# School Administrator Contract Year

## Issue

School administrators are required to contract on a fiscal year that differs from the school year used for determining service credit for school employees in the Plans 2/3. As a result, Plans 2/3 administrators seeking to retire at the end of their contract year can find themselves two months short of the service credit needed to qualify for subsidized early retirement.

Stakeholders are proposing that Plans 2/3 administrators be allowed early access to subsidized early retirement. Their proposal would lower the service credit required for administrators to qualify for subsidized early retirement to twenty-nine years and ten months—two months less than is currently required.

## Policy Highlights

- This issue raises two key policy questions.
  - Is a policy change required to address this?
  - If so, are the retirement systems the best place to make the policy change?
- Policy makers may view this as a retirement planning, contracting, retiree health care access, or plan design issue.
- Some policy makers may prefer to address this outside of the retirement systems.
- Administrators have several options for addressing the lack of alignment between their contract year and the school year under current policy.
- The stakeholder proposal:
  - Allows administrators to qualify for subsidized early retirement at the end of their contract–eliminating possible Plan 2 member concerns about access to PEBB retiree health care insurance.
  - Provides a benefit improvement for administrators by effectively allowing them to retire two months earlier than other plan members.
  - Allows school districts to continue contracting with administrators on a fiscal year basis.
  - Sets a new precedent of providing different retirement eligibility for a specific group of members within the plans.

- ◊ Could lead to other Plans 2/3 members seeking earlier access to subsidized early retirement.
- ◊ Changes early retirement provisions that are currently subject to litigation.

## What Is The Next Step?

A work session on this issue is scheduled for the December meeting.

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## In Brief

### Issue

*School administrators are required to contract on a fiscal year that differs from the school year. As a result, Plans 2/3 administrators seeking to retire at the end of their thirtieth contract year can find themselves two months short of the service credit needed to qualify for subsidized early retirement.*

*Stakeholders are proposing that Plans 2/3 administrators be allowed early access to subsidized early retirement.*

### Member Impact

*This issue can impact any administrator in the Plans 2/3 of TRS and SERS. Data necessary to identify these administrators is not currently collected by the Department of Retirement Systems.*

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# School Administrator Contract Year

## Current Situation

School administrators are required to contract on a fiscal year that differs from the school year used for determining service credit for school employees in the Plans 2/3. As a result, Plans 2/3 administrators seeking to retire at the end of their thirtieth contract year can find themselves two months short of the service credit needed to qualify for subsidized early retirement. Stakeholders are proposing that Plans 2/3 administrators be allowed early access to subsidized early retirement.

This issue raises two key questions for policy makers.

- Is a policy change required to address this?
- If so, are the retirement systems the best place to make the policy change?

Throughout the remainder of this paper, unless otherwise noted, the terms administrators, teachers, and school employees refer to Plans 2/3 members in these positions.

## Background

This issue is impacted by four areas of statute, two of which are outside the retirement systems. These areas are:

- Contracting requirements.
- Service credit provisions.
- Early retirement provisions.
- Retiree health care requirements.

### Contracting Requirements

School administrators are covered by the Teachers' Retirement System (TRS) or the School Employees' Retirement System (SERS). School administrators are defined as certificated employees in a superintendant, assistant superintendent, director, principal, assistant principal, coordinator, or in any other supervisory or administrative position.* Most administrators are required by statute** to be contracted on a July through June fiscal year. In contrast, teachers are generally contracted for a September through August school year–

even though most of their contract requirements are generally satisfied in June.

The requirement for administrator contracts to end on June 30 was enacted in 1990.***  The Legislature established a standardized time period for administrator contracts to prevent abuses of the average final compensation calculation.†  The June 30 date may have been selected because it aligned with the service credit year used in TRS Plan 1.  At that time, most administrators were likely Plan 1 members.

**RCW 28A.405.230.*

***RCW 28A.400.315 and RCW 28A.405.210.*

****Section 6, Chapter 8, Laws of 1990.*

*†Section 1, Chapter 8, Laws of 1990.*

## Service Credit Provisions

Service credit for school employees, including administrators, is granted on the basis of a September through August school year. Service credit rules do not allow a member to receive more than one month of service credit for a given month.  Employees who work at least 810 hours during nine months of the school year receive twelve months of service credit for the year.  However, they cannot receive the full twelve months if they retire before the end of the school year. Employees who work fewer than 810 hours or less than nine months receive service credit based on different rules (see **Appendix A**).

*School employees, including administrators, may obtain additional service credit to qualify for early retirement.*

School employees, including administrators, may obtain additional service credit to qualify for early retirement.  School employees may convert up to 45 days of accrued sick leave to receive up to two months of service credit.*  Also, teachers may use an unlimited amount of out-of-state teaching experience to qualify for early retirement.  Both of these types of service credit are at no cost to the member and do not apply in benefit calculations.

**RCW 41.32.010 and RCW 41.35.010.*

## Early Retirement Provisions

*The 2008 ERFs were established as part of the legislation that repealed gain sharing.*

The Plans 2/3 provide subsidized early retirement for members with thirty years of service credit who are at least age 55.  There are two forms of subsidized early retirement provided:  3% Early Retirement Factors (ERF) and 2008 ERFs.  The 3% ERFs allow eligible members to retire and receive a pension reduced by 3 percent for each year the member retires prior to reaching age 65–with a maximum reduction of 30 percent.  The 2008 ERFs allow eligible members to retire with unreduced benefits beginning at age 62 and prior to age 62 with benefits reduced by specified percentages–with a maximum reduction of 20 percent. The 2008 ERFs were established as part of the legislation that repealed gain sharing.* This legislation is currently subject to litigation.

Members who do not qualify for subsidized early retirement can qualify for early retirement at age 55 with twenty years of service for Plan 2 members and ten years of service for Plan 3 members. Benefits for members retiring under early retirement are subject to much higher age-based actuarial reductions that can exceed 60 percent of the benefit at the youngest age. See **Appendix B** for more information on early retirement factors.

**Chapter 491, Laws of 2007.*

## Retiree Health Care Requirements*

*Plan 2 members who separate from service and defer retirement are not eligible for PEBB insurance plans.*

Retired school employees may continue to participate in health and other insurance plans offered by the Public Employees' Benefits Board (PEBB) provided they immediately begin drawing their monthly benefit upon separation from service. Eligibility to participate in PEBB insurance plans for members who separate from service without immediately retiring varies depending on plan. Plan 2 members who separate when eligible to retire (at least age 55 with at least twenty years of service) but do not begin drawing their monthly retirement benefit, are not eligible to participate in PEBB insurance plans offered to retirees. In contrast, Plan 3 members separating at age 55 with at least ten years of service are eligible to participate in PEBB insurance plans, regardless of whether or not they are drawing their monthly retirement benefit. This provision is part of the overall Plan 3 design, which is geared toward a more mobile workforce. Plan 3 members must choose to participate in PEBB plans immediately upon separation from service to qualify.

The SCPP studied the issue of Plan 2 access to PEBB during the 2007 Interim and made a recommendation to the Legislature. The Committee recommended providing retiree eligibility for insurance plans and contracts offered by PEBB to separated Plan 2 members of the Public Employees' Retirement System (PERS), TRS, and SERS who are at least age 55 and have at least twenty years of service credit. The SCPP bill (HB 3027/SB 6648) did not pass the Legislature, but did pass the House.

**Relevant provisions are found in RCW 41.05.08 and RCW 41.05.011.*

## Example

The lack of alignment between the administrator contract year and the school year used for determining service credit can impact administrators as illustrated in the following example.

Al has been employed by the school district for thirty years: twenty years as a teacher and ten years as a principal. During his years as a teacher, Al was contracted on a September through August school year basis. When Al became a principal, he was contracted on a July through June fiscal year basis. Thus, his administrator contract started in July–two months before his teacher contract ended in August.

During the two months that his contracts overlapped (July and August), Al received two salaries: his teacher salary and his principal salary. Members working multiple jobs do not receive more than one month of service per month, so Al received two months of service credit for this same period: one month for July and one month for August.

*Some administrators complete their thirtieth contract after working only twenty-nine years and ten months.*

This two-month overlap in contracts causes Al to complete his thirtieth contract after working only twenty-nine years and ten months. This leaves Al two months short of the service credit needed to qualify for subsidized early retirement.

## Policy Analysis

This issue raises two key questions for policy makers.

- Is a policy change required to address this?
- If so, are the retirement systems the best place to make the policy change?

To answer these questions, policy makers will likely consider how to factor retirement planning, contracting, retiree health care access, and plan design into potential solutions. Policy makers may take different views of this issue, and the view they take will likely decide their answers to the two key policy questions. Some policy makers may wish to consider options available under current policy before pursuing policy changes.

*The crux of this issue is the lack of alignment between the contract year and the service credit year.*

The crux of this issue is the lack of alignment between the contract year and the service credit year. This lack of alignment has the most impact on administrators seeking to retire after thirty years because it impacts their ability to utilize subsidized early retirement factors at the end of their contract. However, administrators have several options for addressing this under current policy.

## Administrators Have Several Options Under Current Policy

*Administrators have several options to address the lack of alignment between their contract year and the school year.*

According to stakeholders, some administrators are able to negotiate a two-month contract to keep them employed until the end of the school year when they qualify for subsidized early retirement. Some administrators may be able to convert accrued sick leave or use out-of-state teaching experience to pick up the extra two months of service credit needed to qualify. Administrators who are unable to address this with supplemental contracts or service credit can likely extend their employment or defer retirement. Extending employment for another year allows administrators to retire at the end of their next contract under subsidized early retirement. Administrators can also separate from service and defer retirement for two months until the end of the school year–when they will pick up the two months of service credit* needed to qualify for subsidized early retirement. However, separating from service without immediately retiring may raise additional concerns for Plan 2 members seeking access to PEBB retiree health care.

**Under the 12-month service credit rule. See* ***Appendix A****.*

## There Are Many Ways To View This Issue

*Policy makers may view this as a retirement planning, contracting, retiree health care access, or plan design issue.*

Policy makers may take different views of this issue. Some may view this as a retirement planning issue and feel that individual administrators should plan around their plan's design. Policy makers with this view would not see any need for policy changes to address this issue. Some may view this as a contracting issue and feel that the administrator contract year should be aligned with the school year. Others may view this as a retiree access to health care issue and feel that PEBB provisions should better accommodate deferred retirements. Policy makers with either of these views would see a need for policy changes, but would feel the best place to make such changes is outside of the retirement systems. Finally, some policy makers may view this as a plan design issue and feel that early retirement provisions should better accommodate administrator contracts. These policy makers would see the retirement system as the best place for policy changes addressing this issue.

# Other States

Research did not find any of Washington's peer states that provided administrators different eligibility for early retirement than other school employees.

## Stakeholder Proposal

*Stakeholders view this as a plan design issue.*

Stakeholders view this as a plan design issue and have proposed changing early retirement provisions so administrators can qualify for subsidized early retirement with twenty-nine years and ten months of service credit.

The stakeholder proposal is targeted to the administrators most impacted by this issue: those seeking to retire after thirty years of service. From the member perspective, it would allow them to qualify for subsidized early retirement at the end of their contract and thereby eliminate possible Plan 2 member concerns about accessing PEBB retiree health care insurance. From the employer perspective, it allows school districts to continue to contract with administrators on the same fiscal year and may reduce requests to write supplemental contracts. From the plan perspective, it provides a benefit improvement for administrators by effectively allowing them to retire two months earlier than other plan members and adds complexity to the plan design.

*The stakeholder proposal would set a new precedent for retirement eligibility and change provisions currently subject to litigation.*

The stakeholder proposal has implications for pension policy that may be of special interest to policy makers. Currently all members of TRS, SERS, and the PERS Plans 2/3 have the same retirement eligibility. The stakeholder proposal would set a new precedent of providing different retirement eligibility for a specific group of members within the plans. Teachers and other public employees might also like earlier access to subsidized early retirement if it is offered to administrators. Also, this proposal would change early retirement provisions that are currently subject to litigation.

## Conclusion

Stakeholder Input

*Correspondence from: John Kvamme, WASA and AWSP, October 7, 2009.*

School administrators are required to contract on a fiscal year that differs from the school year used for determining service credit in the Plans 2/3. This lack of alignment between contract year and service credit year can impact their ability to access subsidized early retirement at the end of their thirty-year contract. Administrators have many options for addressing this under current policy such as supplemental contracts, supplemental service credit, extending employment, or deferring retirement. Policy makers may view this as a retirement planning, contracting, retiree health care access, or plan design issue. The view they take will likely decide their answers to the key policy questions of whether or not a policy change is required, and if so, whether the retirement systems are the best place to make the policy changes.

# Appendix A

## Plan 2/3 Service Credit Rules for Educational Employees

Plans 2/3 members working for an educational employer (includes all SERS, all TRS, and some PERS members) earn service credit as follows*:

- ❖ At least 810 hours worked during a nine-month period of the school year** equals twelve months of service credit.
- ❖ At least 630 hours but less than 810 hours worked during a nine-month period of the school year equals six months of service credit.
- ❖ At least 630 or more hours worked in five months of a six-month period of the school year equals six months of service credit.

Educational employees who work less than a full school year or less than 630 hours earn service credit on a month-by-month basis as follows:

- ❖ Ninety hours or more in a month equals one month of service credit.
- ❖ At least 70, but less than 90 hours in a month equals a half month of service credit.
- ❖ Less than 70 hours in a month equals a quarter month of service credit.

**Note: Members are awarded service credit under whichever rule provides the most service credit.*

***School year means the twelve-month period from September through August of the following year.*

# Appendix B

## Plans 2/3 Early Retirement Factors

**Source: Department of Retirement Systems**

| Early Retirement Factors | | | |
|---|---|---|---|
| Retirement age | At least 10 or 20 years service[1] | 30 years or more service | |
| | | *3% ERF* | *2008 ERF*[2] |
| 55 | 0.358 | 0.70 | 0.80 |
| 56 | 0.395 | 0.73 | 0.83 |
| 57 | 0.435 | 0.76 | 0.86 |
| 58 | 0.481 | 0.79 | 0.89 |
| 59 | 0.531 | 0.82 | 0.92 |
| 60 | 0.588 | 0.85 | 0.95 |
| 61 | 0.652 | 0.88 | 0.98 |
| 62 | 0.724 | 0.91 | 1.00 |
| 63 | 0.805 | 0.94 | 1.00 |
| 64 | 0.896 | 0.97 | 1.00 |

[1] Plan 3 members must have at least 10 years of service. Plan 2 members must have at least 20 years of service.

[2] These factors were available beginning 7/1/2008 (PERS), 9/1/2008 (SERS and TRS), and were established by legislation which ended gain sharing. If a court of law decides the repeal of gain sharing is invalid, the factors and return to work rules in place before passage of the law will apply.

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**Wallis, Keri**

**Subject:** October 20th SCPP Exec Packet
**Attachments:** Plan 2 and 3 final year contract.doc

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**From:** john kvamme [mailto:jekvamme@yahoo.com]
**Sent:** Wednesday, October 07, 2009 11:21 AM
**To:** Smith, Matt
**Subject:** October 20th SCPP Exec Packet

Matt

Attached is an expanded explanation of the "Administrator ERRF Early Retirement Problem and Solution" for the SCPP Executive Committee to consider for further action. At the September SCPP Executive Committee meeting this issue was discussed, however it appeared that a more detailed explanation of the issue was needed. A draft bill has been requested from the Code Revisor's Office, however is not yet available.
If it is not too late I would appreciate the attached sheet to be included in the SCPP Executive Committee packet. Please let me know if this request is too late so that I can bring copies for the committee.

John Kvamme, WASA & AWSP Consultant

# Plan 2/3 Final Year Contract

## PROBLEM

- Many school administrators that are in Plans 2 & 3 who decide to retire on July 1st effectively are short two months of service credit to reach full years of service when completing their last contract year of active service.
- The reason for this is that a good proportion of administrators served as teachers in this state prior to moving into an administrative position. The contract year for teachers generally runs from September 1st through August 31st even though they generally complete their contract in June. The teacher's pay is spread through August and they generally start drawing retirement on September 1st. The contract for school administrators by statute is required to run from July 1st through June 30th and their pay ends at the end of the contract. The shift from teacher to administrator contract causes many of these administrator's final contract year to be short two months of reaching an even total number of service credit years when converting the total service credit months into service credit years.
- This hasn't been a problem in the past because most retirees have been Pan 1 members. Plan 1 member service is counted by the service year, whereas Plans 2 and 3 count service by the month.
- This now causes problems for some school administrators that wish to take advantage of Plan 2 and 3 early retirement requirements (ERRF), a major requirement being that the member must have completed thirty service credit years.
- The problem of Plan 2 member access to the PEBB upon separation could also play into this situation.

## SOLUTION OPTION

- Legislatively add a short paragraph to each of the TRS, SERS and PERS Plan 2 & 3 RCWs dealing with the alternate early retirement criteria.
- The paragraph would state that "a school administrator member completing twenty-nine service credit years and additionally completing ten additional service credit months through June 30 of the school administrator's fiscal thirtieth member year is eligible to retire under this RCW41……….provision."
- This language would allow administrators wishing to begin retirement at the end of their fiscal year to not have to work an additional two months or an additional year in order to take advantage of alternate early retirement

John Kvamme, WASA & AWSP Consultant – 253 232 0375