

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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### **Assembly Bill 2456**

**Assembly Member Wright (As amended 8/14/00)**

### **Position:**

**Support**

### **Proponents:**

**FACCC (Sponsor)**

### **Opponents:**

**None known**

## **SUMMARY**

AB 2456 allows members of the California State Teachers' Retirement System's (CalSTRS) Defined Benefit (DB) Program who retire on or after January 1, 2002 with at least 20 years of creditable service to elect to receive a lump-sum payment and a reduced monthly allowance. This provision would sunset on January 1, 2011.

## **HISTORY**

In May of 1998, the Teachers' Retirement Board (Board) considered a Deferred Retirement Option Program (DROP) proposal in relation to the package of legislation enhancing retirement benefits to encourage the recruitment and retention of qualified teachers in California. The CalSTRS benefits consultant and consulting actuary advised the Board that the benefits of a DROP would be similar to that of an increased age factor, if designed properly.

SB 1312 (Baca, 1999) establishes a DROP as a supplemental benefit program in the California Public Employees' Retirement System for members, as specified. That bill is still pending consideration by the Legislature.

## **SUMMARY OF AMENDMENTS**

The August 14, 2000 amendments deleted the original version of AB 2456, which provided for a "Forward" DROP as a supplemental benefit program in the DB Program, and provided that members of the DB Program could elect to receive a lump-sum payment and a reduced monthly allowance. This is often referred to as a "Back Drop."

## **CURRENT PRACTICE**

The DB Program pays a monthly benefit based on the level of credited service, the age of the member at retirement, and the creditable compensation earnable during the three highest consecutive years of service. Current law provides that the percentage of final compensation used in the calculation of a member's service retirement allowance, is increased by 0.2 percent for members retiring after January 1, 1999, who have earned 30 or more years of service credit. Current law also increases for each quarter year of age greater than age 60, up to a maximum of 2.4 percent at age 63.

## **DISCUSSION**

This bill permits a member of the DB Program who retires on or after January 1, 2002 at or after age 60 with at least 20 years of credited service the option of receiving a lump sum payment and an actuarially reduced monthly allowance. The lump-sum payment specified in AB 2456 would be a one-time payment that would equal or not exceed the lesser of the following amounts:

- The actuarial present value of the difference between the monthly service retirement allowance currently payable and an amount equal to 2 percent of the member's final compensation multiplied by the number of years of credited service and divided by 12.
- Fifteen percent of the actuarial present value of the monthly allowance payable.

If the member elects to receive the lump-sum payment described above, he or she would then receive a monthly allowance that would be actuarially reduced to reflect the lump-sum amount. This bill would remain in effect until January 1, 2011.

## **FISCAL IMPACT**

Benefit Program Costs – Because the bill requires that the monthly benefit be reduced to reflect the payment of the lump sum benefit, the bill would not have no actuarial impact.

Administrative Costs – It is estimated that ongoing administrative costs would not exceed \$100,000 annually.

## **POSITION**

Support.