CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 820 — **Assembly PER&SS Committee (As amended 6/13/00)**

Position: — **Support, if amended**

Proponents: — **CRTA, CTA (co-sponsors)**

Opponents: — **None known**

SUMMARY

AB 820 allows a member of the California State Teachers' Retirement System (CalSTRS) and a nonmember spouse of a member to redeposit a portion of previously refunded member-employee contributions. Second, it also clarifies that a member may purchase a portion of creditable service that was previously excluded from coverage by CalSTRS. Third, the bill permits a retired member who is receiving an unmodified allowance to name a spouse as an option beneficiary. Fourth, the bill permits a person to participate in the Cash Balance (CB) Benefit Program, even if the person also works for an employer that does not offer that program. Finally, it permits a person who performs trustee service for a school district or a community college district to elect to participate in the CB Benefit Program, if the district is a CB Benefit Program employer.

HISTORY

Partial Redeposits and Previously Excluded Service

Chapter 893, Statutes of 1993 (AB 1796—Napolitano) permits a member to purchase service that was previously excluded from CalSTRS membership.

Chapter 569, Statutes of 1997 (SB 1027—Schiff) authorized CalSTRS members to redeposit contributions withdrawn by a nonmember spouse.

Chapter 1076, Statutes of 1998 (SB 2126—Schiff) allowed members 10 years to redeposit withdrawn member contributions.

Naming an Option Beneficiary

Chapter 262, Statutes of 1998 (SB 1486—Rainey) addressed circumstances where an unmarried member selected a friend or relative as an option beneficiary, only to decide later on to name a spouse. Until the passage of SB 1486, when the original option beneficiary was neither deceased nor a spouse from whom the member was getting divorced, the member was unable to provide an option beneficiary allowance to the new spouse. SB 1486 provided the member with the ability to change the option beneficiary from a friend or relative to a spouse. SB 1486 did not, however, allow for a retired member who designated some one other than a spouse as an option beneficiary and would subsequently like to provide for a different option beneficiary other than a spouse. Nor did it apply if the member had not named an option beneficiary prior to retirement.

CB Benefit Program
Chapter 592, Statutes of 1995 (AB 1298—Ducheny) created the CB Benefit Program for various part-time employees performing less than 50 percent of the full-time equivalent for the position.

Chapter 608, Statutes of 1996 (AB 2673—Ducheny) placed the current restrictions on CB Benefit Program participants employed by multiple employers.

SB 318 (Burton, 1999) would have deleted provisions of the Teachers' Retirement Law (TRL) which prohibit a member of the Defined Benefit (DB) Program who is employed by more than one employer to elect to participate in the CB Benefit Program, unless all of the member's employers participate in that program.

Trustee Service
Chapter 1297, Statutes of 1993 (SB 53—Russell) excluded elected or appointed officers of specified local public agencies who served on public commissions, boards, councils, or similar administrative bodies from California Public Employees Retirement System (CalPERS) membership.

SUMMARY OF LATEST AMENDMENTS

The June 13th amendments

- Permit retired members receiving an unmodified allowance to make a postretirement election of an option naming a spouse as beneficiary
- Permit the redeposit of a portion of previously refunded contributions by a nonmember spouse with an account separate from a member
- Clarify that a member could purchase a portion of previously excluded service
- Repeal current restrictions on employees working for different employers from participating in the CB Benefit Program
- Permit a trustee to elect to participate in the CB Benefit Program by specified persons performing trustee service, as defined
- Delete provisions allowing the Teachers' Retirement Board (Board) to waive options provisions

CURRENT PRACTICE

Partial Redeposit of Previously Refunded Contributions by a Member or Nonmember Spouse and Previously Excluded Service
Under existing law, a member, and a nonmember spouse who was awarded a separate account following a dissolution, may elect to redeposit previously refunded retirement contributions, along with regular interest from the date of refund to the date of redeposit. If a member or nonmember spouse chooses to redeposit contributions, the entire amount previously withdrawn must be redeposited. CalSTRS processes approximately 6,000 requests for redeposits per year. If the

member or nonmember spouse fails to redeposit the full amount previously withdrawn, CalSTRS refunds the partial amount redeposited.

Under federal law, members who elect to pay for a redeposit using an irrevocable pre-tax payroll deduction must pay the full amount of the amount being redeposited, unless employment is terminated. If the member terminates employment while paying for a redeposit using a pre-tax payroll deduction, the member is permitted to continue making payments using post-tax dollars, or make arrangements with the new employer and continue the redeposit using pre-tax dollars.

Existing law also allows a member who was previously excluded from membership in the DB Program to elect to receive credit for that service. This service can include:

- service as a substitute
- service performed on a part-time basis
- adult education service
- service as a school nurse
- service performed in a position prior to the date the position was made subject to coverage under the DB Program and
- service subject to coverage under the DB Program performed while a member of another public retirement system

Under current practice, all of that previously excluded service must be purchased.

Naming an Option Beneficiary
A retired member who selected an option beneficiary prior to or at retirement may change that option beneficiary upon the death of the beneficiary or the divorce of a spouse who is the designated option beneficiary. In addition, a member who named an option beneficiary may change the beneficiary designation to name a spouse, effective six months after the redesignation. Under existing law, in contrast, a member who retired with an unmodified allowance, and therefore did not name an option beneficiary, cannot name a spouse as an option beneficiary after retirement.

CB Benefit Program
Currently, the CB Benefit Program provides a retirement program for persons who perform creditable service on a part-time basis. If an employer elects to provide the benefits of the program, and an eligible employee elects to participate, the employer and employee make contributions to the program, which are deposited in the Teachers' Retirement Fund (TRF).

Members of the DB Program may participate in the CB Benefit Program under one of two conditions. A member of the DB Program employed on a full-time basis may participate in the CB Benefit Program for overtime service performed for a different employer if that employer offers the CB Benefit Program and would otherwise contribute to Social Security or an alternative plan on behalf of the member for that service. A member of the DB Program employed less than 50 percent by an employer offering the CB Benefit Program may elect to participate in the CB Benefit Program as long as the member does not perform service for the same employer under the DB Program.

Members of the DB Program who are employed by more than one employer at less than 50 percent of full-time may not participate in the CB Benefit Program unless and until all employers by which the member is employed offer the CB Benefit Program. Any contribution made by any of the member's employers after a part-time employee performs work for an employer who is not offering the CB Benefit Program must be reported to the DB Program.

Trustee Service
Under existing law, a member of a governing body of an employer is not eligible for membership in the CB Benefit Program or any other retirement program administered by CalSTRS, by virtue of holding that position. Prior to 1994, members of governing bodies of local agencies, including school districts, could receive retirement benefits from CalPERS as a result of such service.

DISCUSSION

Partial Redeposit of Previously Refunded Contributions by a Member or Nonmember Spouse and Previously Excluded Service
Under AB 820, a member may elect to redeposit a portion of contributions previously refunded by the system and, subject to Board-imposed requirements, the member would receive pro rata service credit for those redeposited contributions. AB 820 also clarifies that a member who was previously excluded from membership in the DB Program may elect to receive credit for such previously excluded service.

Naming an Option Beneficiary
A retired member who selected an option beneficiary prior to or at retirement may change that option beneficiary upon the death of the beneficiary or the divorce of a spouse who is the designated option beneficiary. In contrast, however, a member who retired under an unmodified allowance, without naming an option beneficiary, cannot name a spouse as an option beneficiary after retirement. AB 820 would address the latter situation by providing a member who retired unmodified–without any beneficiary–with the ability to name a spouse as an option beneficiary. The designation of the option beneficiary would take effect six months after the designation is received by CalSTRS.

CB Benefit Program
Current law prohibits a member of the DB Program who works for more than one employer from participating in the CB Benefit Program unless all of his or her employers offer the CB Benefit Program. However, a person who works as a DB Program member for one employer on a full-time basis may earn creditable service under the CB Benefit Program for another employer if the CB Benefit Program is offered by the employer and service is for overtime which would otherwise be subject to Social Security or an alternative retirement plan. Similarly, if a CB Benefit Program participant goes to work for a second employer who offers Social Security or an alternative plan in addition to the DB Program, the participant loses eligibility for the CB Benefit Program participation with the first employer if he or she chooses to work under the DB Program with the second employer. But if the individual opted to participate in Social Security or the alternative

plan with the second employer, rather than the DB Program, their ability to participate in the CB Benefit Program with the first employer is not affected.

The prohibition on employees participating in the CB Benefit Program when they also work for an employer not offering the CB Benefit Program poses a particular administrative burden for both CalSTRS and the employer. The prohibition was added in response to County Office of Education concerns regarding a potential increase in reporting and administrative workload resulting from the implementation of the CB Benefit Program. Rather than reduce that workload, however, the prohibition increases that workload by requiring the employer to monitor whether the employer's CB Benefit Program participants work for other school districts or community college districts, and whether those other districts offer the CB Benefit Program.

In addition, requiring CB Benefit Program participants to belong to the DB Program if they also work for an employer who does not offer the CB Benefit Program means that the district participating in the CB Benefit Program is required to contribute more money for the employee's retirement than was anticipated at the time the employer elected to offer the CB Benefit Program. Neither the employee nor the employer is able to exercise an option they both wish to choose. As a result, CB Benefit Program employers and participants have requested this prohibition be eliminated.

The provisions of AB 820 which eliminate the CB Benefit Program provisions would provide DB Program members who are otherwise eligible to participate in the CB Benefit Program to do so with respect to employment with districts offering the CB Benefit Program, even if the member also works for employers not offering the CB Benefit Program. This eliminates the need for employers to monitor the retirement selections made by their part-time employees with other employers.

Trustee Service

Prior to 1993, elected or appointed officers of certain local public agencies who served on public commissions, boards, councils, or similar administrative bodies were eligible for CalPERS membership. In 1993, however, that eligibility was eliminated for future governing body members. One reason why such coverage was eliminated was that such members could accumulate service credit while paying very little in contributions for the governing body service. Later the member could secure other CalPERS-covered employment and receive a retirement benefit based on the higher compensation earned at that other employment, without paying sufficient contributions to CalPERS to fully fund that benefit.

Currently, such trustees may be contributing to Social Security or another retirement plan for such service. AB 820 would permit trustees of school districts and community college districts to elect to be covered in the CB Benefit Program for such service, if the district offers the CB Benefit Program to its employees. Because the benefit paid to CB Benefit Program participants is based on the amount accrued in contributions and earnings, rather than a formula based on age, service and final salary, as exists at CalPERS, the actuarial issues that arose under CalPERS' coverage of such service would not arise under this proposal.

FISCAL IMPACT

Benefit Program Costs –
Partial Redeposits and Previously Excluded Service
Permitting partial redeposits of service credit would have a minor net actuarial impact on the DB Program, depending upon the level of participation by CalSTRS' membership. Any impact would consist mainly of the increased liability for benefits associated with the repurchased service. This liability would be financed both by the contributions redeposited by the member and the employer contributions that remained in the TRF when the member made the initial withdrawal.

Naming an Option Beneficiary
The bill requires that the designation of the option beneficiary not result in an actuarial impact to the DB Program. Although, requiring a six-month period to elapse from the date of designation to the effectiveness of that designation should limit any adverse selection by members against the system, there still could be some selection against the system. This could be further mitigated if the provision only applied to members who have married after retirement and have been married at least a year before the designation.

CB Benefit Program
Any change in program liabilities from increased participation in the CB Benefit Program would be offset by increased contributions. Permitting employees to participate in the CB Benefit Program, rather than requiring membership in the DB Program, would reduce employer and employee contributions for those employers offering the program and those employees electing to participate in the program.

Trustee Service
The bill could lead to an increase in CB Benefit Program membership, and a resulting increase in contributions, depending upon the number of eligible individuals who elect to join. Any change in program liabilities from increased participation in the CB Benefit Program would be offset by increased contributions.

Administrative Costs **–**
Partial Redeposits and Previously Excluded Service
CalSTRS anticipates an increased workload as more members request refund billings and set up accounts for the partial redeposits and purchases of excluded service, particularly in the first six months of the new law. A 50 percent increase in requests for redeposits could require one additional personnel year, at less than $50,000 per year. CalSTRS would incur one-time costs to modify system database and software.

Naming an Option Beneficiary
Any costs would depend on how many of the 78,000 current members who are receiving an unmodified allowance would elect to name a spouse as a beneficiary. Based on the experience to

date with a similar authorization for members who named an option beneficiary to name a spouse, such costs would likely be minor.

CB Benefit Program

The current prohibition on employees participating in the CB Benefit Program when they also work for an employer not offering the CB Benefit Program poses a particular administrative burden for both CalSTRS and the employer. The prohibition increases the workload by requiring the employer to monitor whether the employer's CB Benefit Program participants work for other school districts or community college districts, and whether those other districts offer the CB Benefit Program. The statutory elimination of this restriction would ease the administrative workload associated with the CB Benefit Program.

Trustee Service

Any costs associated with creating and maintaining additional, new accounts depends upon the number of eligible individuals who elect to participate in the CB Benefit Program. Such costs would likely be minor.

POSITION

Support, if amended to further protect the system against adverse selection in naming a spouse as a beneficiary. AB 820 will provide members with more flexibility in their benefit program, with little or no actuarial impact on the system.