CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 1733 **Assembly Member Wildman (As amended 8/31/00)**

Position: **Support**

Proponents: **CTA (Sponsor)**

Opponents: **Unknown**

SUMMARY

AB 1733 increases the earnings limit for members of the California State Teachers' Retirement System (CalSTRS) from the current $19,650 to $22,000, to be adjusted annually by the annual amount of increase in the All Urban California Consumer Price Index using December 1999 as the base. In addition, this bill provides that members who have performed no creditable service for 12 consecutive months after retirement are exempted from the earnings limit until January 1, 2008.

HISTORY

Chapter 1, Statutes of 1997 (AB 18—Mazzoni) retroactively made operative the provisions of Chapter 948, Statutes of 1996 (AB 1068-Mazzoni). These bills exempted the earnings limit members who retired on or before July 1, 1996 and were subsequently hired to alleviate the teacher shortage caused by the passage of the Class Size Reduction Program in Grades K-3.

Chapter 965, Statutes of 1998 (AB 2765—Assembly PER&SS) extended the exemption for class size reduction to members who retired on or before July 1, 1998 and extended the sunset to July 1, 2002. It also extended until July 1, 2003 (1) an exemption for members appointed as a trustee or administrator by the Superintendent of Public Instruction or assigned by the Superintendent or (2) employed to fill on an emergency basis an administrative position that was vacated due to circumstances beyond the control of the employer.

Chapter 40, Statutes of 1999 (AB 335—Mazzoni) extended the existing earnings limitation exemption for retired teachers who returned to the classroom as a result of the K-3 Class Size Reduction Program to include the recently authorized Grade 9 class size reduction program, and future expansions of the class size reduction programs authorized by Part 28 of the Education Code.

Chapter 22, Statutes of 2000 (AB 141— Knox) extends for an additional six months the current exemption from the earnings limitation for retired members who are employed on an emergency basis to fill an administrative position that is vacated due to circumstances beyond the control of the employer.

AB 81 (Cunneen) would have exempted from the earnings limit members who retired for service on or before July 1, 1998 if they were subsequently employed by a high school to teach math or science. AB 81 failed passage in the Assembly Revenue and Taxation Committee.

AB 1736 (Ducheny) exempts from the earnings limitation members who retired on or before July 1, 2000 and return to the classroom to provide direct remedial instruction to pupils in K-12, inclusive.

Chapter 70 Statutes of 2000 (SB 1666—Alarcon) suspends for five years the statutory earnings limitation for CalSTRS members who (1) retired on or before January 1, 2000 and (2) return to K-12 schools or County Offices of Education to provide direct classroom instruction or to provide support for various programs, such as student interns or the Beginning Teacher Support and Assessment Program.

CURRENT PRACTICE

Current law permits a member who retired for service to earn compensation of up to $19,650 for creditable service during the 2000-2001 school year, without a reduction in the retirement allowance. The limit is indexed annually to increases in the All-Urban California Consumer Price Index. Any creditable earnings in excess of this amount result in a dollar-for dollar reduction in the retirement allowance up to the annual allowance. There are exemptions from this limit, including:

- A retired member who retired for service and who is appointed as a trustee or administrator. This exemption sunsets on July 1, 2003.
- A retired member who is employed on an emergency basis to fill an administrative position. This exemption also sunsets on July 1, 2003.
- A retired member who retired for service on or before July 1, 1998, and is employed either to (1) provide direct classroom instruction to in any statutorily authorized class size reduction program; or (2) temporarily fill a position vacated by a teacher who transferred to a classroom in the same district because of the Class Size Reduction Program. This exemption, which sunsets on July 1, 2002, is subject to the following conditions:

    1. The member must be treated as part of a distinct class of temporary employees within the existing bargaining unit.
    2. The employing school district must submit documents to CalSTRS to substantiate the eligibility of the member for the exemption.

DISCUSSION

The requirements of the CalSTRS earnings limit are necessary, among other reasons, to ensure compliance with federal tax law, which prohibits tax-qualified plans, such as the CalSTRS Defined Benefit (DB) Program, from paying benefits to members who are working under the retirement system. Such payments are referred to as “in-service distributions.” If the DB

Program lost its tax qualified status, both CalSTRS and the CalSTRS members would be liable for income tax for the investment earnings of the program.

The current earnings limit of $19,650 represents approximately one-half of the average earnable salary in California for CalSTRS members, which, as of June 30, 1999 was approximately $45,000. An earnings limit of $22,000 for those members not eligible for the elimination of the earnings is about one-half of the current average salary for active members and, therefore, would not be considered an in-service distribution. It also would provide an appropriate degree of assurance that the member had in fact retired before returning to service. In addition, increasing the earnings limit to $22,000 will likely have minimal if any effect on retirement behavior.

AB 1733 requires that members be retired for at least one year before the elimination of the earnings limit would apply and imposes of a sunset date of January 1, 2008 on the earnings limit exemption. Requiring a one-year period before resuming creditable service also will ensure that there will be minimal if any effect on retirement benefits. These provisions are consistent with other measures modifying the earnings limit that the Board has supported. In its current form, the bill would not raise any federal tax qualification issues.

FISCAL IMPACT

Benefit Program Costs – It is not expected that the proposed increase in the earnings limitation will encourage members to retire sooner. As a result, there would be no actuarial impact on the program, because the actuarial valuation of the program assumes that members do not work beyond the earnings limit. To the extent such additional service does occur, the resulting reduction in allowance payments represents an actuarial gain. The foregone gain would not exceed $1.2 million annually.

Administrative Costs – This bill will result in minimal one-time implementation costs, including increased monitoring retirement dates of CalSTRS members to determine eligibility for elimination of earnings limit. In addition, this bill would decrease the level of staff resources used currently to calculate and offset excess earnings by reducing future allowance payments. Other tasks, such as notifying retired members that they are approaching the earnings limit, would be eliminated.