STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 821	**Assembly PER&SS Committee (As Amended 1/10/00)**
Position:	**Support, if amended**
Proponents:	**CTA, CFT, UTLA, & ACSA (Co-Sponsors)** **FACCC**
Opponents:	**None known**

SUMMARY

AB 821 changes the definition of "final compensation" from the highest average annual compensation earnable by a member during any period of 3 consecutive school years to any period of 12 consecutive months. This bill provides that the revised costs resulting from this change shall be paid by the Teachers' Retirement Fund.

HISTORY

SB 414 (Roberti) of 1993 (Vetoed) would have provided for employers to pay for one-year final compensation benefit, as required by the TRB. The Board adopted a support position.

Chapter 1184, Statutes of 1989 (AB 123-Elder) authorizes an allowance based on one year final compensation to teachers who spent 60% or more of the last ten years of their career as classroom teachers. The employer must pay the actuarial difference between the one-year final compensation and the three-year compensation and is subject to a collective bargaining agreement applied to all teachers in the district. The Board adopted an Oppose position because the bill created benefit inequities and would have created substantial increases in administrative costs.

AB 2882 (Elder) of 1988 (Vetoed) would have defined "final compensation" as the highest annual compensation earnable by a classroom teacher during any 12 consecutive months. The Board adopted an Oppose position because it would have provided a major unfunded benefit increase, raised program costs, and damaged the funding condition of CalSTRS.

SUMMARY OF LATEST AMENDMENTS

The January 10 amendments to this bill delete the provisions that would have similarly defined final compensation for classified school employees covered by CalPERS. These changes were included in Chapter 555, Statutes of 1999 (SB 400 – Ortiz).

CURRENT PRACTICE

Generally, final compensation is defined as the highest average annual compensation earnable by a member during any period of three consecutive years while an active member of the Defined Benefit Program. For members whose salary has been reduced because of a reduction of school funds, final compensation may be defined as the highest average annual compensation earnable during any three “non-consecutive” 12-month periods. Basing final compensation on one 12 month period, (known as one year final compensation), is available to members who retire, become disabled, or die after June 30, 1990, if: during the last ten years of employment with the same employer, the member provided 60 percent or more of their contract time in direct classroom instruction; the member is employed by an employer who has entered into a written agreement with an exclusive representative to make this provision applicable to all classroom teachers, as defined; and the written agreement includes a mechanism to pay the actuarial difference between the “one year final compensation” and the “three year final compensation”, plus CalSTRS’ administrative costs.

DISCUSSION

Changing the definition of final compensation from a three year average to one year for all CalSTRS members would create a basis of determining final compensation consistent with that used for state and school workers covered by CalPERS, as well as an equitable method for all CalSTRS members.

One-year final compensation could also create a greater need for monitoring the restructuring of contracts in the last year of compensation. In response to similar concerns, the Board would have supported the concept of one-year final compensation that was in the August 4, 1998 version of AB 1102, if it had been amended to prevent an extraordinary increase in reportable salary by limiting the amount of final compensation to the amount earnable in the prior year, increased by the percentage increase paid to the employer’s members in general. This limitation would not have applied if the retiring member had changed employers or received a promotion during the final compensation period.

FISCAL IMPACT

<u>Benefit Program</u> - The estimated additional cost over 30 years, in current dollars, to pay benefits based on one-year final compensation for all members would be about $5.088 billion based on the 1998 valuation. Financing this cost over 30 years would require an increase in annual contributions equal to 2.046% of payroll. Given current payroll levels, this would result in a required annual increase of $361 million, with that amount increasing each year as payrolls increase. AB 821 specifies these funds shall be paid from the Teachers’ Retirement Fund. These estimates will be updated in the 1999 valuation.

Administrative - CalSTRS anticipates that it could absorb any increased effort necessary to implement this proposal.

POSITION

The Board voted to support AB 821, if it was amended to: (1) limit the final compensation in a manner that did not include extraordinary increases in compensation, which would jeopardize the integrity of the Teachers' Retirement Fund; and (2) add a funding source to pay the cost of the benefit. Funding sources could be additional contributions to the system or part of a comprehensive program to use surplus assets of the Defined Benefit Program on a systematic basis.