

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

<u>Assembly Bill 820</u>	Assembly PER&SS (As Introduced 2/24/99)
<u>Position:</u>	Support, if amended (Staff Recommendation)
<u>Proponents:</u>	CRTA, CTA (co-sponsors)
<u>Opponents:</u>	None known

SUMMARY

AB 820 authorizes a member of the California State Teachers' Retirement System (CalSTRS) to redeposit a portion of refunded contributions. In addition, the bill authorizes the Teachers' Retirement Board to waive specified option provisions if it determines that the waiver would affect fewer than 100 individuals and would not have a material affect on the Teachers' Retirement Fund (TRF). Finally, AB 820 provides for the payment of supplemental benefits (SBMA) on a monthly basis, effective August 1, 2000, unless the member elects otherwise. The bill deletes a provision relating to the use of revenues from the School Lands Fund.

HISTORY

Redeposits

Chapter 569, Statutes of 1997 (SB 1027--Schiff) authorized CalSTRS members to redeposit contributions withdrawn by a nonmember spouse.

Chapter 1076, Statutes of 1998 (SB 2126--Schiff) allowed members 120 months to redeposit withdrawn contributions.

CURRENT PRACTICE

Partial Redeposit of Previously Refunded Contributions

Under existing law, if a member terminates CalSTRS service, elects a refund of accumulated retirement contributions and then again becomes a member, the person may elect to redeposit those contributions with regular interest from the date of refund to the date of payment. Existing law also provides that a member may elect an option for a modified retirement allowance and generally provides for purchasing power protection

payments from the Supplemental Benefits Maintenance Account (SBMA), on a quarterly basis.

Current law requires that if a member chose to redeposit his or her contributions, that the entire amount previously withdrawn be redeposited. If the member fails to redeposit the full amount previously withdrawn, CalSTRS refunds the partial amount redeposited. Under federal law, members who elect to pay for a redeposit using a payroll deduction on a pre-tax basis must pay the full amount of the previous withdrawal, unless employment is terminated. If the member terminates employment while paying for a redeposit using a pre-tax payroll deduction, the member is permitted to continue making payments using post-tax dollars, or make arrangements with the new employer and continue the redeposit using pre-tax dollars.

Options

Current law provides that a member may elect one of six options at retirement to provide survivor benefits to his or her designated beneficiary(s). A member may also make a pre-retirement election of an option, if he or she is eligible to retire. If a member is married, his or her spouse must sign the option election form. Once signed by all required parties the election of an option is effective on the date signed only if it is received by CalSTRS within 30 days from the date signed. The pre-retirement election can be changed by the member before retirement, but the retirement allowance is reduced to reflect the coverage of the prior beneficiary. Once retired, a member can change an option election only if the beneficiary divorces the member or, in some cases, predeceases the member or if someone other than a spouse was named as beneficiary, the member wants to name the spouse the beneficiary. Changes in options and beneficiaries may be subject to waiting periods and reductions in allowances.

SBMA and COLA Payments

Under current law, CalSTRS provides quarterly supplemental payments from the SBMA to those members and beneficiaries receiving benefits whose purchasing power has dropped below 75% of the original allowance. The SBMA payments are effective September 1 and payable on October 1.

DISCUSSION

Partial Redeposit of Previously Refunded Contributions

Under AB 820, a member may elect to redeposit a portion of contributions that he or she previously received through a refund. The member would receive pro rata credit for those redeposited contributions, subject to board-imposed requirements.

The intent of AB 820 regarding the partial redeposits needs to be clarified. As written, these provisions of the bill may be interpreted to allow a member to elect to redeposit, for example, one year of service credit even though three years had previously been withdrawn. If this were the case, these provisions of the bill would not have a significant impact on the system's current processes for handling redeposits by members.

The bill's provisions may also be interpreted, however, to permit a member to, for example, request a billing for the purchase of five years of service credit previously terminated, and then cease making payments prior to purchasing all five years. If so, it is not clear if the system would be required under these circumstances to calculate the service credit the member had already purchased with the payments made and append that service to the member's balance. This would involve a calculation by staff at the time the member stops making payments to determine the amount of service credit purchased. Significant system modifications would be necessary to make the calculations under the latter scenario.

Options

The options provisions of AB 820 are intended to allow the Board to waive restrictions on the exercise of options. For example, under Section 24309 of the Education Code a member may cancel the pre-retirement election of an option. If he or she chooses to do so, the member's allowance is reduced by an amount determined by the Board to be the actuarial equivalent of the coverage the member received as a result of the preretirement election and that does not result in any adverse funding to the plan. AB 820 provides the Board with the discretion to waive any of the requirements contained in the provisions of the chapter of the Teachers' Retirement Law concerning options. For example, the board could permit a member to submit a pre-retirement election more than 30 days after the election form is signed. Also, the Board may determine that a member's allowance will not be reduced following his or her cancellation of an option, as would occur under current law.

The bill imposes a limitation on this authority which prohibits the Board from exercising this authority if more than 100 members would be affected. The Board may not be in a position, however, to know ahead of time how many members might be affected from waiving a particular provision.

SBMA and COLA Payments

Currently, an estimated 43,000 members receive quarterly SBMA payments. The State Controller's Office (SCO) issues an estimated 172,000 payments annually to these members and their beneficiaries. If the SBMA payments were issued monthly, as proposed by AB 820, the SCO would issue a total of 516,000 payments annually, an increase of 344,000 payments. Alternatively, both the monthly allowance and the monthly SBMA

payment could be consolidated into one warrant. A monthly benefit would require a change in the current method that the Survivor Benefits Division uses in prorating supplemental payments. It is anticipated that initially, CalSTRS would issue two separate warrants – one for the regular allowance and one for the monthly SBMA payment. Within about a year, however, those monthly payments could probably be consolidated into a single warrant.

Under the bill, a member may elect to continue to receive their supplemental payments quarterly. The election can be at a time determined by the Board and may be after the first supplemental payment is issued. The intent of the bill is to make the monthly payments the "default" method of payment. This section would require that the Board establish a process where all members receiving supplemental payments would be contacted and informed of their right to elect to receive their payments on a quarterly basis, instead of monthly. This may also include contacting beneficiaries receiving supplemental payments. While the bill does not restrict a member from changing their election each year, it does allow the Board to determine the time of the payment election by the member.

FISCAL IMPACT

Benefit Program - There would be a loss of interest to the SBMA if the supplemental payments are paid monthly instead of quarterly.

Administrative - Minor and absorbable one time costs for implementation of the bill's provisions. It is anticipated that CalSTRS will incur reproduction and duplication costs in updating publications, letters and informational material. In addition, there would be additional ongoing costs during the period of time that the monthly payments are issued by a separate warrant, from increased charges by the SCO to pay increased costs for postage, check stock, envelopes and personnel. After initial costs for programming, there would be net savings in the future when the monthly SBMA payment is consolidated with the allowance warrant.

RECOMMENDATION

Support, if amended to clarify the intent of the partial redeposit provisions and the authority of the board to waive provisions concerning options.