



Retirement Benefit Impact of Furloughs/Salary Reductions

Salary Schedule Reductions

A salary schedule rollback or reduction will impact the retirement earnings of both certificated and classified employees. For retirement calculation purposes, both retirement systems use a formula based on highest earnings to calculate “Creditable Compensation”. How the reduction will impact the employee in the long term will depend on when the employee will retire. Employees who do not retire in the immediate future may have an opportunity to earn a higher salary compensation year/years, preventing the need to include a year the salary reduction was implemented for their retirement benefit calculations.

CalSTRS takes the highest one year earnings for members who have more than 25 years of CalSTRS service when they retire. Certificated employees with less than 25 years of service have their final compensation calculated on their highest three consecutive years of salary. In the case of a salary reduction due to a reduction in school funds, CalSTRS will allow members to designate any three nonconsecutive school years to determine final compensation. For CalSTRS members with more than 25 years of service, the highest one year of compensation may be designated.

CalPERS calculates final compensation for retirement benefit formula purposes based on the average full time pay rate for 12 consecutive months. The CalPERS member can designate which 12 month period to use for benefit calculations.

Districts who are considering negotiating a salary schedule rollback/reduction are advised to review OCDE Legal Services memo OPAD 09-38 which addresses the legal requirements for this process.

Furloughs

Furloughs impact retirement benefit calculations with different results, based on several factors and whether the employee is a member of CalPERS or CalSTRS.

Certificated Voluntary Furlough

If the district implements a voluntary furlough program or does not apply the furlough to a complete class of certificated employees, service credit will be impacted for those employees. While the annual contract salary basis does not change, the service credit will be reduced by days not worked, resulting in a lower retirement benefit. CalSTRS allows the lost service credit due to the furlough to be made up with any additional service performed during the fiscal year (such as summer school service). Lost furlough days can also be purchased as additional service credit at the employees’ expense.

Certificated Mandatory Furlough

With a non-voluntary furlough arrangement, the furlough must apply to the entire class of certificated employees. The annual contract salary basis is reduced by the number of furlough days times the employee’s daily rate, which will require districts to recalculate each certificated employees contract salary.

For K-12 districts, reduction cannot result in less than:

- 175 days for Teachers
- 190 days for Program Managers, Principals, Administrators

The retirement impact will be a reduction in the final compensation amount if this furlough period is used for retirement benefit calculations.

Classified Staff Furlough

One year of service credit is applied for full time employment for any of the following:

- Hourly employees must work at least 1,720 hours per fiscal year
- Employees paid on a daily basis must work at least 215 days
- Monthly employees must work the equivalent of 10 months of full time service

Classified employees may see an impact in service credit depending on whether the number of furlough days taken reduces them below the equivalency of a full time 10 month employee. Eleven and twelve month employees have an advantage over ten month employees as they have a longer period of work time in the fiscal year to reach a full year of service credit for any docked days. CalPERS service credit is calculated by dividing the salary earnings into the salary schedule earning rate. This percentage must add up to 1.0 by the end of the fiscal year to receive a full year of service credit.

Classified employees who take a leave of absence, or who are late hires or who separate from service during a furlough fiscal year may be impacted, as they will not have the full fiscal year to apply to the service credit calculation. Classified employees do not have an option to buy back time for furlough days.

Please Note: The value of a furlough day deduction can change if a classified employee receives an anniversary date step and column increase. CalPERS requires that the docking pay rate match the rate of pay for the pay period docked.