

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 29 **Assembly Member Rob Pacheco (As Amended 3-23-99)**

Position: **Support, if amended**

Proponents: **None known**

Opponents: **None known**

SUMMARY

AB 29 provides an exemption to the earnings limit for retired teachers returning to work to meet the objectives of the proposed Grade 10 Class Size Reduction Program established in the bill.

HISTORY

Chapter 1, Statutes of 1997 (AB 18--Mazzoni) retroactively made operative the provisions of Chapter 948, Statutes of 1996 (AB 1068--Mazzoni). These bills allowed an exemption to the earnings limit for members who retired on or before July 1, 1996 and were subsequently hired to alleviate the teacher shortage caused by the passage of the Class Size Reduction Program in grades K-3.

Chapter 965, Statutes of 1998 (AB 2765--Assembly PER&SS) extended exemption to members who retired on or before July 1, 1998. The existing earnings limit exemption expires July 1, 2002.

Chapter 334, Statutes of 1998 (SB 12—O'Connell) expanded the Class Size Reduction Program to include two classes within Grade 9.

AB 81 (Cunneen) would grant the exemption to high school math and science teachers. The Teacher's Retirement Board adopted a Support position on AB 81 at the February 4, 1999 Board meeting.

AB 335 (Mazzoni) would expand the earnings limit to cover retired teachers hired as a result of the recent Grade 9 expansion, and any future expansion of the Class Size Reduction Program. The TRB voted to sponsor AB 335 at the April Board meeting.

CURRENT PRACTICE

Members retired for service may earn compensation up to \$18,750 in 1998-99 for creditable service during the school year, without a reduction in the retirement allowance. The limit is indexed annually to increases in the All-Urban California Consumer Price Index. The current limit will increase to \$19,050, effective July 1, 1999. Any creditable earnings in excess of this amount result in a dollar-for-dollar reduction in the retirement allowance up to the annual allowance. The member is eligible for an exemption from this limit if the member retired for service prior to July 1, 1998 and is employed by a school district under the following conditions:

1. The member provides classroom instruction to students in newly created K-3 classrooms, or is temporarily filling a position in grades 4-12 vacated due to a teacher who transferred to a K-3 classroom in the same district because of the Class Size Reduction Program.
2. The member is treated as part of a distinct class of temporary employees within the existing bargaining unit.
3. The employing school district submits documents required by the California State Teachers' Retirement System (CalSTRS) to substantiate the eligibility of the member for the exemption.

DISCUSSION

Last year, the Legislature expanded the Class Size Reduction Program to include two classes within Grade 9. Existing law does not extend the exemption to include retired teachers hired to teach in classrooms created in the new Grade 9 program. In response to the difficulty in the past of keeping the earnings limit exemption provision consistent with the class size reduction provisions, CalSTRS is sponsoring legislation that extends the exemption to any authorized class size reduction program. AB 29 would expand the class size reduction program to two classes in Grade 10 and extend the earnings limit exemption to retired members who are hired as a result of this expansion of the class size reduction. Many school districts look to recently retired teachers to fill vacancies created when they implement class size reduction. An expansion of the class size reduction exacerbates the existing shortage of teachers. AB 29 conflicts with provisions contained in AB 335 and the CalSTRS technical housekeeping bill, SB 1074, that exempt retired teachers in any expansion of the class size reduction program from the earnings limitation. With those bills in place, the need for specific exemptions for each category of class size reduction would be eliminated. In order to prevent the provisions of this bill

from inadvertently negating the CalSTRS proposal, the provisions of this bill amending Education Code 24216.5 should take effect only if the provisions in the other bills are not enacted. In addition, AB 29 should also include Grade 9 in the proposed exemption to reflect the currently authorized program.

FISCAL IMPACT

Benefit program – Extending the earnings limitation as proposed should have no material effect on the amount spent by CalSTRS on benefits. Although members who would receive creditable earnings in excess of the limit would receive more in benefits under this bill than they would receive under current law, this assumes the member would continue to work once he or she reached the earnings limit in the absence of the proposed exemption. Because the current law reduces a member's retirement allowance by the entire amount that creditable earnings exceed the earnings limitation, very few members receive creditable earnings in excess of the limit. In fact, the number of retired members who exceeded the limit in 1997-98 without an earnings limit exemption was about one-half of one percent of the retired membership. The exemption proposed in this bill will expand existing exemptions for the Class Size Reduction Program. During the 1997-98 school year, a total of 448 retired teachers qualified for an earnings limit exemption under the class size reduction program. Of those, 365 exceeded the limit and therefore benefited from the exemption. Estimates indicate that the newly authorized Grade 9 Class Size Reduction Program will require an additional 650 teachers. Because the Grade 9 program is similar to the proposed Grade 10 program, presumably the number of additional teachers required to teach in the new Grade 10 classrooms would be similar. Based on the experience with the K-3 Program, few of these teachers would be retired. Consequently, the number of teachers who would receive a benefit under this bill who would not receive that benefit under current law should be very small.

Administrative – CalSTRS would incur minor absorbable costs to administer the expanded benefits.

POSITION

Support, if amended. The bill adds a minor extension of the existing exemption that prudently expands the benefits paid to members, and would not materially affect the benefit costs of the retirement fund. Nonetheless, CalSTRS is sponsoring legislation that will grant the earnings limit exemption for any position filled as a result of an expansion of the class size reduction program now and in the future. This is a much more efficient manner than the incremental approach taken in AB 29. In order to avoid the provisions of this bill from rejecting the more general provisions proposed elsewhere, this bill should be amended to take effect only if the other bills are not enacted. In addition, the bill should include Grade 9 in the exemption to include the currently authorized class size reduction program.