

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 1509

Assembly Member Machado (As Amended 6/22/00)

Position:

Support

Proponents:

Unknown

Opponents:

Unknown

SUMMARY

AB 1509 requires that 25 percent of the contributions of members of the Defined Benefit (DB) Program be credited for the next 10 years to a separate nominal account in the Defined Benefit Supplement (DBS) Program, which is established in the bill.

HISTORY

Chapter 592, Statutes of 1995 (AB 1298) established the Cash Balance Plan to be administered by the California State Teachers' Retirement System (CalSTRS) for part-time public school employees.

CURRENT PRACTICE

Currently, CalSTRS active members contribute an amount equal to 8 percent of their creditable compensation to the DB Program. The member's contribution, in addition to 8.25 percent employer contribution, is used to fund the DB Program benefits. CalSTRS calculates a member's retirement benefit under the DB Program using (1) the member's credited service, (2) a factor based on the member's age at retirement and (3) the member's final compensation (which generally is the highest annual average compensation earnable over a three year period).

The Cash Balance (CB) Benefit Program is a defined benefit plan that is optional to school districts, community college districts or county offices of education as an alternative retirement plan. This program is also a primary retirement program for employees of California's public schools who are hired to perform creditable service for less than 50 percent of the full-time equivalent (FTE) for the position. Employers may offer the CB Program to eligible employees.

A participant in the CB Benefit Program has an immediate vested right to a retirement benefit, equal to the sum of the balance of contributions, including any compounded interest earned on his or her employee and employer accounts.

CB Benefit Program contributions are invested at the direction of the Teachers' Retirement Board (Board) in internally pooled portfolios of the Teacher's Retirement Fund. Accounts are credited with a guaranteed minimum interest rate. The Board may declare an additional earnings credit if actual earnings exceed the minimum rate and any required additions to a Gain and Loss Reserve established to pay interest when investment earnings are below the minimum required interest. Under the CB Program, a normal retirement benefit is a lump-sum benefit equal to the balance of credits in participant's employee and employer accounts. All of the lump-sum payment may be eligible for roll over into an IRA, or other eligible retirement plan that accepts such a rollover or other annuity-based options.

DISCUSSION

This bill requires the Board to establish and administer a DBS Program to provide supplemental benefits for members of the DB Program. The terms of the DBS Program would be patterned after the CB Benefit Program. Contributions credited to the DBS account would be credited with interest at a guaranteed minimum rate and the Board could declare an additional earnings credit if actual earnings are higher. A Gain and Loss Reserve would be established to pay interest earnings in years when investment returns are less than the minimum rate.

Under the bill, 25 percent of the member's contributions (or 2 percent of the member's creditable compensation) would be credited to the member's DBS account. Upon retirement, the member would receive the balance of his or her account, either in a lump sum or as the monthly actuarial equivalent, in addition to the normal retirement allowance. Contributions to the program would begin January 1, 2001 and would continue until January 1, 2011.

While this bill would not reduce the member's or employer's total contribution to CalSTRS, it would reduce, by 25 percent, the member's contribution to the DB Program, which is used to finance the benefits provided under the DB Program. This results in an actuarial cost to the DB Program.

FISCAL IMPACT

Benefit Program Costs – According to estimates by the CalSTRS' actuary this bill would result in total costs of approximately \$2.9 billion.

Administrative Costs – CalSTRS would incur initial costs to develop the necessary capability to maintain account information for this program. These costs have not yet been determined. Once the cost estimate is complete, an appropriation in a CalSTRS-related bill will be proposed.

RECOMMENDATION

SIGN. AB 1509 provides an additional benefit to CalSTRS active members consistent with the priorities of the Board and the Administration's efforts to increase teacher recruitment and retention.