

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

ASSEMBLY BILL 1102, Assembly Member Knox (As Amended 08/26/98)

Position: Support

Proponents: CTA, FACCC (Co-Sponsors), ACSA, BOG, CFT, CRTA, CSEA, PERS, STRS, UTLA

Opponents: None known

SUMMARY

Enacts the *Ralph Dills Teacher Recruitment and Retention Act of 1998*, and:

- extends eligibility for unused sick leave credit to all members of the State Teachers' Retirement System (STRS) Defined Benefit Plan who retire on or after January 1, 1999 (regardless of the date of hire)
- vests the funding stream transferred by the Controller to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund (TRF), in an amount not to exceed 2.5% of total creditable compensation
- provides that the age factor of a STRS member retiring from service on or after January 1, 1999, who has 30 or more years of credited service is increased in an amount equal to 2/10 of 1% (two tenths of one percent), not to exceed a total benefit of 2.4% of final compensation per year of service.
- provides that the provisions of the bill relating to STRS benefits are operative only if AB 2804 (PER&SS) is enacted and becomes operative
- make various declarations and findings, including the importance of the bill for teacher recruitment and retention

HISTORY

SB 647 (Chapter 89, Statutes of 1974)

This bill provided service credit for unused sick leave days at the time of retirement for STRS members who retired on or after March 23, 1974.

SB 90 (Chapter 1135, Statutes of 1977)

This bill required the state to pay for the increased benefits payable for unused sick leave as a state-mandated local cost

SB 797 (Chapter 1201, Statutes of 1979)

This bill limited the crediting of service for unused sick leave to persons who became STRS members prior to July 1, 1980.

SB 1499 (Hughes, 1994) - vetoed

This bill would have allowed employers to elect to provide service credit for unused sick leave at retirement to those employees who become STRS members after July 1, 1980.

SB 1026 (Chapter 939, Statutes of 1997)

Increased the level of purchasing power protection from 68.2% of the original value of the benefit of 75%.

CURRENT PRACTICE

Current law provides for members with membership dates prior to July 1, 1980 to receive service credit at the time of retirement for accumulated unused sick leave. When a member who is eligible for this benefit applies for service retirement, the employer certifies to STRS the number of unused sick leave days for which the member is entitled to receive credit. The average service credit resulting from unused sick leave at the time of retirement amounts to 0.604 years of service credit.

Under current law, STRS retirees receive an allowance based on the age of retirement, years of service and final compensation. The amount earned per year of service tops out at age 60 at a rate equal to 2% of final compensation per year of service.

Currently, the General Fund transfers an amount equal to 2.5% of the prior year payroll to the SBMA to fund a supplemental benefit which maintains the purchasing power of the STRS allowance at 75% of the value of the original allowance, however, the Legislature reserved the right to terminate the funding.

DISCUSSION

AB 1102 has three pieces: the conversion of unused sick leave to service credit, the establishment of a career factor, and the vesting of purchasing power protection funds (SBMA).

Sick Leave

Current law provides for members with membership dates prior to July 1, 1980 to receive service credit at the time of retirement for accumulated unused sick leave. AB 1102 permits the use of unused sick leave in calculating service credit for all STRS members who retire on or after January 1, 1999, regardless of when they were hired.

Career Factor

Under the bill, members with at least 30 years of service receive an increase in the retirement benefit equal to .2% per year of service. For example, a 58 year-old currently receives an allowance equal to 1.76% of final compensation per year of service. AB 1102 adds .2% to that allowance if the member has at least 30 years of service, for a total allowance of 1.96% of final compensation per year of service. The total benefit, however, cannot exceed 2.4% of final compensation per year of service. This increases the retirement allowance of most members who have served at least 30 years.

Vesting of Purchasing Power

Although the General Fund has provided the designated amount in the past, there is no guarantee that the state wouldn't reduce that funding in the future. AB 1102 vests the funding stream and the payment of benefits payable from the funding stream.

FISCAL IMPACT

AB 1102 is contingent on the enactment of AB 2804, which increases the funding of STRS to support increased benefits. Consequently, the benefit provisions of this bill, and the associated costs, would not become operative if AB 2804 is not enacted.

Program:

The estimated cost of the bill is based on an estimated 1998-99 payroll of \$17.2 billion. Actuarial estimates indicate an annual cost of \$140 million to finance the cost of the career factor and unused sick leave for 30 years. Vesting the funding stream for SBMA would not affect existing revenues or costs to the retirement fund.

Administrative:

Minor and absorbable costs. In addition, there could be additional costs to the system's START (State Teacher's Automation Redesign Team) project and the Information Technology Services Division, for automation and computer modifications. These costs are unknown at this time.

POSITION

Support - AB 1102 provides a number of benefits which would encourage the retention of experienced teachers and increase the adequacy of the STRS benefit program and provide equitable treatment among STRS members.