Mitchell's Musings 12-5-11: What's a Double Dip?

Below is an excerpt from an article – dated Nov. 23, 2011 - that appeared in the Orange County Register and relates to the retirement system of the California State University (CSU) system.[1]

Pay for retired CSU professors seen as 'double dip'

Retirement has been good for Cal State Fullerton Professor Jesa Kreiner. As a full-time professor of mechanical engineering during 2008-09, Kreiner made $106,000 for teaching eight courses. Last year, after retiring, he made $146,600 – for teaching four classes at the same school.

Kreiner benefits from an obscure California State University program that allows professors and librarians to retire and continue to work part time, collecting both a pension and a paycheck. Kreiner disputes the numbers contained in the CSU pay data, but said he could not find the exact figures for his retirement benefit and part-time pay. Nevertheless, he defended the system that allows him to collect two checks. "I think it's fair," Kreiner said. "If you work for a place for 40 years and contribute to its growth, you have earned it."…

*"It's a **double dip**," said Jon Coupal, president of the Howard Jarvis Taxpayers Association…*

The full article is at http://www.ocregister.com/news/csu-328504-ferp-faculty.html

Let's explore some alternative scenarios on the assumptions that a) the article above describes a "double dip" and that b) even though Professor Kreiner disputed the numbers, the figures presented are correct. And let's note that the phrase "double dip" has a pejorative connotation.

Scenario 1: Professor Kreiner, on retiring, took his pension as a lump-sum rather than as a monthly annuity. He then returned to work part time, deriving other income for living costs from whatever investments he made with the lump sum and whatever periodic draw down he made from his lump sum. His income from part time work is apparently - based on the news article - $40,600 (total payments pension + part time salary of $146,600 minus his full time former salary of $106,000). He would then not be receiving a monthly annuity at all; just the part time salary plus investment return and draw down.[2]

[1] California has three public higher education systems. The University of California system, the California State University system (known at one time as the state college system), and the community college (junior college) system. All provide defined benefit pensions to their regular employees.

[2] I am assuming that since he worked 40 years, Professor Kreiner's pension annuity is 100% of his former salary. For purposes of the various scenarios, however, the precise dollar amounts are not important. The essence of the article is that by drawing a pension based on a career at Cal State Fullerton and then returning to work there part time upon retiring, Professor Kreiner was double dipping.

Scenario 2: Professor Kreiner, on retiring, took his pension as an annuity but went to work part time for another employer, say a private college, which paid him $40,600 for part time teaching. His teaching + pension total would then be the same $146,600 as in the article.

Scenario 3: Professor Kreiner on retiring took his pension as a lump sum and went to work for the private college as in Scenario 2.

Scenario 4: Professor Kreiner spent his career, not at Cal State Fullerton, but at a university with a defined contribution plan such as TIAA-CREF. Upon retiring, Professor Kreiner took the accumulated sum in his pension account and bought an annuity that paid him $106,000 per year. He then went back to work part time for his university, earning $40,600.

Scenario 5: Same as Scenario 4 except that Professor Kreiner did not take the money he had accumulated in his defined contribution account out of the account and convert it to an annuity. Instead, he earned his part time salary and derived other income from the investments he made in the account plus whatever he chose to draw down from the account.

Given these five scenarios, which – if any – is a double dip? Or, maybe the question should be, which – if any – *isn't* a double dip? All of the scenarios are functionally equivalent to the scenario in the Orange County Register article. A portion of Professor Kreiner's compensation was in the form of a pension, whether defined benefit or defined contribution, in all five scenarios. At a point in his later life, apparently after 40 years in his case, Professor Kreiner reduced his workload to part time and drew on those pensions.

While pondering which of these scenarios is (or is not) a double dip, you might also ponder whether it matters whether the pensions outlined were partly employee paid? Suppose Professor Kreiner's employee contribution was one half of the total with the employer paying the other half. If you consider him to be double dipping in a particular scenario (including the one in the article), but now factor in his one-half contribution, would you instead say that he was only 1.5 dipping? If he contributed one fourth, would he be 1.75 dipping?

If you think it is double dipping no matter how much Professor Kreiner contributed, then what would you say about an employee who had worked for an employer with *no* pension plan at all, but who had saved on his/her own – say through an IRA. Would such an employee be double dipping by working and drawing on the IRA? Would you say that someone receiving Social Security and also doing some work for pay is double dipping? You are talking about lots of folks if Social Security (a defined benefit pension) and part time work (including self employment) constitutes what you mean by double dipping.

What precisely is the Orange County Register upset about? The language in the article – an "obscure" program that permits retirees to come back part time - makes it clear that someone is upset. The obscure program in question is basically the federal tax code. Is what is causing the upset the fact that Professor Kreiner earned more when he worked full time than the average employee in Orange

County? Is it that he is better off in retirement than the average employee? Or is it that the pension plan covering Professor Kreiner is underfunded?[3] Would his return to part time work have been OK if the pension plan had been 100% funded? Is it that Professor Kreiner is a public employee?

You might say that even though the scenarios presented above are basically equivalent, some of them (which ones?) don't pass a "sniff test" and it is the sniffing that tells you whether what is going on is a double dip. Sniff tests, even if inconsistent and subjective, are sometimes part of the criteria for public policy. But at some point, as you explore the various scenarios, you have to ask whether we are talking about a double dip or about a double standard.

[3] Employees of the CSU system are covered by a large state pension fund known as CalPERS which is underfunded.