STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 12X	**Runner**, Introduced 1/19/99 (Extraordinary Session)
Position:	**Support**
Proponents:	**No official positions**
Opponents:	**None known**

SUMMARY

AB 12X creates the "Rule of 85", which permits a member of the California State Teachers' Retirement System (CalSTRS) to retire for service on or after July 1, 2000 at age 55 years or any older age without any age-related allowance reduction, if the sum of the member's age and credited service is at least 85. The option would be available to a member only if the member's employer, by formal action, made specified determinations and paid both the actuarial difference between the allowances payable under this bill and the allowances payable under current law, and CalSTRS' related administrative costs.

HISTORY

This bill is identical to SB 39 (Baca) as it was introduced in the current regular session. The Board adopted a Support position on that bill.

In addition, similar legislation has been introduced six times in the last decade. AB 3271 (Filante) of 1988, AB 122 (Filante) of 1989, AB 276 (Filante) of 1991, and AB 49 (Horcher) of 1993 were all vetoed. AB 1463 (Horcher) of 1995 failed passage in committee. The most recent attempt, AB 88 (Baca) of 1998 passed the Legislature. However, the Governor again vetoed the bill.

CURRENT PRACTICE

The normal retirement age under CalSTRS' Defined Benefit Program is age 60. Current law allows a member with a minimum of five years of credited service to retire at age 55 with a reduction in the member's retirement allowance. If a member retires earlier than age 60, the retirement allowance is reduced by one-half of one percent for each month the member is under age 60. A member can retire as early as age 50 with 30 years of credited service. If a member retires earlier than age 55, the allowance is further reduced by one-quarter of one percent for each month the member is under age 55. At age 60, the member receives an allowance equal to 2 percent of final compensation per year of credited service. For service retirements that are effective on or after January 1, 1999, the "age factor" increases .033 percent per additional quarter of age over 60 from 2.0 percent at age 60 to 2.4 percent at age 63, resulting in the following age factors:

- Age 61 ……………. 2.133 percent
- Age 62 ……………. 2.267 percent
- Age 63 ……………. 2.400 percent

An additional allowance of two-tenth of 1 percent of final compensation for each year of credited service, up to a maximum age factor and career bonus of 2.4 percent, is also payable to members who have earned 30 years of credited service and who retire on or after January 1, 1999.

DISCUSSION

AB12X adds an additional early retirement incentive for members retiring at or over age 55, with no reduction in the age 60 age factor. In order to offer this early retirement incentive, the member must meet the following conditions:

- The member must be at least 55 years old, although the governing board of the employing district could set a higher minimum age
- The sum of the member’s age and years of service must equal or exceed 85
- The member must retire within 60 days and 120 days of the governing board’s formal action

In addition to these conditions, AB12X requires the school board, county superintendent of schools, or community college district (employer) to:

- Transmit to CalSTRS the actuarial equivalent of the difference in allowances, including the actuarial equivalent of the difference in payments from the Supplemental Benefit Maintenance Account, as determined by the CalSTRS Board
- Pay CalSTRS’ administrative costs
- Consider the number of teachers available to fill positions being vacated by teachers retiring under this bill
- Certify that the net effect of the formal action results in no costs to CalSTRS, the district, the county superintendent of schools, or the General Fund
- Demonstrate projected savings or the retention of certificated employees in teacher shortage areas, subject to review by Superintendent of Public Instruction

The member would receive a retirement allowance equal to 2 percent of final compensation per year of service, regardless of the member’s age at retirement. In addition, if the member had at least 30 years of credited service, the retirement allowance received by the member under this bill would reflect the .2 percent career bonus.

Unlike in previous years when similar legislation was considered, the age factor provided under this bill would not be the maximum age factor payable to a member. Members who retire after age 60 could, under current law, earn a retirement benefit that is higher than the allowance payable under this bill, because the maximum age factor is now 2.4 percent, rather than 2 percent. Consequently, the impact of this bill on future retirement behavior could be lower than would have occurred in prior years.

The bill requires some technical amendments to remove references to Education Code Section 24414, which was repealed in 1998.

FISCAL IMPACT

Benefit program – Because AB12X requires employers to reimburse CalSTRS for any cost incurred, this bill would not result in any increased net program costs to CalSTRS. The cost of the bill to employers would depend on the age, service credit and final compensation of participating employees. For example, an early retirement under this bill by a 56 year old teacher with 29 years of credited service, and with an average final compensation of $4,300 per month, would cost the employer $106,000. As of June 30, 1998, there were approximately 15,347 members between the ages of 55 and 59 who met the age and service criteria specified in this bill. If all employers elected to offer this benefit and all of the currently eligible members decided to take advantage of this benefit, the estimated cost to employers statewide would be $700 million. With all of the conditions required of the employer to offer this option, however, even a 10 percent participation rate should be considered unlikely. Regardless of the cost to employers to offer this benefit, the legislation requires, as a condition to offering the benefit, that the employer certify that projected savings offset this cost, unless the benefit would result in a retention of teachers in teacher shortage disciplines.

Administrative – The bill requires that employers offering this alternative reimburse CalSTRS for any administrative costs the System may incur. Because the cost to employers for this early retirement incentive could be substantially higher than the cost of other early retirement programs that were offered in the past, it isn't clear what the level of employer participation would be. Consequently, any initial CalSTRS implementation costs would be kept to a minimum in order to ensure that CalSTRS is reimbursed for all of its costs, as required by the bill.

POSITION

The Board adopted a Support position on AB 12X because it provides an enhanced retirement benefit to CalSTRS members that is appropriately funded. The bill also gives school districts an additional tool to manage their work force.