

**BILL NUMBER: [SB 1402](#) (Umberg) as amended April 7, 2022**

**SUMMARY**

SB 1402 permits members of the Defined Benefit Program to elect to purchase additional service credit for up to four years of service prior to membership in the U.S. Armed Forces or in the U.S. Merchant Marine. The bill allows members to purchase up to one year of service credit for each five years of credited service with CalSTRS and requires a member electing to purchase this service credit to have at least 10 years of service with CalSTRS on the date of election.

**RECOMMENDATION**

**Neutral.** The board's policy is to take a neutral position on legislation that does not significantly or adversely impact the benefits or service provided through the funds administered by CalSTRS or the administration of the retirement plans.

**REASON FOR THE BILL**

According to the author, SB 1402 will create incentives for California's veterans to pursue careers in service to the state.

**ANALYSIS**

**Existing Law:**

Current law allows for state employee members to purchase service credit for time served in the U.S. Armed Forces or U.S. Merchant Marine prior to January 1, 1950. State employee members include those who become employed by certain state employers in positions that require membership in a different public retirement system and who then elect to retain their CalSTRS membership and have that service covered by the Defined Benefit Program. CalSTRS has determined that there are no members currently eligible to purchase such service.

**This Bill:**

SB 1402 allows any CalSTRS member to purchase service credit for up to four years of service performed in the U.S. Armed Forces or in the U.S. Merchant Marine prior to their membership in the Defined Benefit Program and removes the current requirement that such service be performed prior to January 1, 1950. Unlike other permissive service credit purchases related to service prior to membership, this bill does not require any certification that the prior service was associated with a creditable service activity. The bill clarifies that the cost to purchase such service is calculated in a manner consistent with other permissive service credit purchases. It also specifies that this purchase is not available to members whose military service was terminated due to a dishonorable discharge or those members receiving a benefit for the same service in another system, including military retirement or disability retirement pay.

While CalSTRS does not have visibility of members' prior military service, the U.S. Department of Veterans Affairs estimates that, as of 2014, 1.8 million Californians, or 4.8% of the population, are U.S. military veterans. Extrapolating this percentage to CalSTRS members, this proposal could make approximately 31,701 CalSTRS members eligible to purchase additional service credit.

## PROGRAM BACKGROUND

Under the federal Uniformed Services Employment and Reemployment Rights Act (USERRA), and conforming provisions within Chapter 14.5 of the Teachers' Retirement Law, a member who leaves CalSTRS covered employment to perform military service and then return to the same employer is entitled to the service credit, compensation earnable, contributions, interest and additional earnings credits they would have earned had they remained employed. Members exercising this right must remit only member contributions to the system to receive these benefits, with employer contributions to be covered by the employer that rehired the member. Employers are required to notify CalSTRS within 30 days of such members' reemployment.

In addition, CalSTRS members may purchase permissive service credit with CalSTRS for various employer-approved leaves, including maternity or paternity leave, leave under the Family and Medical Leave Act or California Family Rights Act guidelines, Fulbright leave and sabbatical leave. Members may also purchase service credit for service performed, but not previously credited, including nonmember service for CalSTRS employers and employment in a childcare center, a Native American school, the California School for the Deaf, the California School for the Blind, the Job Corps and the Peace Corps. Members may also purchase service credit for time served in certain local retirement systems and the University of California or California State University systems that is not covered by another public retirement system, as well as service performed in public education for another state, U.S. territory, overseas school administered by the U.S. Department of State, U.S. Department of Defense or U.S. Department of Interior, or a foreign public school that provides a level of education comparable to grades K–12. To buy service credit that was earned in another system, members must give up benefits they would have received from that system.

With the exception of purchases of nonqualified service, or air time, most types of permissive service credit purchases support a CalSTRS 2% at 60 member in qualifying for benefit enhancements, including one-year final compensation, career factor and longevity bonus. These benefit enhancements generally require a member to attain a specific amount service credit, after which they would be entitled to an increase in their benefit. CalSTRS considers the possibility that purchased service credit can help these members qualify for these enhancements when factoring the cost for service credit purchases.

## FISCAL IMPACT

Program Costs/Savings – As members would pay for the increase in liabilities associated with the additional service credit purchased under the provisions of this bill, increases in benefits would generally be cost neutral. However, if future experience differs from the actuarial assumptions, employers and the state would assume the risk of increased unfunded actuarial obligation, the cost of which would be passed to them in accordance with the CalSTRS Funding Plan.

Administrative Costs/Savings – It is estimated that the increased workload created by this bill would be minor and absorbable by current staff. Average annual billing statement volume for the last eight years is 4,100 statements per year. Changes to the new pension administration system are estimated to necessitate a small effort that would require fewer than 100 hours of work.

## **SUPPORT**

None known.

## **OPPOSITION**

None known.

## **ARGUMENTS**

Pros: Creates consistency between CalSTRS and CalPERS with types of purchasable military service.

Provides a route to additional service credit for members who served in the U.S. Armed Forces or in the U.S. Merchant Marine.

Con: Creates a need to rely on member self-certification that the purchased service is not being used for service credit with another public pension system.