

CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 2839 **Assembly Member Firebaugh (As amended 4/25/00)**

Position: **Support, if amended (Staff recommendation)**

Proponents: **CFT**

Opponents: **None known**

SUMMARY

AB 2839 permits a member of California State Teachers' Retirement System (CalSTRS) to retire on or after January 1, 2001 based on a formula of 2 percent at age 55.

HISTORY

Chapter 1006, Statutes of 1998 (AB 1102)—Knox provided a career bonus of 0.2 percent of final compensation per year of credited service up to a combined age factor and career bonus of 2.4 percent for members with 30 or more years of credited service who retire on or after January 1, 1999.

Chapter 966, Statutes of 1998 (AB 1150)—Prenter increased the percentage retirement allowance from 2 percent at age 60 to a maximum of 2.4 percent at age 63 for members who retire on or after January 1, 1999.

AB 2201 (Honda) provides a 2 percent at age 55 retirement allowance for CalSTRS members.

SUMMARY OF LATEST AMENDMENTS

The April 25th amendments added Assembly Member Honda as a co-author.

CURRENT PRACTICE

The service retirement allowances of members and specified nonmember spouses are calculated based on years of credited service, final compensation and an age factor equal to 2 percent at age 60. The age factor is reduced for a member who retires prior to age 60, and increased for a member who retires between age 60 and 63. Members are permitted to retire between the ages of 50 and 55 if they have at least 30 years of credited service. A career bonus is provided to a member who retires with 30 or more years of service and an increased age factor is provided to a member who works after the age of 60,

effective January 1, 1999. The maximum a member can receive under both the career bonus and increased age factor is 2.4 percent at age 63.

DISCUSSION

Under AB 2839, the age factor portion of the retirement would be improved to 2 percent at age 55 for those members and nonmember spouses who retire on or after January 1, 2001. This percentage would increase for each quarter year of the member’s age, to a maximum retirement formula of 2.5 percent at age 63 or over. The current and resulting age factors would be as follows:

Age	Current law*	AB 2839	Proposed increase
50	1.100%	1.100%	0.000%
51	1.160%	1.280%	0.120%
52	1.220%	1.460%	0.240%
53	1.280%	1.640%	0.360%
54	1.340%	1.820%	0.480%
55	1.400%	2.000%	0.600%
56	1.520%	2.048%	0.544%
57	1.640%	2.126%	0.486%
58	1.760%	2.188%	0.428%
59	1.880%	2.250%	0.370%
60	2.000%	2.314%	0.314%
61	2.133%	2.376%	0.243%
62	2.267%	2.438%	0.171%
63	2.400%	2.500%	0.100%

*Before application of a career bonus if the member has at least 30 years of credited service

This bill would make the age factors consistent with those paid to school members of the California Public Employees Retirement System. The bill conflicts with other provisions of current law, not being amended, which specifies lower age factors for members retiring before age 55, and which currently limit such retirements to members with at least 30 years of service. The bill also appears to eliminate the career bonus, an increased age factor provided to members who retire with at least 30 years of credited service. It is not likely that that effect was intended.

FISCAL IMPACT

Benefit Program Costs – According to preliminary estimates by the actuary, providing a 2 percent at age 55 retirement benefit allowance results in the following actuarial impact, assuming the proposal was not intended to eliminate the impact of the career bonus:

	Present value cost (in millions)	Percent of pay to fund
Normal cost increase of future service		1.440%
Actuarial obligation for prior service	\$4,372	1.376%
Total costs during funding period	\$8,950	2.816%

These estimates do not reflect potential changes in the rate of retirement, which may or may not occur as a result of the changes in the bill. It also does not reflect any changes on either the rate or the eligibility for retiring before age 55.

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	2001-02	2002-03	2003-04
Total benefit payment increase	\$13.4	\$36.6	\$63.4
Annual increase in contributions needed to fund benefit	\$548	\$572	\$596

Administrative Costs – There would be a one-time cost of about \$25,000 for programming and a potential increase in workload if the number of service retirements increases in the first year the benefit is available. Depending on the extent of any increase in retirements, the increased cost to accommodate the increased workload could be up to \$92,000. After any initial increase in retirements, ongoing costs would be minor and absorbable.

RECOMMENDATION

Support, if amended to identify a funding source for the increased benefit.