

**CSBA Pension Reform Belief Statements and Principles** (Adopted by the CSBA Board of Directors on March 25, 2012)

*1. Defined Benefit Plans*

Belief: Defined benefit plans require tax payers to guarantee benefits to employees, and in doing so, assume all of the risk that investment returns may be insufficient to pay benefits.

**Principle: CSBA supports hybrid pension plans that combine defined benefit and defined contribution components. Hybrid plans provide employees with a guaranteed benefit while also allowing for the risk associated with investments to be shared between the State and public employees.**

Rationale: Currently, the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS – school pool) have unfunded liabilities of approximately \$56 billion and \$13 billion, respectively. Additional funding from the State and school employers will be required to pay benefits already earned by school employees. Every dollar spent to pay for the unfunded obligation is one less dollar available for public services.

Hybrid plans balance the need to provide a guaranteed level of pension benefits, while also allowing employees to share some of the investment risk for their own retirement security. Hybrid plans are also more closely aligned with benefits offered to employees in the private sector, where defined contribution plans have become common. Note that if hybrid plans had been in place already, both systems would still have unfunded liabilities albeit the amounts would be lower. Hybrid plans do not eliminate future unfunded liabilities, they lower future liabilities.

*2. Pension Costs*

Belief: Employers and employees should share responsibility for retirement benefits.

**Principle: CSBA supports the equal sharing of pension costs between employers and employees.**

Rationale: Retirement benefits help employers to retain talented staff and provide employees with financial security when they are no longer able to work. Since employers and employees both benefit, both should share in the cost of pension benefits.

Belief: Employees should have options for increasing their retirement benefits at their own expense.

**Principle: CSBA supports retirement investment options for employees.**

Rationale: Employees should have opportunities to strengthen their retirement security at their own expense.

*3. Unfunded Liability*

Belief: The current CalSTRS and CalPERS unfunded obligations need to be resolved while protecting against future unfunded obligations.

**Principle: CSBA supports increases in the State contribution to CalSTRS to address unfunded liabilities, so long as the funding for CalSTRS does not decrease funding for K-12 education.**

**Principle: CSBA supports reforms that will ensure the long term sustainability of the Teachers Retirement Fund (CalSTRS) and the School Pool within the California Public Employees' Retirement System (CalPERS).**

Rationale: Increased State contributions to CalSTRS will be necessary to pay for benefits earned by CalSTRS members and guaranteed by the State. The total cost of the unfunded liability will increase if the State delays the increased contributions. CalPERS has the authority to increase contribution rates to address its unfunded liability, while CalSTRS rates are set statutorily and thus changes require approval of the Governor and the Legislature.

Additional reforms, such as a ban on retroactive benefit increases and pension holidays, will be necessary to minimize the possibility of future unfunded obligations.

#### 4. *Retirement Age*

Belief: Retirement age should be set to balance physical demands of the work, employee morale, and costs of pension benefits to school employers.

**Principle: CSBA supports setting a retirement age that is the same for classified and certificated employees.**

**Principle: CSBA supports gradual increases in the retirement age. The retirement age should be commensurate with the ability of employees to perform their jobs.**

Rationale: Currently, the retirement age for classified employees is 55 and the retirement age for certificated employees is 60. There is no policy rationale for different retirement ages for classified and certificated employees, and thus, the retirement age for classified employees should be increased to 60. In addition, some increase in the retirement age appears warranted to adjust for increased life spans to reduce the length of time retirees will be drawing pension benefits.

Dissent: Don Iglesias – Superintendent Iglesias disagreed with the principle calling for an increase in the retirement age. He is concerned that an increase in retirement age could jeopardize the quality of teaching as older teachers will be forced to stay in the classroom much longer than they would currently. He is also concerned that a higher retirement age will reduce opportunity for new teachers recently graduated from the university system to access teaching as a career.

#### 5. *Recruitment and Retention*

Belief: Good schools require talented staff.

**Principle: CSBA supports total compensation that is sufficient to recruit and retain high quality staff and address staffing shortages. Total compensation includes, but is not limited to salary, health insurance, retirement benefits, and step and column increases on the salary schedule.**

Rationale: Labor markets force school employers to compete for staff according to total compensation. School districts and employee groups should consider pension and other benefits within the context of

total compensation. The total cost should be acknowledged and understood as expenditures for salary and benefits affect district budgets during employees' active service and during their retirement. School districts should also educate their workforce on the total cost of salary and benefits.

6. *Spiking (Manipulation of Final Compensation)*

Belief: Compensation should not be manipulated to drive up pension benefits.

**Principle: CSBA supports reforms that will curtail pension “spiking.”**

Rationale: Pension “spiking” exacerbates the perception that public pension systems provide generous benefits that employees have not earned. Thus, “spiking” must be curtailed to maintain public confidence and sustain the pension systems over the long term.

7. *Air Time (Purchasing of Service Credit)*

Belief: Public employee retirement benefits should be designed with maintaining public confidence in mind.

**Principle: CSBA supports elimination of air time.**

Rationale: Air time erodes public confidence in public retirement systems because it exacerbates the perception that public employees receive benefits they have not earned and that are not available to employees in the private sector.

8. *Rehire*

Belief: School employers, and the students they serve, benefit from the hiring of retirees and should retain the flexibility to do so.

**Principle: CSBA supports the ability of school employers to rehire retirees, subject to limitations that prevent abuse.**

Rationale: Occasionally, school employers have short term needs that can be met by hiring retirees. School employers cut costs by hiring a retiree on a reduced schedule. This can be particularly helpful in areas with labor shortages.