STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

<u>Assembly Bill 821</u>	**Assembly PER&SS Committee (As Amended 4/13/99)**
<u>Proponents</u>:	**CTA, CFT, & UTLA (Co-Sponsors)** **FACCC**
<u>Opponents</u>:	**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 three consecutive school years to any period of 12 consecutive months. The bill makes a similar change in the definition of final compensation for classified school employees, who are covered under CalPERS. The latter provision does not affect CalSTRS, and is not addressed in this analysis.

HISTORY

<u>Chapter 1006, Statutes of 1998 (AB 1102-Knox)</u> would have authorized one-year final compensation. That provision was removed from the bill while it was in Senate Appropriations.

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

<u>Chapter 1184, Statutes of 1989 (AB 123-Elder)</u> 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 create substantial increases in administrative costs.

<u>AB 2882 (Elder) of 1988 (Vetoed)</u> 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 April 13 amendments specify that the cost of the benefit enhancement is to be paid from the Teachers' Retirement Fund (TRF). In the absence of a specific alternative funding source, however, the TRF would have funded the cost of the benefit even without this new provision.

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 and, during the last ten years of employment with the same employer, provided 60 percent or more of their contract time in direct classroom instruction. The member must be 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. The written agreement must include 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 workers covered by CalPERS, as well as an equitable method for all CalSTRS members.

Changing to one-year final compensation could create a greater need for monitoring the restructuring of contracts in the last year of compensation. In response to similar concerns, the Board supported the concept of one-year final compensation that was in the August 4, 1998 version of AB 1102, if it was 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

Benefit Program - 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 $ 5.114 billion. Financing this cost over 30 years would require an increase in annual contributions equal to 1.094% of payroll. Given current payroll levels, this would result in a required annual increase of $336 million, with that amount increasing each year as payrolls increase. AB 821 specifies these funds are to be paid from the Teachers' Retirement Fund.

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