

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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### **Assembly Bill 2118**

**Assembly Member Bock (As amended 5/1/00)**

### **Position:**

**Neutral (Staff recommendation)**

### **Proponents:**

**None known**

### **Opponents:**

**None known**

## **SUMMARY**

AB 2118 requires the California State Teachers' Retirement System (CalSTRS) and the California Public Employees Retirement System (CalPERS) to prepare and submit a report to the Legislature by July 1, 2001 on the effect of a merger of the two systems on services to members, investments and administration. The report would recommend whether a feasibility study and implementation plan for such a merger should be performed and estimate the costs of a complete study. If the systems recommend a complete study, the bill requires a feasibility study and implementation plan to be submitted to the Legislature within one year.

## **HISTORY**

No prior legislative history requiring a study of the merit of performing a complete feasibility study.

## **CURRENT PRACTICE**

CalSTRS and CalPERS are separate systems, governed and administered by separate governing boards. The Teachers' Retirement Board (Board) consists of 12 members. The CalPERS' Board of Administration has 13 members. The two systems have combined assets in excess of \$250 billion.

CalSTRS and CalPERS manage pension benefits for employees, retirees, and their families. CalPERS provides benefits for more than 776,000 active and inactive members, and approximately 332,000 retirees. CalPERS' membership is approximately evenly divided in thirds among current and former employees of the state, schools, and participating public agencies. CalPERS has five plans in the state category and 1,775 retirement plans in the public agency category. CalSTRS, with a total membership of 600,000, represents certificated school employees and a small group of state Department of Education employees. CalSTRS offers a Defined Benefit Program and a Cash Balance Benefit Program. CalPERS offers a number of supplemental savings programs, including a 457 Plan, while CalSTRS offers a 403(b).

## **DISCUSSION**

AB 2118 requires CalSTRS and CalPERS to prepare and submit an evaluation to the Legislature by July 1, 2001, which

- (1) evaluates the benefits or negative consequences of merging the systems
- (2) recommends whether a feasibility study and implementation plan for a merger is warranted
- (3) provides an estimate of the costs of the study.

If the systems recommend a feasibility study and implementation plan and, following review of the report by the Legislature, the bill requires a feasibility study and implementation plan to be submitted to the Legislature within one year after a 30 day review period.

According to the author, CalSTRS and CalPERS are administratively duplicative and a consolidation of the two systems would result in administrative savings. A preliminary assessment of a merger of the two systems raised a number of issues, including:

- Whether the current separate mechanisms to report compensation and contributions would be maintained
- The consequences of combining separate membership databases
- The impact of different methods of providing member services
- The impact of creating a single portfolio currently worth over \$250 billion

These issues, and others, would be addressed in the initial study to determine whether there would be a positive impact on the systems or the membership if the two systems were merged, or whether any technical or policy implications would preclude such a merger. If the initial assessment indicated that a merger might be beneficial, with no compelling obstacles, and full feasibility study and implementation plan would be developed.

## **FISCAL IMPACT**

Benefit Program Costs – Evaluating a merger of the two systems would not have an actuarial impact.

Administrative Costs – Indeterminable, likely significant, administrative costs in conducting the study required under the bill.

## **RECOMMENDATION**

Neutral. Although staff is not aware of any compelling arguments in favor of an administrative merger of CalSTRS and CalPERS, the bill would permit an exploration of the costs and benefits of combining the two systems.