

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 596 **Assembly Member Honda (As Amended 6/22/99)**

Position: **Neutral, if amended**

Proponents: **California State University, San Jose**

Opponents: **None known**

SUMMARY

AB 596 authorizes a California State Teachers' Retirement System (CalSTRS) member to purchase up to three years credit in CalSTRS for time served as a volunteer in the Peace Corps or VISTA. The bill disallows such a credit if the member received or is eligible to receive credit for that same time in the Cash Balance (CB) Benefit Program, or another retirement system. The purchased service would not count towards determining eligibility for the career bonus.

HISTORY

SB 1027 (Chapter 569, Statutes of 1997) authorizes CalSTRS members to purchase additional service credit for out-of-state public school employment, effective 1/1/99.

SB 2126 (Chapter 1076, Statutes of 1998) permits CalSTRS members with at least five years of credited service to purchase up to five years of nonqualified service credit.

SUMMARY OF LATEST AMENDMENTS

The June 22nd amendments:

- Disallow credit received under the bill to count for the career bonus

CURRENT PRACTICE

Current law provides for the purchase of various types of service credit by a member, including:

- Nonqualified service (or credit for service not related to any specific prior activity, also known as "airtime")
- Sabbatical leave
- Certain active military leave
- Prior service with California State University, a publicly supported and administered college or university, or a California Community College
- A certified position at a child care center
- Maternity/paternity leave

- Approved leave to participate in a specified federal educational and cultural leave program
- Family Care and Medical Leave Act
- Certificated position at Indian school in California
- Certificated position with Job Corps
- Teaching position at the School for the Blind or the School for the Deaf

The amount of service credit purchased in these categories is subject to limitations specified in law. All service credit is subject to payment of contributions prior to retirement by the member electing to purchase the additional service credit. In addition, eligibility for any of the categories is limited to persons who have not received or are eligible to receive credit for the time under the Cash Balance (CB) Benefit Program or another retirement system.

DISCUSSION

AB 596 allows a member to elect to receive credit and pay all costs for time served, not to exceed three years, as a volunteer in the Peace Corps or Vista.

With the exception of nonqualified service, the type of service authorized to be purchased by CalSTRS members for the Defined Benefit (DB) Program has some relationship to a teaching career. This relationship can be in terms of (1) providing teaching service elsewhere, (2) interrupting a teaching career to provide a specific service, such as military service, or (3) taking a leave for a specific purpose, such as sabbatical or maternity/paternity leave. In contrast, the service that could be purchased under AB 596 does not have to be related to providing any teaching service, nor is it necessarily provided during a break from teaching in the California public schools.

Current law provides that the percentage of final compensation used to calculate the allowance of a member retiring after January 1, 1999, who has 30 or more years of credited service will be increased by 2/10ths up to a maximum of 2.4%. This bill specifies that credit received under the bill will not count for the career bonus.

FISCAL IMPACT

Benefit Program – The provisions of AB 596 that allow a CalSTRS member to elect to purchase service credit are permissive in nature and, as a result, it is difficult to estimate participation. The estimated population of eligible CalSTRS members is 21,000. Under current law, the costs are to be paid by the employee purchasing service prior to retirement. Consequently, the increase in benefit payments would be offset by employee contributions to the Teachers' Retirement Fund (TRF), and generally would not result in a net cost to the Fund.

Administration – Absorbable one-time costs of \$20,000 and ongoing costs to implement this proposal.

POSITION – Neutral, if amended

The Teachers' Retirement Board adopted a Neutral position on AB 596 if the bill is amended to require that the Peace Corps or VISTA service be consistent with activities undertaken by public school teachers and provided during a break in service subject to coverage by the DB Program, and the member returns to creditable service. This is consistent with existing requirements imposed on CalSTRS members purchasing federal Job Corps service.