

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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### **Assembly Bill 429**

**Assembly Member Correa (As amended 8/25/00)**

### **Proponents:**

**ACSA, CalSTRS, CRTA, SSDA**

### **Opponents:**

**None**

### **SUMMARY**

The bill provides an ad hoc increase, of one to six percent, to the annual allowance for current benefit recipients in the California State Teachers' Retirement System (CalSTRS) Defined Benefit (DB) Program.

### **HISTORY**

Chapter 1286, Statutes of 1980 (AB 1557—Sieroty) and Chapter 1089, Statutes of 1981 (SB 744—Sieroty) established minimum ad hoc allowance increases for CalSTRS members.

Chapter 632, Statutes of 1999 (SB 713—Burton) provided a minimum guaranteed allowance payable to specified retired CalSTRS members, their option beneficiaries, and surviving spouses, in varied amounts according to the member's years of credited service. The annual minimum allowance ranged from \$15,000 to \$20,000, depending on the years of credited service, 20 – 30 years.

SB 1505 (Burton) extends the minimum guaranteed allowance provided in Chapter 636 to members who among others, were inactive or under age 55 at retirement.

### **CURRENT PRACTICE**

Currently, members receive a monthly allowance equal to two percent of final compensation per year of service for members who retire at age 60. If the retirement is effective at less than age 60 years, this allowance is reduced by one-half of one percent for each full month or fraction of a month that will elapse until the member would have reached age 60 year. Benefits may continue to a beneficiary upon the death of the member, depending on the option selected by the member. In addition, other benefits are payable to members who are disabled.

**DISCUSSION**

AB 429 provides a permanent one-time increase to the monthly allowance paid to currently retired or disabled members and beneficiaries, excluding the minimum allowance paid under SB 713, by the percentage opposite the year of retirement or death according to the following schedule:

<b>Period during which retirement or death occurred</b>	<b>Percentage</b>
1998-2000	0%
1997	1%
1995-1996	2%
1990-1994	3%
1985-1989	4%
1975-1984	5%
1974 or earlier	6%

This ad hoc increase would be subject to the two percent cost-of-living adjustment paid annually. The ad hoc would be based on the allowance payable to the member or beneficiary on January 1, 2001. The increase would be effective on January 1, 2001 and paid on or before July 1, 2001 and would be paid in addition to any increase in allowance paid to the member or beneficiary from the SBMA.

This ad hoc increase is consistent with the increase provided to retired California Public Employees Retirement System (CalPERS) members and beneficiaries in SB 400 of last year.

**FISCAL IMPACT**

Benefit Program Costs – According to the actuary, the proposed ad hoc benefit would result in the following actuarial impact:

	<b>Present value cost (in millions)</b>	<b>Percent of pay to fund</b>
Normal cost increase of future service		
Actuarial obligation for prior service	\$889	0.444%
Total costs during funding period	\$889	0.444%

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This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
Total benefit payment increase	\$104.0	\$99.5	\$95.1
Annual increase in contributions needed to fund benefit	\$90	\$94	\$98

Administrative Costs – One time costs of up to \$100,000 for computer system modifications, to modify attributes and possibly to develop a separate item on the warrant stubs. Other minor and absorbable administrative costs associated with issuing the ad hoc payments to eligible retirees would be incurred.