

BILL NUMBER: [SB 327](#) (Laird) as amended May 2, 2023

SUMMARY

SB 327, effective upon a date no later than January 1, 2026, determined by the Teachers' Retirement Board, reduces the timeframe members may backdate their service retirement or service retirement during evaluation of a disability application from as early as January 1, 2012, or January 1, 2014, respectively, to up to 270 calendar days prior to when CalSTRS receives their application.

BOARD POSITION

Sponsor. The board's policy is to support or sponsor legislation that reduces inequities or deficiencies in plan design.

REASON FOR THE BILL

This bill minimizes unintended consequences affecting tax liability and other income-based non-CalSTRS benefits for members who request significantly backdated service retirement benefits, avoids reputational risk associated with large pension payouts, and prevents potentially paying out more based on Defined Benefit Supplement (DBS) additional earnings credits (AECs) than the pension administration system otherwise would have.

SUMMARY OF AMENDMENTS

The May 2, 2023, amendments:

- Adjust the window members can backdate their service retirement or service retirement during evaluation of a disability application from 180 to 270 calendar days prior to when the application is received by the system.

ANALYSIS

Existing Law:

Existing law allows members applying for service retirement under the Defined Benefit Program to choose a retirement date no earlier than January 1, 2012. Members applying for service retirement during the evaluation of a disability application can select a service retirement date as early as January 1, 2014.

This Bill:

This bill, effective upon a date no later than January 1, 2026, determined by the board, reduces the window in which members may backdate their service retirement or service retirement during the evaluation of a disability application to up to 270 calendar days prior to when CalSTRS receives their retirement or disability application.

LEGISLATIVE HISTORY

AB 1379 (PE,R&SS, Chapter 558, Statutes of 2013), among other changes, allowed members applying for service retirement during the evaluation of a disability application to backdate the effective date of their service retirement to as early as January 1, 2014.

SB 349 (McLeod, Chapter 703, Statutes of 2011), among other changes, allowed members to backdate the effective date of their service retirement to as early as January 1, 2012.

PROGRAM BACKGROUND

Between January 1, 2017, and January 1, 2022, 89% of members who backdated their service retirement requested a benefit effective date within six months of when their application was received. Only 2% of backdating members during the same timeframe selected a benefit effective date more than two years from when their application was received, with the longest any benefit was backdated being about 5.45 years.

CalSTRS was established to provide California educators with a secure financial future during retirement and to incentivize staying in the teaching profession. The payout of large lump sums made possible through significantly backdated benefits could be seen as incongruous with this intended purpose, potentially exposing CalSTRS to public criticism from those with views opposing traditional defined benefit pension plans. In addition, some members taking advantage of the flexibility to backdate their service retirement several months or years have found that the resulting large lump-sum payments have created significant issues with tax liability, retroactive Social Security offsets and qualification for other income-based non-CalSTRS benefits, including Medicare.

Significant backdating also creates some unintended consequences for the payout of the DBS account. The pension administration system is programmed to award AECs to qualified active member accounts up until the date retroactive payments are made. AECs are not granted to members who are retired; however, members who backdate their benefit earlier than the last AEC issuance may retain the earnings credit they were not otherwise entitled to. This results in a greater benefit than for those members who begin payments immediately following their selected benefit effective date.

By virtue of when the amendments to Education Code section 24204 took effect, it is possible that a member could backdate their service retirement to sometime between January 1, 2012, and June 30, 2012. If all other eligibility requirements were met, that member could potentially participate in the Medicare Premium Payment Program, which is currently only available to members who retired before July 1, 2012. This scenario, which remains highly unlikely as no benefit effective dates have been backdated to that extent, would be eliminated by this bill.

OTHER STATES' INFORMATION

Current statute allowing CalSTRS members to backdate service retirement benefits more than one year is a significant outlier compared to other public retirement systems. For example:

- CalPERS – The effective date of retirement must be after the last day on payroll for all CalPERS-covered positions, and CalPERS must receive the application within nine months of the last day on payroll. If CalPERS does not receive the application within those nine months, the retirement date can be no earlier than the first of the month in which the application was received.
- Texas Teachers Retirement System – Retirement applications must be received by the last day of the second calendar month following the desired retirement effective date.
- Oregon Public Employees Retirement System – Retirement applications must be received prior to the chosen retirement effective date.
- New York State Teachers' Retirement System – The effective date of retirement can be as

early as the date the application is received, but no more than 90 days after the date of receipt.

- New York Public Employees' Retirement System – Retirement applications must be received 15 days prior to the effective date.
- Utah Retirement Systems – Retirement applications must be filed no more than 90 days before or after the effective date.

FISCAL IMPACT

Program Costs/Savings – May result in minor savings to the Teachers' Retirement Fund by preventing paying out large lump sums and more DBS AECs than the pension administration system otherwise would have.

Administrative Costs/Savings – Costs are estimated to be approximately \$150,000 for changes to the new pension administration system. Updating the existing pension administration system and online member interface would be an effort of two to five months for internal staff. Reductions in administrative workload and costs associated with unanticipated payments and large cash outflows are expected.

SUPPORT

CalSTRS (Sponsor)
California Teachers Association

OPPOSITION

None known.

ARGUMENTS

Pro: Minimizes unintended tax and other income-based non-CalSTRS benefit consequences.

Creates potential minor savings to the fund.

Con: May draw criticism for restricting members' existing flexibility and could invite disputes from members whose retirement planning included a significant backdate.

Creates workload and costs related to updating pension administration systems.

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