CalSTRS Retirement Incentive Program

This document provides information on the CalSTRS Retirement Incentive Program pursuant to Education Code 22714.

Questions? Contact RetirementIncentive@CalSTRS.com. Please include supporting documentation for review.

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Overview

The CalSTRS Retirement Incentive Program is an optional program that benefits both CalSTRS members and employers.

If an employer chooses to offer the CalSTRS Retirement Incentive Program, their CalSTRS members benefit by receiving two additional years of service credit upon retiring within a specified period, and the employer benefits through long-term financial savings.

Note: The additional two years of service credit granted under the Retirement Incentive Program do not count toward a member's eligibility for benefit enhancements, such as one-year final compensation or the career factor, or toward qualifying for a retirement benefit.

What is the employer required to do to offer the program?

Step 1:

The employer takes formal action, usually through adopting a board resolution, to decide to offer the program.

The board resolution must specify a **window period** that employees must retire within to receive the incentive.

- The window period is:
    - Determined by the employer
    - Begins after the effective date of the board resolution
    - Cannot be less than 60 days or more than 120 days.

In addition to containing the window period, the board resolution must include **Education Code sections 22714** and Education Code 44929 for PreK-12 school districts and county offices of education or Education Code 87488 for Community College districts

Step 2:

The employer must offer the CalSTRS Retirement Incentive Program to all their employees that are eligible to retire under the Defined Benefit Program.

Step 3:

Once the employer knows which employees want to participate in the program, the employer submits three different types of forms and the board resolution to CalSTRS, each of which requires their **superintendent's** or **chancellor's approval.**

These forms must be submitted to CalSTRS **no later than 30 days** after the last day of the window period.

The three forms, in addition to their contents, are:

- **Certification of Employer Participation - MS1169.1**
    - The window period dates.
    - The corresponding board resolution approval date.
    - Acknowledgment of the costs associated with offering the program.
    - One form is submitted *per employer.*
- **Employer Certification of Member Eligibility – MS187**
    - The present value of two additional years of service credit (this value should be calculated with CalSTRS' assistance).
    - The administrative fee.
    - The option to pay the program costs as a lump-sum of through a deferred payment.
    - One form is submitted *per employee.*
- **Certification Information - MS1169.2**
    - The cost of offering the program to each participating employee.
    - The savings generated from offering the incentive. The overall savings from offering the program must be greater than the cost of the program.
    - The savings for each employee on this form should match what was reported on each employee's MS187.
    - One form is submitted *per employer.*

Note: Participating employees will not receive their service credit and benefit increase until CalSTRS receives and processes all necessary forms. However, once processed, the increase will apply retroactively to each employee's retirement date**.**

What requirements does an employee need to participate?

1. Have at least five years of service credit.
2. Be eligible for service retirement under the Defined Benefit Program.
3. File a Service Retirement Application, also known as the SR 0059, with CalSTRS.
4. Must retire within the window period established by their employer.
5. Once the employee receives the retirement incentive, the employee must not receive any unemployment insurance payments within one year of the effective date of their employer's board resolution.

How are the costs and savings from the program calculated?

Each employer that chooses to offer the CalSTRS Retirement Incentive Program is responsible for covering the cost of the additional two years of service credit for each participating employee.

This can be a large expense, but offering the program can actually generate savings for the employer over a specified period of time, known as the **cost-savings period**, and must be demonstrated on the MS1169.2 as a requirement of offering the program.

The cost-savings period and the methodology for calculating the cost-savings is determined by each employer and must be agreed to by the county superintendent, Superintendent of Public Instruction, or chancellor as appropriate, prior to finalizing the board resolution that offers the program. Many employers specify the cost-savings period in a Memorandum of Understanding alongside the board resolution.

The Cost

The **cost** of offering the program includes an administrative fee, the present value of the two additional years of service credit for each participant, and any potential interest accrued.

The present value of the service credit will vary for each member depending upon their age, service credit, and final compensation and should be calculated with CalSTRS' assistance.

Employers often contact RetirementIncentive@CalSTRS.com months before formally offering the program to better ensure they understand the costs of offering the incentive.

The Savings

The **savings** generated from the positions vacated through offering the incentive can be calculated by the employer in many ways. One common method of calculating the savings is known as the **domino effect.**

Example: A district decides to offer the CalSTRS Retirement Incentive Program and their superintendent decides to retire and receive it.

The retiring superintendent has an annualized payrate of **$94,000**, and is replaced by a promoting principal who will make **$90,000** as the superintendent for a savings of **$4,000.**

After the principal promotes from their position with an annualized payrate of **$75,000**, a promoting teacher becomes the new principal with a payrate of **$65,000**, generating a savings of **$10,000**.

That promoting teacher, who's payrate was **$50,000**, is replaced by a new teacher with an annualized payrate of **$35,000**, saving the district an additional **$15,000**.

In this example alone, the employer demonstrates the domino effect will save the district a total of **$29,000**.

This calculation can be performed for each position vacated as a result of offering the retirement incentive.

How does the employer pay the program costs?

The employer is responsible for covering the cost of the CalSTRS Retirement Incentive Program by making an estimated payment to CalSTRS for each member participating in the program.

These payments can be paid in either as **lump-sums** or through a **deferred-payment plan.**

Lump-Sum Payment

The payment must be submitted to CalSTRS within **30 days** from each participating member's retirement date, otherwise interest will accrue at the rate in effect on the retirement date.

This payment includes:

- An administrative fee of $290.
- The estimated present value of the two additional years of service credit.

Upon receiving the payment, CalSTRS will determine the actual present value of the two years of service credit.

If the actual present value is **higher** than estimated, the employer will be billed for the difference.

If the present value is **lower**, the employer will receive a refund if there is no receivable open for that employer.

Deferred Payment Plan

Deferred payments must be made in **eight yearly installments** beginning **one year** from the member's retirement effective date.

These payments include:

- An administrative fee of $360, included in the first payment.
- The estimated present value of the two additional years of service credit.
- The accrued interest through the date of invoice at the rate in effect on the retirement date.

CalSTRS will bill the employer annually from the effective date of retirement. Payments must be received by CalSTRS within **30 days** from the invoice date, otherwise additional interest will accrue.

What are the post-retirement employment restrictions?

CalSTRS members who retire and receive the CalSTRS retirement incentive will forfeit their benefit increase if they return to work in the California public school system and **any** of the following three situations occur:

1. The member **reinstates** to active CalSTRS member status. If this happens, the retirement incentive benefit is forfeited as of the reinstatement date and will not be included in the member's future benefit calculations.
2. The member returns to work in **any job** with the **same employer** that granted them the CalSTRS Retirement Incentive Program within **5 years** of their retirement date. This even includes work performed as an independent contractor or as an employee of a third-party agency. If this occurs, the member forfeits their benefit increase effective the day prior to the member's employment date.
3. The third situation is if the member receives **unemployment insurance** payments within **one year** of the effective date of the board resolution to offer the CalSTRS Retirement Incentive Program. In this case, the member forfeits their benefit increase the day prior to the date they began receiving unemployment benefits.

Employers are required to tell retired members about the post-retirement employment restrictions prior to hiring them, even if the member won't be performing retired member activities.

If the member still decides to return to work, the employer must notify CalSTRS immediately at RetirementIncentive@CalSTRS.com.

Additionally, note that even if a member forfeits their retirement incentive, the employer is still responsible for paying any remaining balances for program participation to CalSTRS.