

Context to the VSTRS Negotiations & the Retirement Crisis: The Big Picture & Big Numbers

As the numbers and narrative below underscore, there were many reasons, some compelling and in the public interest, other disingenuous and harmful teachers and public schools, to propose, or at least consider, systemic changes to the Vermont State Teachers' Retirement System (VSTRS) in 2010. A recession, growing unemployment, declining tax revenues and a \$150 million state deficit gave our enemies cover to attack VSTRS as fiscally unsustainable or irresponsibly generous, and it gave our friends cause for realistic concern about the ability of the state to meet the system's annual required contributions.

After assessing the economic and political landscape in Vermont—one marred by collective hardship, an unwillingness by political leaders of any stripe to raise new revenues, salary concessions by other unions, and the growing costs of funding VSTRS over the next two decades—it was clear that changes to VSTRS were inevitable this year. It was only a question of what these system changes would be and their severity. This scenario is playing out across the country, too, as retirement systems like yours come under intense fiscal pressures as they face the consequences of lower investment returns, longer life spans of vested members, larger pension payouts, rising health care costs and past under-funding.

Here are “the numbers” in Vermont that spoke so much louder than the need and obligation to protect the people that make our public schools work:

- \$150 Million State Deficit in FY 10;
- A \$20 million “contribution” requested by the legislature from the state's teachers and public school system to the budget reduction/balancing effort—everybody was expected to “tighten their belts” and to sacrifice;
- The state's FY 10 ARC (annual required contribution) to VSTRS: \$63 million; this is a \$22 million increase over the FY 09 ARC (\$41.5 million).
- An FY 10 \$20 million dollar cost for retiree health care benefit—and no pre-funding mechanism to meet present or future costs. Retiree health care is paid for from the investment assets of the retirement system, which only exacerbates the need for additional revenue to fund pensions;
- A request from the Legislature's Joint Fiscal Committee to the State Treasurer to contain the rise in costs to VSTRS to just 3.5% this year—a thoroughly unrealistic demand.

The Special Commission's VSTRS Recommendations

Before we entered into formal negotiations with the State Treasurer and the Legislature, the only recommendations under consideration about the future of VSTRS were those generated by a legislatively appointed Special Commission, which issued its official report in January. Vermont-NEA and the Vermont State Employees' Association were excluded from this Commission by design. The Commission's report, in its totality, constituted a grave threat to the immediate and long-term welfare of Vermont's teachers, to public education and local school districts, and to the defined benefit structure of the retirement system.

Here are the major recommendations from the report:

- Normal eligibility for retirement increased to "Rule of 90" or age 65 for most teachers;
- Minimum 5.5% base employee contribution in FY 11 (up from base contribution of 3.54%); employee contributions would then rise annually, beginning in FY 12, based on a proportional sharing formula with the state;
- No Spousal Health Benefit and reduce health benefits for most teachers through tiering;
- Shift the cost of retiree health for new hires, effective FY 11, to local school districts;
- Change the pension calculation of AFC (average final compensation) from the 3 highest, consecutive years of earnings to the 5 highest, consecutive years of earnings, thus significantly reducing the fixed pension incomes of retirees;
- Increase AFC from 50% to 60%, but teachers must work an additional 6 years—no change in the current multiplier (1.67);
AFC x .0167 (multiplier) x Years of Service = Pension
- Raise eligibility for early retirement from 55 to 58.
- Consider changing VSTRS from a defined benefit system to defined contribution.

There was absolutely no light at the end of this tunnel. The only bright spot was the decision of the Commission not to harm the pensions and benefits of current retirees. The message to Vermont's active teachers was harsh and unequivocal:

Work Longer, Pay More, Get Less!

Keep the Promise

Vermont-NEA's Retirement Campaign & Objectives

In the face of the attack on VSTRS, Vermont-NEA waged a spirited statewide campaign dubbed "Keep the Promise." Several hundred members joined us in sending a collective message of outrage and opposition to the Legislature and Governor: Keep your retirement promise to Vermont's teachers. The full story of Vermont-NEA's Keep the Promise Campaign, and the actions and work products it generated, can be found on our website at: _____.

Because of our members' activism and the state office's diligent advocacy, Vermont-NEA was in a much stronger position when it came time to negotiate the future of VSTRS and its benefits. We also succeeded in discrediting the reputation and the work of the Special Commission. For these reasons, by early January, the Legislature and the State Treasurer were ready to engage us directly in honest, intense and good-faith negotiations. Here is what the Association set out to accomplish in those negotiations against tough odds:

- Protect current retirees from harm;
- Preserve a defined benefit retirement plan;
- Stop the State from shifting future retirement costs to local schools;
- Preserve the 3-year formula for calculating AFC;
- Increase the Average Final Compensation of as many members as possible;
- Keep early retirement eligibility at age 55;
- Keep employee contributions to VSTRS affordable and predictable;
- Set the employee contribution at a fixed percentage of salary and reject proportional sharing of annual future costs with the state;
- Keep our members from having to work significantly longer;
- Win a spousal health care benefit and protect the 80% subsidized single health care benefit of teachers already vested;
- Eliminate the annual health care cost increment;
- Establish unequivocally in statute the state's obligation to provide a pre-determined, subsidized health care benefit to teacher retirees;
- Secure a stronger commitment from the State to fully fund VSTRS;
- Save millions of dollars to help the State balance its budget;
- Make VSTRS fiscally stronger and sustainable over the next three decades.

Here is what we achieved with your support.

- Protect current retirees from harm – **Achieved.**
- Preserve a defined benefit retirement plan – **Achieved.**
- Stop the State from shifting future retirement costs to local schools – **Achieved.**
- Preserve the 3-year formula for calculating AFC – **Achieved.**
- Increase the pension amount from 50% to 60% of AFC – **Achieved for most teachers, and up to at least 53.34% for all teachers.**
- Keep early retirement eligibility at age 55 – **Achieved.**
- Keep employee contributions to VSTRS affordable and predictable – **We believe the annual contribution increase from 3.54% to 5% meets this test, particularly in light of the Commission’s recommendation (5.5%), benefit gains and national contribution standards; we recognize, however, that an increase in retirement contributions is still a sacrifice for many teachers, particularly in these hard times.**
- Set the employee contribution at a fixed percentage of salary—reject any proportional sharing of annual future costs with the state – **Achieved.**
- Keep our members from having to work significantly longer – **Our tentative agreement exempts teachers within five years or less of normal retirement eligibility (i.e., age 62 or any age after 30 years of service) from working longer. It requires teachers with less than 25 years of service, and younger than 57, to work to the “rule of 90” or age 65 to reach normal retirement age. However, many members were already working to the rule of 90 before this change was negotiated. A teacher who works until age 58, for example—which is not uncommon—and who began her career at age 26—is already at the rule of 90 (58 years of age + 32 years of teaching = 90). A teacher who starts his career at 30 can retire with a full pension at 60. Again, this is still a concession, but we believe it is manageable and reasonable, especially in an age when people are working longer because they want or need to.**
- Win a spousal health care benefit and protect the subsidized health care benefit of vested teachers– **Achieved.**
- Establish unequivocally in statute the state’s obligation to provide a subsidized health care benefit to teacher retirees – **Achieved;**
- Eliminate the annual retiree health care cost increment – **Achieved.**
- Secure a stronger commitment from the State to fully fund VSTRS—**Achieved.**
- Save millions of dollars to help the State balance its budget—**Achieved** (\$15.2 million dollars to be exact in FY11; this savings is replicated each year going

- Make VSTRS fiscally stronger and sustainable —**Achieved.**

Understanding Prospective Changes to the Vermont State Teachers' Retirement System

If enacted into law, the proposed changes would likely become effective July 1, 2010

Retirement System Q & A

This Q&A addresses proposed changes to the Vermont State Teachers' Retirement System and the most pressing concerns of our members about these changes. Bear in mind that the changes are still **tentative**; they must be formally codified in law, approved by the Legislature and signed by the Governor. If that happens, they will most likely go into effect on **July 1, 2010**. Vermont-NEA will keep you informed on their progress in the Legislature and when they reach the governor's desk.

There are several aspects of the retirement system, big and small, that will not change—e.g., the number of retirement options, the health insurance plans offered, eligibility for early retirement and disability benefits, cost of living adjustments, etc.—so they are mentioned only in passing or not at all.

Further, this Q&A structures responses to teachers' questions primarily based on years of service and age. All the proposed changes do not apply uniformly to all teachers. For example, under the proposed changes there will be two sets of criteria for determining normal retirement age—that is, when you can retire and draw a full pension without penalty. Generally speaking, one size does not fit all, except in respect to certain key provisions, like the annual contribution rate and years required to vest for a pension (**See Table 1**).

Please read carefully and make sure you are consulting the right information and tables based on your years of experience and age as of June 30 or July 1, 2010.

Finally, we strongly recommend that you review the retirement terms and definitions we have provided.

Important Retirement Terms & Definitions

1. **Vesting:** years required in VSTRS to qualify for a pension and health care benefit. The vesting requirements for a pension and health care benefit are different.
2. **Average Final Compensation (AFC):** the average of a teacher's three highest consecutive years of salary, and a critical factor in determining the amount of a pension (see below).
3. **Years of Service:** the number of service years a teacher is credited by VSTRS over the course of a career, and a second factor in determining the size of a teacher's pension.
4. **Pension Multiplier:** the value of each service year that accrues in VSTRS, and the final factor in calculating a pension.
5. **Pension Amount Formula:** $AFC \times \text{Years of Service} \times \text{Multiplier(s)}$
6. **Maximum Pension:** 53.34% or 60% of AFC, depending on a teacher's years of service when the proposed changes go into effect.
7. **Maximum Health Care Benefit:** 80% of single or spousal coverage.
8. **Normal Retirement Age:** when a teacher can retire with a normal pension. Two different systems will co-exist under the proposed changes:
 - For teachers with less than 25 years of experience and more than five years from age 62: normal retirement age will be either the "rule of 90" (Age + Years of Service = 90) or age 65.
 - For teachers with 25 or more years of experience or within five years or less of age 62, normal retirement age will be age 62 or any age after 30 years of experience.
9. **Group A:** the non-contributory retirement plan from 1947-1981. Most teachers voluntarily left Group A for Group B in 1981.
10. **Group B:** the retirement plan from 1981-90. The multiplier was .0125% (1.25%). Group B ceased to exist after the 1989-1990 school year.
11. **Group C:** the retirement plan since 1990 for teachers, except a small number of actives who elected to stay in Group A. The multiplier for Group C is .0167 (1.67%).

STOP!

Before you proceed, read this page carefully.

Normal Retirement Age & the Proposed Rule of 90/Age 65 Change Who is **NOT Affected?**

We have received a lot of calls and e-mails, understandably, from veteran teachers who had hoped to retire at age 62 or sooner, some of them with 30 years of experience or very close to it, who are fearful they will have to work to the rule of 90 or age 65. **Not so.**

Teachers within 5 years or less of normal retirement on **June 30, 2010**, as it is presently defined in law—*age 62 or any age after 30 years of service*—are exempt from the new rule of 90 or age 65 change. This means a teacher who is 53 and has 30 years of experience...or a teacher who is 57 with 17 years of experience...or a teacher who is 58 and has 20 years of experience...or a teacher at 62 with 10 years of experience...or a teacher who is 56 and 25 years of experience, etc., do **NOT** have to work to the rule of 90 or until age 65 to draw a normal pension.

Why? Because all are either within 5 years or less of turning 62, or within five years or less of completing 30 years of service. If you are still confused, a simple way to figure out if you are subject to the proposed rule of 90/age 65 change is to answer these questions:

Ask yourself...

“Am I five years or less from turning 62?

or

“Am I five years or less from finishing 30 years of teaching?

If you answer yes to either or both of these questions, you do **NOT** have to work to the rule of 90 or to age 65.

The Proposed Rule of 90/Age 65 Change

Many teachers have a tendency, when they see “rule of 90,” to confuse it with teaching until they are 90, or as a change that will require them to work much longer than they would find pleasing or sustainable. Age 65 is self-explanatory; “rule of 90” is not. It’s actuarial jargon.

The rule of 90 is a formula for determining when a teacher can draw a normal pension without penalty. This rule is satisfied when **your age + years of service = 90**. The table below is for the purpose of clarifying what this change means in practical terms to different groups of teachers affected by it.

Age when you began teaching	Years of Service necessary to reach “Rule of” 90/Age 65, whichever comes first	The age when you can retire without penalty and satisfy the rule of 90/age 65 criteria	Rule of 90 or Age 65? Which one applies?
22	34	56	Rule of 90: $56 + 34 = 90$
25	33	58	Rule of 90 $58 + 33 = 91$
27	32	58	Rule of 90: $58 + 32 = 90$
30	30	60	Rule of 90: $60 + 30 = 90$
35	28	62	Rule of 90: $62 + 28 = 90$
40	25	65	Age of 65
45	20	65	Age of 65
50	15	65	Age of 65

**The Status of the Proposed Changes,
Purchasing Air Time and Service Credit, How to Contact VSTRS &
Universal Features of VSTRS in the Future**

Q: Is the retirement settlement law yet?

A: No. It is a **tentative agreement**, and must be enacted by the legislature and signed by the governor.

Q: If the changes become law, when will they go into effect?

A: Most likely on July 1, 2010.

Q: If I turn 57 on July 1, and have 5 or more years before reaching 30 years of service, am I subject to the proposed rule of 90/age 65 change?

A: Yes.

Q: Will it still be possible to buy “air time” after 25 years of service—“air time” is service time, up to five years, a teacher can purchase that s/he did not actually work—and other service time (e.g., out-of-state teaching, military service, Peace Corps/VISTA, etc.)?

A: Yes.

Q: Can I buy service credit to be exempted from the rule of 90/age 65 rule? For example, let’s say I have 24 years of service as of June 30, 2010, and I want to “buy” year 25 so that I am within five years of 30 years of teaching. Can I do this?

A: Yes.

Q: Will that purchase be credited this year?

A: Yes, and you can purchase more than one year of service credit if you qualify.

Q: How do I contact the Vermont State Teachers’ System if I have specific questions about my service credit and retirement options?

A: Call 1-800-642-3191 or 802-828-2305.

Q: What features of the new system will apply to ALL teachers, including new hires, no matter their age or years of service?

A: Pension eligibility (vesting), the pension calculation formula, early retirement eligibility and the employee's percentage of annual contribution. **See Table 1.**

**Table 1: Pension Eligibility, Pension Calculation,
Early Retirement and Annual Contributions
For All Teachers & New Hires**

Effective July 1, 2010

As of July 1, 2010	Pension Eligibility (Vesting)	Pension Calculation Formula	Early Retirement Eligibility	Annual Employee Contribution As of July 1, 2010
All Active Teachers, irrespective of age or years of service, and New Hires	After 5 years of full service	3 highest consecutive years of salary, no matter where they fall in your career	55 years of age	5%

Making Sense of the Proposed Changes & Their Impact on Your Career and Retirement

This extensive section deals with normal retirement age, pensions and health care benefits for teachers with varied levels of experience and age.

There are frequent references throughout to being 57, or younger or older, and to being within five years or less of 30 years of service (or not), because where you stand on either side of that age or service border will determine to a great extent how you are affected by the proposed changes.

How will new hires and teachers with 1 to 24 years of experience, and YOUNGER than 57, be affected by the changes in respect to normal retirement age, maximum pension amount and health care eligibility? The answers are below; plus, please see Table 2.

Normal age retirement:

Rule of 90 or age 65

Maximum Pension Amount:

Eligible to earn up to 60% of their Average Final Compensation (AFC)

Health Care Eligibility:

- 60% single coverage after 15 years
- 70% single coverage after 20 years
- 80% single or spousal coverage after 25 years for new hires and teachers with 1 to 15 years of service
- 80% single or spousal coverage after 10 more years of service for teachers with 16 to 24 years of service

Table 2: Normal Retirement Age, Maximum Pension & Health Care Benefit Eligibility

For new hires effective July 1, 2010, and teachers with 1 to 24 years of service, and younger than 57, as of June 30, 2010

As of June 30, 2010 (Except for new hires)	Normal Retirement Age	Maximum Pension Amount	Health Care Eligibility: Single Coverage	Health Care Eligibility: Single Coverage	Health Care Eligibility: <u>Spousal Coverage</u>
New Hires younger than 57 (effective the 2010-11 school year)	“Rule of 90” (Age + Years of Service = 90) or at age 65	60% of AFC (Average Final Compensation)	After <u>15th</u> year of teaching: <u>60% single coverage only</u>	After <u>20th</u> year of teaching: <u>70% single coverage only</u>	After <u>25th</u> year of teaching
Teachers with 1 to 9 years of service, and younger than 57.	“Rule of 90” (Age + Years of Service = 90) or at age 65	60% of AFC (Average Final Compensation)	After <u>15th</u> year of teaching: <u>60% single coverage only</u>	After <u>20th</u> year of teaching: <u>70% single coverage only</u>	After <u>25th</u> year of teaching
Teachers with <u>10 to 15 years</u> of service, and younger than 57.	“Rule of 90” (Age + Years of Service = 90) or age 65	60% of AFC (Average Final Compensation)	After 10 th year of teaching: <u>80% Single Coverage Only</u>		After <u>25th</u> year of teaching
Teachers with <u>16 to 24 years</u> of service, and younger than 57.	“Rule of 90” (Age + Years of Service = 90) or age 65	60% of AFC (Average Final Compensation)	After 10 th year of teaching: <u>80% Single Coverage Only</u>		After <u>10 more years</u> of teaching

How will the proposed changes affect teachers with 25 to 30+ years of service, and YOUNGER than 57, in respect to normal age retirement, maximum pension amount, maximum health benefit and health benefit eligibility? The answers are below; plus, see Table 3.

Normal age retirement:

Age 62 or any age after 30 years of service.

Maximum Pension Amount:

Eligible to earn up to 53.34% of their Average Final Compensation (AFC)

Health Care Benefit and Eligibility:

- 80% single coverage after 10 years (this is the current vesting requirement)
- 80% spousal coverage after the 35th year of service for teachers between 25 and 30 years
- 80% spousal coverage after 5 more years of service for teachers with more than 30 years of service

**Table 3: Normal Retirement Age, Maximum Pension Amount, Maximum Health Benefit
& Health Benefit Eligibility**

For teachers between 25 and 30+ years of service, and younger than 57, as of June 30, 2010

As of June 30, 2010	Normal Retirement Age	Maximum Pension Amount	Maximum Health Benefit	Health Benefit Eligibility: <u>80% single coverage only</u>	Health Benefit Eligibility <u>80% spousal coverage</u>
Teachers with <u>25 to 30</u> years of service and younger than 57.	Age 62 or any age after 30 years of service	53.34% of AFC (Average Final Compensation)	80% of single or spousal coverage	After 10th year of teaching	After <u>35th</u> year of teaching
Teachers with more than <u>30 years</u> of service and younger than 57.	Age 62 or any age after 30 years of service	53.34% of AFC (Average Final Compensation)	80% of single or spousal coverage	After 10 th year of teaching	After <u>5 more years</u> of teaching

How will the proposed changes affect teachers with 1 to 30+ years, and 57 or older, in respect to normal age retirement, maximum pension amount, maximum health benefit and health benefit eligibility? The answers are below; plus, see Table 4.

Normal age retirement:

Age 62 or any age after 30 years of service

Maximum Pension Amount:

Eligible to earn up to 53.34% of their Average Final Compensation (AFC)

Health Care Benefit and Eligibility:

- 80% single coverage after 10 years (this is the current vesting requirement)
- 80% spousal coverage after:
 - The 25th year of service for teachers between 1 and 14 years of service
 - 10 more years of service for teachers with 15 to 24 years of service
 - The 35th year for teachers with 25 to 30 years of service
 - 5 more years of teaching for teachers with more than 30 years of service

**Table 4: Normal Retirement Age, Maximum Pension, Maximum Health Benefit
& Health Benefit Eligibility**

**For teachers between 1 & 30+ years of service, and who are
57 or older, as of June 30, 2010**

As of June 30, 2010	Normal Retirement Age	Maximum Pension Amount	Maximum Health Benefit	Health Benefit Eligibility: <u>80% single coverage only</u>	Health Benefit Eligibility <u>80% spousal coverage</u>
Teachers with 1 to 9 years of experience and 57 years or older.	Age 62 or any age after 30 years of service	53.34% of AFC (Average Final Compensation)	80% of single or spousal coverage	After <u>25th</u> year of teaching	After <u>25th</u> year of teaching
Teachers with <u>10 to 14 years of service</u> and 57 years or older.	Age 62 or any age after 30 years of service	53.34% of AFC (Average Final Compensation)	80% of single or spousal coverage	After <u>10th</u> year of teaching	After <u>25th</u> year of teaching
Teachers with <u>15 to 24 years of service</u> and and 57 years or older	Age 62 or any age after 30 years of service	53.34% of AFC (Average Final Compensation)	80% of single or spousal coverage	After <u>10th</u> year of teaching	After <u>10 more years</u> of teaching
Teachers with <u>25 to 30 years of service</u> and 57 years or older.	Age 62 or any age after 30 years of service	53.34% of AFC (Average Final Compensation)	80% of single or spousal coverage	After <u>10th</u> year of teaching	After <u>35th</u> year of teaching
Teachers with more than <u>30 years</u> of service and 57 years or older.	Age 62 or any age after 30 years of service	53.34% of AFC (Average Final Compensation)	80% of single or spousal coverage	After <u>10th</u> year of teaching	After <u>5 more years</u> of teaching

Calculating Your Average Final Compensation & Pension Under the Proposed Changes

This section examines how percentages of Average Final Compensation (AFC) and pensions are calculated based on the present rules and the proposed changes. Specifically, we explain how different “multipliers”—the value attributed to each year of service—come into play and the number of years a teacher must work to reach the maximum pension s/he is eligible for based on age and years of service.

Once again, where one stands in relation to the age of 57 and proximity to 30 years of teaching, as of June 30, 2010, is critical to understanding how the proposed changes will affect your personal calculations.

Finally, you will notice that in many of the examples used to demonstrate how to calculate percentage of AFC or a pension, the totals exceed the maximum percentages allowed under law. This is simply how the numbers play out under different scenarios. **Just the same, under the rules of current system, as well as with the proposed changes, a teacher’s pension can never exceed the maximum permitted in statute.**

Remember, too, a teacher can choose to retire **before** reaching his or her maximum benefits. The proposed changes make it possible for teachers, depending on their age and years of service as of June 30, 2010, to retire at either 53.34% or 60% of AFC. Still, teachers can retire, if they choose, before they are eligible for these enhanced benefits *and* accrue pensions that exceed the current AFC threshold of 50%. For example, a teacher might be eligible for 60% of AFC in year 35 but retire with less than that in year 34, and still take home a pension that is substantially more than he or she can claim under the current system. The same is true for teachers eligible for a maximum AFC of 53.34%. You retain the latitude to reach or exceed 50% of AFC, based on your personal circumstances.

All calculations are based on the assumption that teachers will draw benefits at normal retirement age. The option to take **early retirement** still exists (at age 55), but so does the **early retirement penalty**.

If you elect to retire before normal age and draw your benefits, **please** speak to a retirement specialist at VSTRS about the financial implications of this decision. They are significant and lasting. Finally, you retain the option of retiring early and **NOT** drawing your pension or health care benefits until you reach normal age. If that is the case, as is true under the current system, you will not be penalized.

Under the proposed changes, for new hires effective July 1, 2010, and teachers with 1 to 24 years of experience, and YOUNGER than 57, as of June 30, 2010, what is their maximum pension amount, how will it be calculated, what multipliers will be used to determine their pension, and how many years will it take them to reach maximum AFC? The answers are below; plus, see Table 5.

- Maximum Pension Amount (% of AFC): 60% of AFC
- AFC Calculation Formula: 3 highest, consecutive years of salary
- Pension Multipliers:
 - a. .0125 (Years 1981-90, where applicable)
 - b. .0167 (1990 to June 30, 2010)
 - c. .0200 (July 1, 2010 and beyond)
- Years needed to reach 60% of AFC: 34 for teachers with 20 or less years (those who began teaching in 1990 or later) as of June 30, 2010; 34 to 35 years for teachers with 21 to 24 years (those who began teaching prior to 1990) as of June 30, 2010

For teachers with 25 to 30+ years of experience, and YOUNGER than 57, what is their maximum pension amount, how will it be calculated, what multipliers will be used to determine their pension, and how many years will it take them to reach maximum AFC? The answers are below; plus, see Table 5.

- Maximum Pension Amount (% of AFC): 53.34% of AFC
- AFC Calculation Formula: 3 highest, consecutive years of salary
- Pension Multipliers:
 - a. .0125 (Years pre-1981 to 1990)
 - b. .0167 (1990 to Year of Retirement)
- Years needed to reach 53.34% of AFC: It depends on the number of years in the Groups A & B from pre-1981 to 1990, combined with Group C years. In general, though, a teacher will reach 53.34% of AFC **two years** after s/he reaches 50% of AFC.

Remember, AFC is your average final compensation, and you determine your pension based on the following formula: **AFC x Years of Service x Multiplier(s)**

**Table 5: Maximum Pension Amount, AFC Calculation Formula,
Pension Multipliers & Years Needed to Reach Maximum AFC**

**For new hires effective July 1, 2010, and teachers between 1 - 30+ years of service
and younger than 57 as of June 30, 2010**

As of June 30, 2010 (except for new hires)	Maximum Pension Amount (% of AFC)	AFC Calculation Formula	Pension Multiplier Years 1-20	Pension Multiplier Years 21+	Years Needed to Reach Maximum AFC
New Hires (effective the 2010-11 school year)	60% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0167	.0200	34
Teachers with <u>1 to 9</u> years of service, and younger than 57.	60% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.00167	.00200	34
Teachers with <u>10 to 14</u> years of service and younger than 57.	60% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0167	.0200	34
Teachers with <u>15 to 20</u> years of service, and younger than 57.	60% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0167	.0200	34
Teachers with <u>21 to 24</u> years of service, and younger than 57	60% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0125 (Group B years) & .0167 (Group C Years)	.0200	34 to 36, depending on Group B years between 1981- 90, combined with Group C years
Teachers with <u>25 to</u> <u>30+</u> years of service and younger than 57.	53.34% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0125 (Group A & B years) & .0167 (Group C years)	.0167	Depends on Group A & B years from prior to 1981 to 1990, combined with Group C years

For teachers with 1 to 30+ years of experience, and 57 or older, what is their maximum pension amount, how will it be calculated, what multipliers will be used to determine their pension, and how many years will it take them to reach maximum AFC? The answers are below; plus, see Table 6.

- Maximum Pension Amount (% of AFC): 53.34% of AFC
- AFC Calculation Formula: 3 highest, consecutive years of salary
- Pension Multipliers:
 - a. .0125 (Years pre-1981 to 1990, where applicable)
 - b. .0167 (1990 to June 30, 2010)
 - c. .0200 (July 1, 2010 and beyond)
- Years needed to reach 53.34% AFC: **2 years beyond the point** a teacher is eligible for 50% AFC.
- Years needed to reach 60% AFC: **34 years.** In this group, **ONLY** a **new hire** who is 57 or older, and starting a career in the 2010-11 school year, is eligible to achieve 60% of AFC. This AFC accumulation is unlikely to happen because of age constraints, but, if it did, it would come to fruition after 34 years.

Remember, AFC is your average final compensation, and you determine your pension based on the following formula: **AFC x Years of Service x Multiplier(s)**

**Table 6: Maximum Pension Amount, AFC Calculation Formula,
Pension Multipliers & Years Needed to Reach Maximum AFC**

**For new hires effective July 1, 2010, & teachers between 1 - 30+ years of service, and
57 or older, as of June 30, 2010**

As of June 30, 2010 (Except new hires)	Maximum Pension Amount (% of AFC)	AFC Calculation Formula	Pension Multiplier Years 1-20	Pension Multiplier Years 21+	Years Needed to Reach Maximum AFC
New Hires <u>57 or older</u>, effective 2010-11 school year.	60% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0167	.0200	34
Teachers with <u>1 to 9</u> years of service and 57 or older.	53.34% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0167	.0167	32
Teachers with <u>10 to 20</u> years of service and 57 or older.	53.34% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0167	.0167	32
Teachers with <u>21 to</u> <u>30+ years of</u> service and 57 or older.	53.34% of AFC (Average Final Compensation)	3 highest consecutive years of salary	.0125% (Group A & B years—from prior to 1981- 90) & .0167 (Group C)	.0167	Depends on Group A & B years from prior to 1981 to 1990, combined with Group C years

**Getting to 60% Average Final Compensation for Teachers
with less than 25 years of experience and younger than 57, as
of June 30, 2010**

Teachers with less than 25 years of experience as of June 30, 2010, and younger than 57, under the proposed changes to the retirement system, will be eligible to earn up to 60% of AFC.

For teachers in this category with 1 to 20 years as of June 30, 2010, there will be two multipliers used to determine their pension: **1.67%** for years 1-20 and **2%** from July 1, 2010 and every year thereafter.

For teachers with 21 to 24 years of experience as of June 30, 2010, three multipliers come into play: **1.25%** for the years they were in Group B (1981-1990); **1.67%** for the years 1990 to June 30, 2010; **2%** from July 1, 2010, and every year thereafter.

This group of teachers must satisfy the “rule of 90”/age 65 criteria to be eligible for normal retirement.

Q: How long must I teach to reach 60% Average Final Compensation (AFC) using multipliers of 1.67% and 2%?

A: For teachers with less than 20 years as of June 30, 2010, it will take **34 years**. For those with 21 to 24 years as of June 30, 2010, it will take between **34 and 35 years**, because of the years they were in Group B, where the multiplier (the value assigned to each year) was 1.25%.

Below are several examples of how the multipliers for the teachers in this group, 1.25%, 1.67% and 2%, work cumulatively, over a career, to get a teacher with 0 to 24 years of experience as of June 30, 2010, to 60% AFC. Bear in mind that not everyone in this classification was in Group B, because they were hired in 1990 or later.

Important: Even if the percentages in the examples below add up to more than 60%, an eligible teacher can earn no more than 60% of AFC.

A teacher can retire before he or she reaches 60% of AFC. Moreover, you can do this and retire with a larger pension, one close to 60% of AFC, in some circumstances.

Teacher hired effective July 1, 2010 or with 20 years of experience as of June 30, 2010: 34 years to 60% of AFC

20 years x 1.67% (Group C) = 33.4%;

14 years x 2% (Group C) = 28%

33% + 28% = 61.4%

The examples below cover teachers who accrued 1 to 4 years in Group B, during the period 1981-90.

(a) Teacher with 21 years of experience as of June 30, 2010: 34 years to 60% of AFC

1 year x 1.25% (Group B, 1989-90) = 1.25%

20 years x 1.67% (Group C, 1990-2010) = 33.4%

13 years x 2% (Group C, 2010-2023) = 26%

1.25% + 33.4% + 26% = 60.65%

(A teacher in this situation could choose to work only 33 years, for example, and retire with 58.65% of AFC, or at 32 years with 56.65% of AFC, etc. Each reduction by one year lowers the cumulative AFC by 2%.)

(b) A teacher with 22 years of experience as of June 30, 2010: 35 years to 60% of AFC

2 years x 1.25% (Group B, 1988-90) = 2.50%

20 years x 1.67% (Group C, 1990-2010) = 33.4%

13 years x 2% (Group C, 2012-2025) = 26%

2.50% + 33.4% + 26% = 61.9%

(A teacher in this situation could choose to work only 34 years and retire with 59.9% of AFC, or at 33 years with 57.9%, etc. Each reduction by one year lowers the cumulative AFC by 2%.)

(c) A teacher with 23 years of experience as of June 30, 2010: 35 years to 60% of AFC

3 years x 1.25% (Group B, 1987-90) = 3.75%

20 years x 1.67% (Group C, 1990-2010) = 33.4%

12 years x 2% (Group C, 2010-2022) = 24%

$3.75\% \times 33.4\% + 24\% = 61.15\%$

(This teacher could retire at 34 years with 59.15% of AFC, or at 33 years with 57.15%, etc. Each reduction by one year lowers the cumulative AFC by 2%.)

A teacher with 24 years of experience as of June 30, 2010: 35 years to 60% of AFC

4 years x 1.25% (Group B, 1986-90) = 5%

20 years x 1.67% (Group C, 1990-2010) = 33.4%

11 x 2% (Group C, 2014-2022) = 22%

$5\% + 33.4\% + 22\% = 60.4\%$

(This teacher could retire at 34 years with 58.5% of AFC, or at 33 years with 56.4% of AFC, etc. Each reduction by one year lowers the cumulative AFC by 2%.)

Q: Just to be absolutely clear: can a teacher retire with less than 60% AFC?

A: Absolutely.

Q: If I decide to work for 30 years, rather than 34, what percentage of AFC will I take home in a pension?

A: Between 50.4% and 53.4%. It depends on the combined number of years you have accrued at 1.25%, 1.67% and 2%, and if you wait until normal age to draw your pension (that is, without accruing a penalty for early retirement).

Here are maximum AFC accruals for new hires, effective July 1, 2010, and for teachers with less than 25 years of experience and younger than 57 as of June 30, 2010, who retire at 30 years:

- **Hired as of July 1, 2010, or with 1 to 20 years as of June 30, 2010:** 53.4%
- **With 21 years as of June 30, 2010:** 52.65%
- **With 22 years as of June 30, 2010:** 51.9%
- **With 23 years as of June 30, 2010:** 51.15%
- **With 24 years as of June 30, 2010:** 50.4%

Here is how we calculated the **percentage of AFC** for a teacher who has **24 years of service** as of June 30, 2010, and wants to retire six years later at **year 30**. (This person is eligible for the 60% of AFC benefit, but decided not to work the necessary 35 years to accrue it.) The multipliers are applied as follows: 4 years are valued at 1.25% (Group B Years, 1986 to 90); the 20 years from 1990 to June 30, 2010, are valued at 1.67%, and the last 6, 2010 to 2016, are valued at 2%.

$$4 \times 1.25\% = 5\%$$

$$20 \times 1.67\% = 33.4\%$$

$$6 \times 2\% = 12\%$$

$$5\% + 33.4\% + 12\% = 50.4\%$$

To do this AFC calculation if you have less than 24 years as of June 30, 2010, and are younger than 57—again, assuming you only want to teach for 30 years and forego accruing 60% of AFC—plug the pertinent numbers into the equations below, multiply and add. If you started teaching in 1990-91 or later, you can leave part (a) empty (or write in a zero), because you accrued no years in Group B:

(a) $1.25\% \times \underline{\hspace{2cm}}$ (Years in Group B, 1981-90) = $\underline{\hspace{2cm}}\%$ of AFC

(b) $1.67\% \times \underline{\hspace{2cm}}$ (Years between 1990 and 2010) = $\underline{\hspace{2cm}}\%$ of AFC

(c) $1.67\% \times \underline{\hspace{2cm}}$ (Years from 2010 to the 20th year of service) = $\underline{\hspace{2cm}}\%$ of AFC

(d) $2.00\% \times \underline{\hspace{2cm}}$ (Years from 20th to 30th year of service) = $\underline{\hspace{2cm}}\%$ of AFC

(e) $\{a\} + \{b\} + \{c\} + \{d\} = \underline{\hspace{2cm}}\%$ of Total AFC after 30 years.

The financial gain of reaching 60% of AFC for teachers with less than 25 years of service and younger than 57 as of June 30, 2010

Let's take a teacher whose AFC is \$60,000. Under the proposed 60% of AFC benefit, she would be entitled to an annual pension of \$36,000. To earn that, she must teach 34 years (for this exercise, we'll assume she has no Group B years—but teachers that do may have to work longer than 34 years to reach 60% of AFC). Under the current rules, she would only be eligible for 50% of AFC after 30 years, or a maximum pension of \$30,000 (e.g., \$60,000 x .50 = \$30,000). The difference in maximum pension earnings, **annually**, for this teacher, between the current system and the proposed new one, is \$6,000, which represents a 20% increase (e.g., \$6,000 divided by \$30,000 = 20%).

If she lives 20 to 30 years after retirement, her pension earnings will be \$120,000 to \$180,000 more than under the current system. Her earnings will be substantially larger if she needs, and works long enough to be eligible for, spousal health care coverage. Here is how we arrived at that maximum pension amount using the two multipliers discussed above (1.67% for years 1-20, and 2% for years 21-34) and the standard pension formula: **AFC x Multiplier(s) x Years of Service.**

$$\$60,000 \times .0167 \times 20 = \$20,040$$

$$\$60,000 \times .0200 \times 14 = \$16,800$$

Total: \$36,840

(Pension Maximum: \$36,000—60% of \$60,000)

If this same teacher decided to leave the profession **after 30 years**, she would be entitled to a pension of \$32,040.

$$\$60,000 \times .0167 \times 20 = \$20,040$$

$$\$60,000 \times .0200 \times 10 = \$12,000$$

Total: \$32,040

(Pension Maximum, with 34 years of service: \$36,000)

Important: the additional pension earnings documented above, or for anyone eligible for 60% of AFC when he or she retires, are attributable to fact that the individuals in question will be contributing more (5%) to the retirement system over the course of their careers than those who were in Groups B and/or C for the past three decades.

**Getting to 53.34% of Average Final Compensation for
Teachers with 25 or more years of experience or
57 or older effective June 30, 2010**

Teachers with 25 or more years of experience, or 57 or older, as of June 30, 2010, will be eligible to earn up to **53.34%** of AFC under the proposed changes. Their current multiplier, 1.67%, will be used to calculate the value of all their teaching years from now until they retire (it will not rise at any point to 2%).

These teachers are also eligible to qualify for the spousal health care benefit as noted earlier. They are NOT, however, subject to the proposed “rule of 90” or age 65 criteria.

A teacher in this group will be eligible for 53.34% of AFC **TWO YEARS** after s/he reaches **50% AFC**. To determine when a teacher is eligible for 53.34%, we first have to determine when s/he will reach 50% AFC. This gets somewhat complicated because some teachers in this category were in **Groups A and B** from prior to 1981 to 1990, then switched to **Group C** in 1990, where they are today. Other teachers in this category were **only in Group B and C**, because they were hired in 1981 or later.

In other words, teachers in this group will not all reach 50% AFC after the same number of years. This is explained by the fact that the multiplier for the Group A and B years was **1.25%**; the Group C years accumulate value at **1.67%**. Because of the lower multiplier for the Group A and B years, teachers who have service credit in all three groups, A, B and C (or just in Groups B and C) have to work more than 30 years to make 50% of AFC. They can retire, of course, at age 62 or any age after 30 years of service with less than 50% of AFC and without a penalty, but, again, reaching 50% of AFC requires more than 30 years of service because of the mathematical drag of the lower Group A and B multiplier during the years from pre-1981 to 1990. The examples below should help to clarify this.

To sum up, to understand when you will reach 53.34% of AFC, do a two-step calculation. First, determine when you will reach 50% of AFC. Second, add TWO YEARS to the year you reach 50% AFC—that is when you will be eligible for 53.34% of AFC.

The Two-Step Calculation to 53.34% of AFC

Step One: Getting to 50% of AFC

Q: Given the split multipliers used for Groups A, B and C, how long will it take teachers in this category to reach 50% of Average Final Compensation (AFC)?

A: It depends on how many years a teacher was in Group A and Group B, combined with their service years in Group C.

Important: Group A years worked prior to 1981 are valued, like the Group B years from 1981-90, at .0125 % (1.25%). This means Group A years are treated like Group B years when calculating Average Final Compensation.

Let's take a 33-year veteran as of June 30, 2010. That person was hired in 1977. This means she was in **Group A from 1977 to 1981**; in **Group B from 1981 to 1990**; and in **Group C from 1990 to the present**.

It will take her 34 years to reach 50% AFC, or until 2011. Here's why, using the two multipliers that apply in her case: 1.25% (1977 to 1981) and 1.67% 1990 to 2010).

$$13 \text{ years (in Groups A \& B, 1977-1990)} \times 1.25\% = 16.25\%$$

$$21 \text{ years (in Group C, 1990-2011)} \times 1.67\% = 35.07\%$$

$$16.25\% + 35.07\% = 51.25\%$$

Let's assume a teacher was in Group B for 9 years (and never in Group A), each of which was valued at 1.25%, and, thereafter, in Group C at 1.67% per year. Under this scenario, it would take her 33 years to reach 50% of AFC:

$$9 \text{ years (in Group B, 1981-90)} \times 1.25\% = 11.43\%$$

$$24 \text{ years (Group C, 1990-2014)} \times 1.67\% = 40.08\%$$

$$11.43\% + 40.08\% = 51.51\%$$

Q: The fewer number of years a teacher has in Group A or B, the fewer years it should take her to reach 50% of AFC. Is that correct?

A: Yes, because more years are valued at 1.67% than 1.25%. Let's say a teacher was in Group B for 7 years. It would take her 32 years to reach 50% of AFC.

$$\begin{aligned} & \mathbf{7 \text{ years (in Group B, 1983-90) } \times 1.25\% = 8.75\%} \\ & \mathbf{25 \text{ years (in Group C, 1990-2015) } \times 1.67\% = 41.75\%} \end{aligned}$$

$$\mathbf{8.75\% + 41.75\% = 50.5\%}$$

A: teacher with just one year in Group B would need to work 31 years to make 50% of AFC.

$$\begin{aligned} & \mathbf{1 \text{ year (in Group B, 1989-90) } \times 1.25\% = 1.25\%} \\ & \mathbf{30 \text{ years (in Group C, 1990-2020) } \times 1.67\% = 50.10\%} \end{aligned}$$

$$\mathbf{1.25\% + 50.10\% = 51.35\%}$$

Q: How many years of service would be needed to be at 50% of AFC by **June 30, 2010**?

A: 34. If this teacher wants to be eligible for 53.34% of AFC, s/he will have to work two more years, until 2012.

$$\begin{aligned} & \mathbf{14 \text{ years (in Group A \& B, 1976-90) } \times 1.25\% = 17.50\%} \\ & \mathbf{20 \text{ years (in Group C, 1990-2010) } \times 1.67\% = 33.40\%} \end{aligned}$$

$$\mathbf{17.50\% + 33.40\% = 50.90\%}$$

Step Two: Getting to 53.34% of AFC

Let's return to one of the examples above: the teacher who had **7 years** in Group B. She started teaching in 1983 (the Group B years were 1981 to 90). She will have to teach **25 more years** (1990 to 2015)—the Group C years—to reach 50% of her AFC.

$$\begin{aligned} & \mathbf{7 \text{ years (in Group B, 1983-90)} \times 1.25\% = 8.75\%} \\ & \mathbf{25 \text{ years (in Group C, 1990-2015)} \times 1.67\% = 41.75\%} \end{aligned}$$

$$\mathbf{8.75\% + 41.75\% = 50.5\%}$$

To get to 53.34%, she must teach 2 years beyond 2015. So, she will be eligible for **53.34% of AFC in 2017** (e.g., 2015 + 2 = 2017), or after a total of **34 years** of teaching.

Here is how the math works out:

$$\begin{aligned} & \mathbf{7 \text{ years (in Group B, 1983-90)} \times 1.25\% = 8.75\%} \\ & \mathbf{27 \text{ years (in Group C, 1990-2017)} \times 1.67\% = 45.09\%} \end{aligned}$$

$$\begin{aligned} & \mathbf{8.75\% + 45.09\% = 53.84\%} \\ & \mathbf{(Maximum AFC: 53.34\%)} \end{aligned}$$

If this teacher decided to retire at year 33, for example, she would be eligible for 51.67% of AFC. Every reduction of one year reduces the cumulative AFC by 1.67%.

When will a teacher who had only **1 year** in Group B reach 53.34% of AFC? Well, first, she had to teach **31 years** to be eligible for 50% of her AFC (1989 to 2020).

$$\begin{aligned} & \mathbf{1 \text{ year (in Group B, 1989-90)} \times 1.25\% = 1.25\%} \\ & \mathbf{30 \text{ years (in Group C, 1990-2020)} \times 1.67\% = 50.10\%} \end{aligned}$$

$$\mathbf{1.25\% + 50.10\% = 51.35\%}$$

She will be eligible for 53.34% of AFC in **2022** (2020 + 2 = 2022), or after 33 years in total:

$$\begin{aligned} & \mathbf{1 \text{ year (in Group B, 1989-90)} \times 1.25\% = 1.25\%} \\ & \mathbf{32 \text{ years (in Group C, 1990-2022)} \times 1.67\% = 53.44\%} \end{aligned}$$

$$\begin{aligned} & \mathbf{1.25\% + 53.44\% = 54.69\%} \\ & \mathbf{(Maximum AFC: 53.34\%)} \end{aligned}$$

The financial gain of reaching 53.34% of AFC for teachers with 25 or more years of service and 57 or older as of June 30, 2010

Let's take a teacher with 34 years of experience whose AFC is \$60,000, and who retires in 2017. Under the current rules, at 50% of AFC, she would be entitled to \$30,000. At 53.34% of AFC benefit, she would be entitled to an annual pension of \$32,004, or \$2,004 more each year.

The additional \$2,004 amounts to an annual pension increase of **6.68%** (\$2,004 divided by \$30,000 = 6.68%). If she lives 20 to 30 years after retirement, she will accrue, roughly, between \$40,000 and \$60,000 more in pension earnings. If she needs spousal health coverage, and works long enough to earn it, her pension earnings will be substantially larger.

Here is how we arrived at that maximum pension amount using the three multipliers discussed earlier (1.25% for the years 1983-90, 1.67% for the years 1990 until 2017) and the standard pension calculation formula: **AFC x Multiplier(s) x Years of Service**. Further, **(a) + (b)** below represent the years of service required to reach 50% of AFC; **(c)** represents the two additional years of service necessary to reach 53.34% of AFC.

- (a) $\$60,000 \times .0125 \times 7$ (Group B years, 1983-90) = \$5,250
- (b) $\$60,000 \times .0167 \times 25$ (Group C years, 1990-2015) = \$25,050
- (c) $\$60,000 \times .0167 \times 2$ (additional Group C years, 2015-2017) = \$2,004

Total: \$32,304
(Pension Maximum: \$32,004—53.34% of \$60,000 AFC)

If this same teacher decided to leave the profession **after 32 years**, or at 50% of AFC, she would be entitled to a pension of \$30,000.

- (a) $\$60,000 \times .0125 \times 7$ (Group B years, 1983-90) = \$5,250
- (b) $\$60,000 \times .0167 \times 25$ (Group C years, 1990-2015) = \$25,050

Total: \$30,300
(Pension Maximum: \$30,000—50% of \$60,000 AFC)