

# STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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### **Senate Bill 1074**

**Senate PE&R Committee (As Amended 8/19/99)**

### **Position:**

**Sponsor**

### **Proponents:**

**None known**

### **Opponents:**

**None known**

### **SUMMARY**

SB 1074 is the annual CalSTRS technical housekeeping bill, which makes various technical and conforming changes to the Teachers' Retirement Law (TRL). Among the major specific changes are:

- Conforming to changes made last year in the name of the two CalSTRS retirement programs
- Codifying existing CalSTRS regulations
- Restructuring existing statutory language concerning concurrent membership in public retirement plans
- Codifying existing practice in reporting of contributions by individual districts
- Providing consistency in reporting deadlines with respect to the Cash Balance Benefit Program
- Allowing the maximum benefit factor to apply in the case of a nonmember ex-spouse with a separate account
- Clarifying the rights of a school employee to elect to be members of CalPERS or CalSTRS
- Clarifying provisions of existing law related to the Home Loan Program
- Clarifying that a repayment period under the Reduced Workload Program may be less than 10 years
- Modifying how the cost of out-of-state service is computed to conform to other permissive service credit
- Clarifying that compensation paid for experience-based certification is creditable
- Conforming the deadline for establishing the amount in Gain and Loss Reserve for CBBP to the adoption of the actuarial valuation of the program, and
- Removing references to repealed sections and correcting grammatical errors

## **HISTORY**

Chapter 1077, Statutes of 1998 (O'Connell—SB 610) extended reciprocal rights to persons who retire concurrently under CalSTRS and retirement systems established under the County Employees Retirement Law of 1937.

Chapter 1048, Statutes of 1998 (Burton—SB 2085) merged the Defined Benefit Plan and the Cash Balance Benefit Plan into two programs contained in the State Teachers' Retirement Plan.

## **SUMMARY OF LATEST AMENDMENTS**

The August 19<sup>th</sup> amendments make minor, technical adjustments to a number of provisions contained in the Teachers' Retirement Law. The most notable amendment changes a newly defined term being added to the Education Code from "reciprocity" to "concurrent membership" to eliminate confusion by some other public retirement systems on the rights of CalSTRS members who also are members of other public retirement systems. This amendment requires changing the code number of the section containing the defined term, (from Education Code 22161.2 (reciprocity) to Education Code 22115.2 (concurrent membership) and subsequent references in other code sections.

The amendments also clarify that compensation received as a result of receiving certain national certifications is creditable. Finally, the bill conforms the deadline for the Board to establish the Gain and Loss Reserve for the Cash Balance Benefit program to the completion of the actuarial valuation of the program.

*Note: italicized text denotes sections of the law affected by SB 1074. Italicized and underlined **bold** text indicates changes to SB 1074 by the 8/19/99 amendments.*

## **DISCUSSION**

### 1. Retirement Program Name Changes

Chapter 1048, Statutes of 1998 (SB 2085--Burton) merged the Defined Benefit Plan and the Cash Balance Plan as two programs (named the Defined Benefit Program and Cash Balance Benefit Program, respectively) within a single plan and trust. SB 1074 makes additional conforming changes in references to the programs and the plan names throughout the Teachers' Retirement Law (TRL).

*Sections of the Education Code affected: 22000, 22007, 22008, 22119.2, 22128, 22135, 22136, 22147, 22147.5, 22148, 22161.2, 22327, 22455.5, 22457, 22458, 22459, 22508.5, 22514, 22601.5, 22602, 22604, 22717, 22803, 22805, 22820, 22823, 23702, 23851, 24101.5, 24212, 24600, 26401.5, 44494. Government Code Section 20639 was also amended to conform to this change*

## 2. Codification of Existing Regulations

Currently, many of the legal provisions affecting CalSTRS are included in Title 5 of the California Code of Regulations. These regulations do not have the same visibility to interested parties that the TRL has, which can result in some people not being fully aware of the entire current law affecting CalSTRS. In addition, the process of amending regulations can be cumbersome and less visible than changes in statutory law. SB 1074 codifies the existing regulations affecting CalSTRS, consolidating the legal provisions to a single location, without making any substantive changes in the current language.

*Sections of Education code affected: 22106.1, 22106.2, 22109.5, 22156.1, 22156.2, 22156.5, 22163, 22170.5, 22718, 22724, 23805.5, 24205, 24211, 24212, 24213, 24300, 24615, 47611*

## 3. Concurrent Retirement Plan Membership

Existing law provides specific rights to CalSTRS members who also are members of one or more specific California public retirement systems, including how final compensation is computed when the member retires concurrently in another system, the right to redeposit accumulated retirement contributions, and the eligibility to retire. SB 1074 restructures the existing provisions contained in the TRL, with no substantive impact, to clarify specifically the benefits associated with concurrent membership in different public retirement systems. It also simplifies any future legislative efforts to extend reciprocity to other retirement systems.

*Sections of the Education Code affected: 22115.2, 22115.5, 22134, 22161.2, 23201, 24201*

## 4. Codification of Existing Reporting Practices

Current law requires the county superintendents to report contributions to the Board, but does not authorize a school district or community college district to report directly. In a few cases, generally due to practices in effect before the districts joined CalSTRS, some districts report directly. SB 1074 codifies this procedure and conforms the reporting requirements currently imposed on county offices and those districts reporting directly to the Board.

*Sections of Education Code affected: 23003, 23004, 23006*

#### 5. Cash Balance Benefit Program Reporting Requirements

Current law requires employers to report contributions to the Cash Balance Benefit Program along with other information required by the system within certain time periods. Employers are also required to transmit the contributions within certain time periods. Among other changes, SB 1074 adjusts the reporting deadline from 15 calendar days to 10 working days following the last day of the pay period in which the salary was earned. The period allowed for transmitting the funds is extended from five to ten days to conform the delinquent period to the reporting deadline, making them both ten days. This provides consistency requested by employers.

*Section of Education Code affected: 26301, **26303**, 26504, 26603, 26604*

#### 6. Technical modification to reflect changes in the benefit program

Chapter 966, Statutes of 1998 (AB 1150--Prenter) increased the maximum benefit factor of 2% at age 60 to 2.4% at age 63 for members who retire on or after January 1, 1999. Currently, nonmember ex-spouses get the benefit of the higher age factor if their benefit is calculated on the "time-rule" (in which the nonmember ex-spouse's benefit is calculated as a percentage of the member's benefit,) but not if the member's account was segregated at the time of the court decree. This bill uses this new factor when calculating the service retirement for nonmember ex-spouses who have a segregated account, thereby treating all nonmember ex-spouses equally.

Chapter 1006, Statutes of 1998 (AB 1102—Knox) provided an additional allowance of two-tenths of 1 percent of final compensation for each year of credited service to be used in calculating retirement allowance if the member had at least 30 years of credited service. This bill clarifies that the service credit segregated into a non-member ex-spouse's account will be used when determining eligibility for the career bonus. It also specifies that nonqualified service purchased after January 1, 2000 or for which the first installment was received after January 1, 2000 will not be included in calculating the career bonus.

*Sections of the Education Code affected: 22664, 24203.5, 24205*

#### 7. Clarification of STRS/PERS election

A member of the Defined Benefit Program of CalSTRS has the right to stay a member of the Defined Benefit Program if he or she becomes employed to perform service that would require coverage in CalPERS. Conversely, a classified school member of CalPERS who begins to perform creditable service requiring membership in the Defined Benefit Program of CalSTRS has the right to elect to remain a member of CalPERS. Although the election

has been administered on an irrevocable basis, the current language has caused confusion for some employers. This bill clarifies that the election is irrevocable.

*Sections of the Education Code affected: 22508*

8. Home Loan Program

Chapter 419, Statutes of 1998 (SB 1945 – Karnette) authorized a personal loan component of the Home Loan Program to allow CalSTRS members and participants to borrow against their accumulated contributions for use in the purchase of a home. The amendments codify existing practices in the administration of the CalSTRS Home Loan Program and the implementation of Chapter 419.

*Sections of the Education Code affected: 22360, 22360.5*

9. Reduced Workload Program

Currently, school districts, community college districts, and county superintendents of schools can establish regulations to govern a program that allows a member of the Defined Benefit Program of CalSTRS to reduce his/her workload and receive service credit that the member would have received had he or she been employed full-time. The current law restricts the length of the payments to a period not to exceed 10 years. A court decision held that the program had to be for a 10-year period. The bill modifies the language to clarify that the program can be less than 10 years.

*Section of the Education Code affected: 22713*

10. Out-of-State Service Credit

Chapter 569, Statutes of 1997 (SB 1027--Schiff) permits members to purchase up to 10 years of service credit for out-of-state service, effective in 1999. The basis for calculating the cost of this service credit differs from the method used to calculate the cost of other permissive service credit associated with other prior teaching-related service, which causes confusion to members. The current method also is substantially more complicated to administer, potentially readjusting multiple billing to its members. The bill conforms the costing methodology of out-of-state service credit to that used for other permissive service credit.

*Section of the Education Code affected: 22823*

11. Creditable Compensation

Currently, compensation paid for creditable service according to a salary schedule based on years of experience is creditable for purposes of determining retirement contributions and benefits. At least one national certification (National Board for Professional Teaching Standards) is granted to teachers who successfully complete a portfolio that documents their experience and an assessment of the teachers' knowledge, skills and ability. Among the requirements to be eligible for such certification is that the teacher have at least 3 years of teaching experience. At LAUSD, a teacher receiving such a certification receives additional compensation under the district salary schedule. The current law is not clear that the additional compensation is creditable, even though it is paid in accordance with a salary schedule and is based on years of teaching experience. The bill clarifies that treatment.

*Section of the Education Code affected: 22119.2*

#### 12. Gain and Loss Reserve

The Cash Balance Benefit Program has a Gain and Loss Reserve to provide additional funds to the investment earnings during plan year to pay the amount of interest guaranteed to be paid under the minimum interest rate established by the Board when that rate exceed. Under current law, that reserve is determined by December 31 following the plan year. The amount needed for the reserve, however, is determined during the annual actuarial valuation of the program. The bill conforms the deadline for establishing the amount in the reserve to the adoption of the valuation.

*Section of the Education Code affected: 26202*

#### 13. Conforming changes to previous law changes

In prior years, changes have been made to the TRL that were not fully reflected elsewhere in the law. SB 1074 removes references to repealed sections and clears up incorrect references to conform to previous changes in the TRL.

*Sections of the Education Code affected: 22104, 22106.1, 22119.2, 22135, 22138.5, 22161, 22163, 22306, 22400, 22502, 22503, 22504, 22516, 22714, 22805, 22955, 24300, 24305.5, 24306, 24307, 26135, 26215*

SB 1074 also contains language that prevents this bill from chaptering out any legislative changes made to code sections contained in this bill during the 1999 calendar year and taking effect on or before January 1, 2000.

### **FISCAL IMPACT**

Benefit program – Changing the methodology for determining the cost of out-of-state service will result in an immaterial net reduction in revenues to the Teachers' Retirement Fund, equal to no more than \$120,000 for every 20 purchases of out-of-state service. No other provisions would have any net fiscal impact from benefits paid to members.

Administrative – The bill can be implemented within existing resources and will not increase the ongoing workload within the system.

## **POSITION**

Sponsor – This bill will make technical amendments necessary for continued effective administration of the system.