STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 473	**Senator Ortiz (As Amended 5/06/99)**
Position:	**Sponsor**
Proponents:	**CalSTRS**
Opponents:	**None known**

SUMMARY

SB 473 authorizes a school district, community college district, or county office of education to pay all or a portion of the costs of nonqualified service credit on behalf of a member of the California State Teachers' Retirement System (CalSTRS). The bill requires a participating school district, community college district, or a county office of education to establish criteria to determine eligibility for a member to have service credit paid. The criteria must be consistent with one of three objectives specified in the bill. The criteria must be broad enough to apply to at least 20 employees, or three percent of the employees who are members, whichever is greater, unless the Teachers' Retirement Board (Board) authorizes the application of criteria to a lesser number or percentage of members. The bill also requires that the opportunity to have the cost of credit for service paid by the participating school district, a community college district, or a county office of education be made equally available to any member employed thereby. SB 473 prohibits the restriction of eligibility to members who are not classroom teachers (i.e. administrators and superintendents).

HISTORY

SB 2126 (Chapter 1076, Statutes of 1998) permitted CalSTRS members with at least five years of credited service to purchase up to five years of nonqualified service credit.

SUMMARY OF LATEST AMENDMENTS

The 5/06/99 amendments:

- Limit the type of service that may be purchased by an employer on the behalf of an employee to nonqualified service, or "airtime."
- Provide that employer payment for airtime made on behalf of an employee must be made in a lump sum, instead of on an annual basis.
- Delete, as one of the purposes for such purchases of service by an employer, the goal of "promoting the recruitment" of teachers to work for that district.

CURRENT PRACTICE

Current law provides for the purchase of various types of service credit by members. Some of this service credit may be paid for by the employer, including:

- Sabbatical leave
- Certified position at child care center
- Maternity/paternity leave
- Approved leave to participate in specified federal program
- Family Care and Medical Leave Act

In addition, a CalSTRS member with at least five years of credited service may purchase up to five years of nonqualifed service credit, or "airtime," which is credit not associated with any specific prior activity. The cost of such service is paid by the member.

DISCUSSION

SB 473 allows a school district, community college district, or a county office of education (employer) to pay all or a portion of the cost of nonqualifed service credit. The employer must establish criteria to determine eligibility that is broad enough to apply to at least 20 employees, or three percent of the employees who are CalSTRS members whichever is greater. The Board may, however, open eligibility to a lesser number or percentage of employees, if the Board determines unique circumstances exist. The opportunity to have the cost of credit for service paid must be made equally available to any employee and not, for example, just to administrators and superintendents. A participating employer must pay the same dollar amount toward the purchase of service credit or purchase an equal amount of credit for service for each employed member who meets the criteria. Payments by an employer must be made to the Teachers' Retirement Fund (TRF) in a lump sum, and is not credited to the account of the CalSTRS member. An employer may make such purchases either to encourage members to (1) remains with the current employer or (2) cease employment with the employer in order to facilitate a change in workforce requirements. The employer must inform the Board of the specific eligibility criteria and the estimated number of eligible members. Prior to authorizing the payment of funds, the Board must determine whether the criteria submitted by the employer are consistent with statutory objectives.

This bill differs from the previous Golden Handshake program, which also permitted employers to purchase two additional years of service credit on behalf of employees. Under the Golden Handshake, members had to retire to receive the benefit and forfeited it if they returned to active service. The Legislature and the previous administration were concerned about reducing the supply of teachers by requiring members to retire to receive the benefit and the Golden Handshake program was not extended. SB 473 does not require the member to retire. If a district needs to reduce its workforce, a teacher can receive the service credit from the employer and teach elsewhere.

The incentive provided under this bill could also be used to encourage teachers to stay at a school district longer. This will assist the employer in addressing any shortages of teachers they may be facing.

FISCAL IMPACT

Benefit Program- The provisions of SB 473 which allow an employer to purchase nonqualified service credit are permissive in nature and, as a result, it is difficult to estimate participation. However, under the bill, the costs are to be paid by the employer purchasing service on behalf of member. Consequently, the increase in benefit payments would be offset by employer contributions to the TRF, resulting in no net cost to the TRF.

Administrative- Processes are already in place for an employer to purchase service credit for an employee under the Golden Handshake Program, and for an employee to purchase nonqualifed service credit. As a result, any additional costs associated with an employer purchase of nonqualifed service by an employee would likely be negligible and absorbable within existing resources.

POSITION - Sponsor

SB 473 provides a means for school districts to meet specific workforce management objectives and provide increased retirement benefits in a manner that is suitably funded.