

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 820

Assembly PER&SS Committee (As amended 8/21/00)

Position:

Support

Proponents:

CRTA, CTA (co-sponsors), CalSTRS

Opponents:

None

SUMMARY

AB 820:

- Allows a member of the California State Teachers' Retirement System (CalSTRS) and a nonmember spouse of a CalSTRS member to redeposit a portion of previously refunded member contributions.
- Provides for the purchase of a portion of creditable service by a member that was previously excluded from CalSTRS coverage.
- Permits a retired CalSTRS member receiving an unmodified allowance to name a spouse as an option beneficiary.
- 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.
- Permits a person who performs trustee service for a school district or community college district to elect to participate in the CB Benefit Program, if the district is a CB Benefit Program employer.
- Provides that a member's retirement allowance under the Defined Benefit Program will not be reduced or modified if the member is also receiving a retirement benefit under specified Defined Contribution Plans.

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Chapter 569, Statutes of 1997 (SB 1027—Schiff) authorized CalSTRS members to redeposit contributions withdrawn by a nonmember spouse.

Chapter 1076, Statutes of 1998 (SB 2126—Schiff) allowed members 10 years to redeposit withdrawn member contributions.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

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 marriage 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.

Service Credit

Under current law, there are restrictions to the accumulation of service credits under the DB Program. For example, if a DB member is entitled receive a retirement benefit under a system other than the DB Program, with certain exclusions such as military service, that service cannot be included or count towards the accrued service credits under the DB Program. In addition, if a member becomes eligible for a retirement benefit under another plan, such as the City and County of San Francisco, and that service was covered under the DB Program, the member's retirement allowance will be reduced to exclude the that service upon which the retirement benefit is based.

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 currently 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 with an unmodified allowance—without any beneficiary—with the ability to name a spouse as an option beneficiary, if the member was married to the spouse for at least a year at the time of the designation. 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 members who are eligible for the CB Benefit Program 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.

Service Credit

There are restrictions on a member's ability to receive a retirement allowance under the DB Program if the same service provides a retirement benefit under certain other retirement plans. This bill clarifies that a member's retirement allowance under the Defined Benefit Program will not be reduced or modified because the member is also receiving a retirement benefit under defined contribution plans, such as those administered under Section 403(b) or Section 457 of the Internal Revenue Code. This reflects existing practice, and is being enacted at the request of school districts who requested such clarification.

FISCAL IMPACT

Partial Redeposits and Previously Excluded Service

Permitting partial redeposits of service credit would have no 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. Requiring (1) the member to be married for at least a year and (2) a six-month period to elapse from the date of designation to the effectiveness of that designation would mitigate any adverse selection by members against the system, resulting in no actuarial impact on the system.

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.