

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Bill Number: SB 102 - Burton (As amended 8/17/04)

SUMMARY

SB 102:

- Clarifies that up to 2/10 of one year of unused sick leave can be used in determining eligibility for career-based enhancements, including one-year final compensation, the career factor and the longevity bonus to DB Program allowances;
- Eliminates proposed changes that permit DB Program members and CB Benefit Program participants to receive service credit for time served in the military;
- Appropriates \$124,000 from the Fund to the Board to modify the system's database of member accounts, as specified.

PURPOSE OF THE BILL

This bill is designed to allow borderline cases to be eligible for benefit enhancements. Borderline cases are those members who don't have the full amount of required service credit to qualify for one-year final compensation (25 years), career factor or longevity bonus (30 years) at the end of the school year. In addition, members who are a few days short of qualifying for the benefit enhancements may work the required number of days in the subsequent school year, either in summer school or the fall. This could leave employers in a difficult situation by having to find replacement employees after the term has begun. Permitting the use of a portion of unused sick leave would avoid this problem in many cases. Finally, this bill would have a positive impact on benefit recipients who don't have the required service credit at the time they apply for a benefit due to the delay in reporting employer information. The ability to use unused sick leave service credit provides a "cushion" of service credit for these retirees.

POSITION AND SUPPORTING ARGUMENTS

Sponsor. This legislation authorizes a limited amount of service credit that was accumulated for unused sick leave to count towards career-based benefit enhancements, and as a result, provides members who were just shy of earning benefit enhancements with an opportunity to do so. This legislation is consistent with CalSTRS' goal to raise the quality in delivery of benefits, products, and services to the best in class.

SUMMARY OF AMENDMENTS

The August 17, 2004 amendments:

- Conform Education Code Sections 22134.5 and 24203.6 with changes that were made to the same sections in AB 2233, the CalSTRS annual technical housekeeping bill.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

ANALYSIS

SB 102 includes up to 2/10 of one year of unused sick leave in the calculation of credited service to determine eligibility for a one-year final and other career-based enhancements.

A member who has less than 25 years of service credit, or a member who has less than 30 years of service credit is unable to apply unused sick leave credit that is otherwise used in their service credit calculation towards eligibility for the one-year final compensation, career factor, or longevity bonus.

According to the System Actuary, the total number of members impacted is expected to be small. This is because the only members affected are those whose current or projected years of service without the addition of unused sick leave is between 24.800 and 25, or 29.800 and 29.999, or 31.800 and 31.999.

LEGISLATIVE HISTORY

Chapter 903, Statutes of 2002 (SB 1983—Soto) would have included up to 0.2 years of unused sick leave in determining eligibility for career-based enhancements to DB Program allowances, such as a single year final compensation, the career factor and the longevity bonus. That provision was deleted from the bill prior to its enactment.

Chapter 1028, Statutes of 2000 (AB 821—PER&SS) bases final compensation on the highest average annual compensation earnable by a member during a consecutive 12-month employment period rather than highest three consecutive years for members with at least 25 years of credited service.

Chapter 1029, Statutes of 2000 (AB 1933—Strom-Martin) pays a longevity bonus of \$200 to \$400 per month for members who retire after 2000 and accrue at least 30 years of credited service by 2011.

Chapter 1006, Statutes of 1998 (AB 1102—Knox) among other things, extends eligibility to receive credit at retirement for unused sick leave to members of California State Teachers' Retirement System (CalSTRS) DB Program who became members on or after July 1, 1980, and who retire on or after January 1, 1998.

SB 1499 (Hughes, 1994) would have allowed employers to elect to provide service credit for unused sick leave at retirement for those employees who became CalSTRS members after July 1, 1980. This provision died in Assembly.

PROGRAM BACKGROUND

Current law grants members of the DB Program additional service credit for accumulated unused sick leave at retirement. CalSTRS receives certification from the member's last employer, and determines this service credit by dividing the number of accumulated unused sick leave days by the number of base days (contracted days) for full-time service. Members who retire with at least 30 years of service credit receive an additional 0.2 to their age factor, up to a maximum of 2.4 percent; members who retired on or after January 1, 2001, with 25 years of service credit have their highest one-year compensation used in their retirement calculation; and members who retire on or after January 1, 2001, and accumulate at least 30 years of credited service by January 1, 2011, receive a longevity bonus that is added to the lifetime monthly retirement allowance. The member will receive \$200 for 30 years; \$300 for 31 years; and \$400 for 32 or more years. Currently, service credit from unused sick leave,

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

retirement enhancements and nonqualified service credit cannot be used in determining eligibility for benefit enhancements.

FISCAL IMPACT

Benefit Program Cost – The total cost of permitting the use of unused sick leave to qualify for benefit enhancements would be approximately \$3 million to \$6 million, depending on what the member would have done under current law. CalSTRS assumes that most members would perform additional service to qualify for benefit enhancements and therefore, the cost of allowing the use of unused sick leave would be quite small—the foregone revenue from contributions that would have been paid for that additional service. If, for example, 90 percent of the members who retire performed additional service in order to qualify for the benefit enhancements, the System Actuary estimates that the present value cost of authorizing the use of up to 2/10 of one year of unused sick leave to qualify for enhanced benefits would be approximately \$5.8 million.

Administrative Costs/Savings – The one-time cost to modify the System’s database and various calculators is estimated to be \$124,000. Other implementation costs are minor and absorbable.

SUPPORT

California Federation of Teachers

California Teachers Association

California State Teachers’ Retirement System

California Language Teachers Association

Faculty Association of California Community Colleges

OPPOSITION

None

ARGUMENTS

Pro: SB 102 allows up to 2/10 of one year of service credit granted for unused sick leave to be used for the determination of granting credited service in specified instances, resulting in increased benefits for certain DB Program members.

Con: Provisions in the bill may change the current process for determining service credit under community property splits.

LEGISLATIVE STAFF CONTACT

Kelli Grisham

CalSTRS Legislative Affairs

916/229-4681