

California Teachers Association Employees' Retirement Benefits Trust

September 30, 2020

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

Re: Changes to the California Teachers Association Employees' Retirement Benefits Plan under the Rehabilitation Plan Bargained by CAS, CSO and CTA and Adopted by the Board of Trustees – Questions-and-Answers, Part 2

Q-1 Why is the Plan changing?

A-1 Because of the Plan's funding status, the Board of Trustees had to adopt a "rehabilitation plan" to comply with federal law. The rehabilitation plan consists of changes in contributions and/or benefits designed to return the Plan to good financial health. The original rehabilitation plan included five schedules of contribution rates and benefit changes. The bargaining parties (CAS, CSO, and CTA) agreed on a different schedule that is also designed to meet the legal requirements for a rehabilitation plan and the Board amended the rehabilitation plan to include the new schedule. These Questions-and-Answers provide more information about the rehabilitation plan, and changes to the Plan, including examples.

Q-2 What is the Plan's benefit formula now, before the changes?

A-2 The current benefit formula is:

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

The Plan's "Normal Retirement Age" is 65, but after 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.

Q-3 What is the Plan's benefit formula under the rehabilitation plan?

A-3 The above formula will NOT change, except that unreduced benefits will be paid at age 60, instead of age 55. Participants can still retire at age 50, and the benefit will be reduced more than under the current formula, but the Plan still subsidizes the benefit.

Q-4 When will these Plan changes take effect?

A-4 These changes to the Plan will take effect on January 1, 2021. For Years of Credited Benefit Service (“YOS”) earned after that date, the same benefit formula will apply, but a new set of “Early Retirement Factors” will apply to determine benefits for participants who retire before attaining age 60. Benefits earned after January 1, 2021 are called “future service benefits.” Salary increases received after January 1, 2021 will apply to benefits accrued before January 1, 2021 as well as to future service benefits.

Q-5 What is an example of the effect of Plan changes for a participant who is **currently 45 years old** with 15 Years of Credited Benefit Service (“YOS”)?

A-5 In this example, the participant retires at age 55 with 25 YOS. The participant’s Highest Monthly Pay at retirement is \$10,000, which is their salary at age 55.

- If the current Plan were unchanged, the benefit calculation at age 55 would be:

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

- After the changes to the Plan, the benefit calculation at age 55 will be:

$$\begin{aligned} 3\% \times 15 \text{ YOS accrued before 1/1/21} \times \$10,000 \text{ Monthly Pay} \times 100\% &= \$4,500/\text{month} \\ 3\% \times 10 \text{ YOS accrued after 1/1/21} \times \$10,000 \text{ Monthly Pay} \times 65\% &= \$1,950/\text{month} \end{aligned}$$

$$\text{Total benefit} = \underline{\$6,450/\text{month}}$$

65% is the new “Early Retirement Factor” for retirement at age 55 that applies to the participant’s future service benefits for purposes of determining the participant’s early retirement subsidy. Because future pay increases apply to benefits accrued prior to the changes, the participant’s Highest Monthly Compensation at retirement of \$10,000 is used to calculate the benefit accrued before 1/1/21, as well as the benefit accrued after 1/1/21.

What if this participant works an additional five years and retires at age 60 with a Highest Monthly Pay at retirement of \$12,000?

After the changes to the Plan, the benefit calculation at age 60 would be:

$$\begin{aligned} 3\% \times 15 \text{ YOS accrued before 1/1/21} \times \$12,000 \text{ Monthly Pay} \times 100\% &= \$5,400/\text{month} \\ 3\% \times 15 \text{ YOS accrued after 1/1/21} \times \$12,000 \text{ Monthly Pay} \times 100\% &= \$5,400/\text{month} \end{aligned}$$

$$\text{Total benefit} = \underline{\$10,800/\text{month}}$$

Q-6 What is an example of the effect of Plan changes for a participant who is **currently 52 years old** with 22 Years of Credited Benefit Service (“YOS”), and is planning to retire at age 58 with 28 YOS?

A-6 In this example, the participant retires at age 58 with 28 YOS. The participant’s Highest Monthly Pay is \$10,000, which is their salary at age 58.

- If the current Plan were unchanged, the benefit calculation at age 58 would be:

$$3\% \times 28 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 58} \times 100\% = \underline{\$8,400/\text{month}}$$

- After the changes to the Plan, the benefit calculation at age 58 would be:

$$\begin{aligned} 3\% \times 22 \text{ YOS accrued before 1/1/21} \times \$10,000 \text{ Monthly Pay} \times 100\% &= \$6,600/\text{month} \\ 3\% \times 6 \text{ YOS accrued after 1/1/21} \times \$10,000 \text{ Monthly Pay} \times 84\% &= \$1,512/\text{month} \end{aligned}$$

$$\text{Total benefit} = \underline{\$8,112/\text{month}}$$

84% is the new “Early Retirement Factor” for retirement at age 58 that applies to the participant’s future service benefits for purposes of determining the participant’s early retirement subsidy. Because future pay increases apply to benefits accrued prior to the changes, the participant’s Highest Monthly Compensation at retirement of \$10,000 is used to calculate the benefit accrued before 1/1/21, as well as the benefit accrued after 1/1/21.

What if this participant retires before the Plan changes take effect, at age 52 with 22 YOS?

Say the participant’s current Highest Monthly Pay is \$9,800. The benefit calculation under the current benefit formula would be:

$$3\% \times 22 \text{ YOS} \times \$9,800 \text{ Monthly Pay at age 52} \times 78\% = \underline{\$5,045/\text{month}}$$

78% is the current “Early Retirement Factor” for retirement at age 52 that applies for purposes of determining the participant’s early retirement subsidy.

Q-7 What is an example of the effect of Plan changes for a participant who is **currently 56 years old** with 26 Years of Credited Benefit Service (“YOS”)?

A-7 In this example, the participant retires at age 60 with 30 YOS. The participant’s Highest Monthly Pay is \$10,000, which is their salary at age 60.

- If the current Plan were unchanged, the benefit calculation at age 60 would be:

$$3\% \times 30 \text{ YOS} \times \$10,000 \text{ Monthly Pay at age 60} \times 100\% = \underline{\$9,000/\text{month}}$$

- After the changes to the Plan, the benefit calculation at age 60 would be **the same**:

3% X 26 YOS accrued before 1/1/21 X \$10,000 Monthly Pay X 100% = \$7,800/month
3% X 4 YOS accrued after 1/1/21 X \$10,000 Monthly Pay X 100% = \$1,200/month

Total benefit = **\$9,000/month**

What if this participant retires before the change takes effect, at age 56 with 26 YOS?

Say the participant's current Highest Monthly Pay is \$9,800. The benefit calculation now would be:

3% X 26 YOS X \$9,800 Monthly Pay at age 56 X 100% = **\$7,644/month**

Because the participant has attained age 55, the benefit would not be reduced.

Q-8 How do the Plan changes affect any unused sick leave I may have when I retire or terminate employment?

A-8 Unused sick leave can be converted to Years of Credited Benefit Service only when the participant retires or terminates employment, regardless of when the sick leave was earned. For example, you may have 100 days of unused sick leave now, but you might need to use some of that sick leave before you retire, and you might retire with 40 days of unused sick leave. Only the unused sick leave you have when you retire can be converted to Years of Credited Benefit Service.

Unused sick leave will continue to be converted to Years of Credited Benefit Service at retirement or termination of employment the same way it is now. All Years of Credited Benefit Service that result from the conversion of unused sick leave for a retirement or termination of employment after 1/1/21 will be treated as Years of Credited Benefit earned after 1/1/21.

Q-9 What is the new employer contribution rate under the rehabilitation plan?

A-9 Effective September 1, 2020, the employer contribution rate increased from 38% of gross payroll to 49.75% of gross payroll under the rehabilitation plan.

Q-10 What will happen if the Plan is in the "Red Zone" again?

A-10 If the Plan is in the Red Zone, and the cost of providing Plan benefits increases above the new employer contribution rate of 49.75% of gross payroll while the current CBAs are in effect, the bargaining parties will revise the current rehabilitation plan schedule so that the employer contribution rate will be increased by the amount necessary to cover 50% of the increased costs, and the other 50% will be made up of equivalent benefit modifications and/or changes to currently funded contractual benefits. Please refer to the CTA-CSO or CTA-CAS collective bargaining agreement.

Q-11 If I want to retire before the Plan changes, what are my next steps?

A-11 Although the Plan changes will take effect on January 1, 2021, the benefit you have currently accrued will continue to grow with salary increases and additional Years of Service earned after that date.

If you are a CTA employee planning to retire in December 2020 and want to coordinate with the CTA holiday schedule, please contact CTA DHRM at (650) 552-5100. Remember: if you have unused vacation, you may need to cash it out to meet the required timeline. If you have questions or need to get started on your retirement, please contact the Plan Administrator, BeneSys, toll-free at (833) 265-2277. The Plan's definition of retirement is listed below:

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.

Q-12 When will the Pension Estimator on the Participant Website and the Summary Plan Description be updated to reflect the changes to the Plan under the rehabilitation plan?

A-12 The Plan Administrator is working on updating the Pension Estimator with an estimated completion time of mid-November. The Summary Plan Description will be updated by January 1, 2021.

If you have other questions, 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.

This document has been uploaded and is available on the participant website at: www.CTAPension.org