highest Monthly Compensation of \$8,000. After the default schedule takes effect, the participant has another 10 Years of Credited Benefit Service (“YOS”) and retires with a Highest Monthly Compensation of \$10,000.

- Under the current Plan, the benefit calculation at age 55 would be:

$$3\% \times 25 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 55} \times 100\% = \underline{\$7,500/\text{month}}$$

- If the default schedule took effect, the benefit calculation at age 55 would be:

$$3\% \times 15 \text{ YOS before default schedule} \times \$8,000 \text{ Monthly Pay} \times 100\% = \$3,600/\text{month}$$

$$3\% \times 10 \text{ YOS after default schedule} \times \$10,000 \text{ Monthly Pay} \times 40\% = \$1,200/\text{month}$$

$$\text{Total benefit} = \underline{\$4,800/\text{month}}$$

The benefit earned before the default schedule takes effect, or \$3,600/month with no reduction for early retirement, is protected. Only the benefit earned after the default schedule takes effect is reduced for retirement before age 65.

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Q-20 If I have unused sick leave when I retire or terminate employment, what benefit formula applies to the Years of Credited Benefit Service I receive from my converted unused sick leave?

A-20 Because unused sick leave can only be converted to Years of Credited Benefit Service when a participant retires or terminates employment, the benefit formula in effect when the participant retires or terminates employment applies to the Years of Credited Benefit Service received from converted unused sick leave, regardless of when the sick leave was earned.

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Q-21 Under Alternative Schedule 3 and Alternative Schedule 4 in the rehabilitation plan, benefits earned after January 1, 2021 will be based on my “Yearly Compensation” instead of “Average Monthly Compensation” – what does that mean?

A-21 If Yearly Compensation is adopted for benefits earned after January 1, 2021, your compensation for each Plan Year will be multiplied by the applicable multiplier (2.5% under Alternative Schedule 3 or 3% under Alternative Schedule 4) then divided by 12 to determine the benefit amount you earned in that year. That formula will apply to determine a separate benefit accrual for each year you remain working in covered employment. The total amount is subject to reduction for early retirement in accordance with the adopted Alternative Schedule.

**Example:**

In this example, the participant is age 57, has 10 Years of Credit Benefit Service (“YOS”), a yearly compensation of \$96,000 and a Highest Monthly Compensation (“HMC”) of \$8,000. After Alternative Schedule 4 takes effect, the participant works another 5 calendar years and earns the following:

- Age 58 yearly compensation: \$98,000
- Age 59 yearly compensation: \$100,000
- Age 60 yearly compensation: \$102,000
- Age 61 yearly compensation: \$104,000
- Age 62 yearly compensation: \$106,800 (HMC = \$8,900)

The participant retires at age 62 with 15 years of service.

Under the current Plan, the monthly benefit calculation at age 62 would be:

$$3\% \times 15 \text{ YOS} \times \$8,900 \text{ Highest Monthly Compensation at age 62} = \$4,005$$

Under Alternative Schedule 4, the monthly benefit calculation at age 62 would be:

Past service benefit:	$3\% \times 10 \text{ YOS} \times \$8,000 \text{ HMC} =$	\$2,400
	$3\% \times \$98,000 \text{ Age 58 yearly compensation} / 12 =$	\$245
	$3\% \times \$100,000 \text{ Age 59 yearly compensation} / 12 =$	\$250
	$3\% \times \$102,000 \text{ Age 60 yearly compensation} / 12 =$	\$255
	$3\% \times \$104,000 \text{ Age 61 yearly compensation} / 12 =$	\$260
	$3\% \times \$106,800 \text{ Age 62 yearly compensation} / 12 =$	\$267
	Total Benefit =	\$3,677

The monthly benefit the participant earned before Alternative Schedule 4 takes effect, or \$2,400/month, with no reduction for early retirement, doesn't change.