

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 833

Senator Ortiz (As Amended 4/5/99)

Proponents:

ACSA, ART, CTA, CFT, CRTA, FACCC, F.A.I.R

Opponents:

None known

SUMMARY

SB 833 provides to CalSTRS members who retired in 1998 or received their first check in 1998 the benefit enhancements currently available to members who retired after 1999. It also increases the benefits of those members who are (1) currently retired but return to service, and (2) whose total credited service equals or exceeds 30 years, to reflect the "career bonus" in their entire allowance.

HISTORY

Chapter 966, Statutes of 1998 (AB 1150--Prenter) increased the maximum benefit factor of 2% at age 60 to 2.4% at age 63 for members who retire on or after January 1, 1999.

Chapter 1006, Statutes of 1998 (AB 1102--Knox) extended eligibility to receive credit at retirement for unused sick leave to those who became members on and after July 1, 1980, and who retire on or after January 1, 1999; and provides a career bonus of .2% of final compensation per year of credited service, up to a combined age factor and career bonus of 2.4%, for members with 30 or more years of credited service who retire on or after January 1, 1999.

CURRENT PRACTICE

The CalSTRS retirement allowance is based on years of credited service, age at retirement, and final compensation. A member retiring at the age of 60 receives an allowance equal to 2% of final compensation for each year of credited service. This percentage is reduced if the member retires before age 60. The percentage for a member retiring on or after January 1, 1999 increases after age 60 up to a maximum of 2.4% at age 63.

An additional allowance of two-tenths 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. This additional .2% is generally referred to as the "career bonus".

The Teachers' Retirement Law (TRL) prescribes the method of determining the retirement benefits of members who reinstate and are eligible to receive multiple service allowances.

A member who has terminated a service retirement allowance may, at least one year after the termination of the initial allowance, subsequently retire a second time. Upon the subsequent retirement, the member would receive the sum of 1) the allowance the member was receiving at the time of the initial termination and 2) an allowance calculated using age and final compensation factors prescribed in current law, for the credited service performed subsequent to termination of the original retirement.

DISCUSSION

The benefit enhancements enacted in 1998 were effective only to CalSTRS members who retired on or after January 1, 1999, the effective date of the legislation. Following the enactment of these bills into law, many CalSTRS members who retired in 1998 objected to the benefits applying only to future retired members. This group of retirees claimed that they were not apprised of the pending legislation and that they would have delayed their retirement if they had been aware of it in order to receive higher retirement allowances. These members perceive an inequity was created by excluding recently retired members. This bill provides the new benefits to any CalSTRS member who retired for service in 1998 or received their first allowance check in 1998. This would affect about 5,933 of the 7,824 members who retired during that time period (the balance of the members were not old enough or did not have sufficient service credit to be affected by the enhancements).

In addition, under current law, a member who has terminated a service or retirement allowance may, at least one year after the termination of the initial allowance, subsequently retire a second time. Upon the subsequent retirement, the member would receive the sum of (1) the allowance the member was receiving at the time of the initial termination and (2) the allowance calculated on the age of the subsequent retirement, the amount of service credited after the termination of the benefit and the final compensation applicable to the subsequent service.

Under the bill, a member who terminated a service retirement allowance after 1998, provided at least one year of creditable service and whose total career equaled at least 30 years of credited service would, upon the subsequent retirement, receive a similar multiple retirement allowance as under current law. The only difference is that, under the proposal, the age factor on that original allowance would be increased by .2 percentage points, in recognition of the career bonus for accruing 30 or more years of service.

FISCAL IMPACT

Benefit Program

1998 Retirees Current estimates by the actuary indicate that the total cost of extending the enhanced benefits to members who retired in 1998 or first received a check in 1998 would be \$305 million over 30 years, in current dollars. Financing these costs over 30 years would require increased contributions equal to 0.090% of payroll. This is equivalent to \$15 million in 1999-2000, with increasing contributions in future years as payrolls increase. The bill does not provide for an increase in contributions to fund these costs.

Pre-1998 Retirees Current estimates by the actuary indicate that the total cost of providing the career bonus to members who retired before 1998, reinstate and work sufficient years to accrue a total of 30 or more years of service, would be \$64 million over 30 years in current dollars, if 1,000 members reinstate under the bill (historically, only 50 members reinstate annually). Financing these costs over 30 years would require increased contributions equal to .019% of payroll. This is equivalent to \$3 million in 1999-2000, with increasing contributions in future years as payrolls increase. The bill does not provide for an increase in contributions to fund these costs.

Administrative – No additional costs.