

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 1933

Assembly Member Strom-Martin (As Amended 08/31/00)

Position:

Support

Proponents:

CTA (Sponsor), LAUSD, UTLA, ACSA, CFT

Opponents:

None known

SUMMARY

AB 1933 increases the monthly retirement allowance of a Defined Benefit (DB) Program member who retires for service on or after January 1, 2001 and had, prior to January 1, 2011, 30 or more years of credited service. The member would receive a "longevity bonus" consisting of monthly increase of \$200 per month for 30 years of creditable service, \$300 per month for 31 years of creditable service and \$400 per month for 32 or more years of creditable service.

HISTORY

Chapter 1006, Statutes of 1998, (AB 1102—Knox) provided a career factor of 0.2 percent of final compensation per year of credited service up to a combined age factor and career factor of 2.4 percent for members with 30 or more years of credited service who retire on or after January 1, 1999.

SB 39 (Baca) also would have increased the career factor for members with 29 or more years of credited service. That bill failed to pass the Senate.

CURRENT PRACTICE

Currently, the California State Teachers' Retirement System (CalSTRS) DB Program retirement allowance is based on years of credited service, age at retirement, and final compensation. The normal retirement age under CalSTRS' DB Program is age 60. At age 60, a member receives an allowance equal to two percent of final compensation for each year of credited service. The age factor increases .033 percent per additional year of age over 60, to a maximum of 2.4 percent at age 63. If a member retires earlier than age 60, the retirement allowance is reduced by one-half of one percent for each month the member is between age 55 and age 60. A member may retire as early as age 50 with 30 years of service credit. If a member retires earlier than age 55, the allowance is further reduced by one-quarter of one percent for each month the member is under age 55. A career factor of 0.2 percent is added to the age factor, up to a combined age factor and career factor of 2.4 percent, if the member has 30 years or more of credited service.

DISCUSSION

AB 1933 provides a new "longevity bonus" to DB Program members. The longevity bonus will be a monthly increase in the retirement allowance (on top of the allowance that reflects the career factor) that will be given to members who retire for service after this year and have accrued at least 30 years of service credit by January 1, 2011. The longevity bonus for 30 years of credited service will be a monthly allowance increase of \$200; a \$300 increase for 31 years of credited service; and a \$400 increase for 32 or more years of credited service.

Under this bill, similar to current law, some service credit, such as nonqualified service, would not be used to qualify for the longevity bonus because the longevity bonus is intended to reward actual service. The monthly increases provided by this bill will apply prior to the modification of a member's allowance pursuant to an election of a joint or survivor option. Finally, the increases proposed in this bill will be subject to the annual 2 percent cost of living adjustments.

By limiting the eligibility for this bonus to members who achieve the requisite years of service over the next 10 years, the state can encourage CalSTRS members to provide additional service during a period of anticipated teacher shortages, and reevaluate the need for continuing such a benefit in future years.

FISCAL IMPACT

Benefit Program Costs – According to the CalSTRS consulting actuary, the present value cost of this benefit over the next 10 years is \$1,835 million.

Administrative Costs – CalSTRS anticipates that it could absorb any increased administrative costs, (estimated to be less than \$50,000) to implement the benefit increases in this bill.