CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 2456	**Assembly Member Wright (As amended 8/31/00)**
Position:	**Support**
Proponents:	**FACCC (Sponsor)**
Opponents:	**None known**

SUMMARY

AB 2456 allows a member of the California State Teachers' Retirement System's (CalSTRS) Defined Benefit (DB) Program who retires on or after January 1, 2002 and who has reached normal retirement age to elect to receive a lump sum payment and a reduced monthly allowance, as specified. The Teachers' Retirement Board also has the option to implement this program no later than January 1, 2003. This provision would sunset on January 1, 2011.

HISTORY

None.

CURRENT PRACTICE

The DB Program pays a monthly benefit based on the level of credited service, the age of the member at retirement, and the creditable compensation earnable during the three highest consecutive years of service. Current law increases the percentage for each quarter year of age of retirement greater than age 60, up to a maximum of 2.4 percent at age 63. Current law also provides that the percentage of final compensation used in the calculation of a member's service retirement allowance is increased by 0.2 percent for members who have earned 30 or more years of service credit, up to a total percentage of 2.4.

DISCUSSION

This bill permits a member of the DB Program who retires on or after January 1, 2002 after age 60 and before January 1, 2011 the option of receiving a lump sum payment and an actuarially reduced monthly allowance. The lump sum payment specified in AB 2456 would be a one-time payment that would not exceed the lesser of the following amounts:

- The actuarial present value of the difference between the monthly service retirement allowance currently payable and an amount equal to 2 percent of the member's final compensation multiplied by the number of years of credited service and divided by 12.
- Fifteen percent of the actuarial present value of the monthly allowance payable.

Method 1: Monthly benefit currently payable equals $2,250 while the monthly benefit based on a 2 percent age factor equals $1,875, a difference of $375. The actuarial value of the difference is $57,000

Method 2: 15 percent of the actuarial value of the monthly allowance of $2,250 (actuarial present value of the monthly allowance equals $342,000) is approximately $51,300.

The member would receive up to the lesser of the two: a lump sum payment of **$51,300.** The amount of the monthly benefit after the lump sum would be $1,913, or 85 percent of the member's full allowance $2,250.

As the above example demonstrates, if the member elects to receive the lump sum payment described above, he or she would then receive a monthly allowance that would be actuarially reduced to reflect the lump sum amount. This example also indicates that there would be no benefit-related cost to the system or the member because both methods include all adjustments normally present in calculating the actuarial present value on a monthly benefit such as cost of living adjustments, purchasing power adjustments and an 8 percent rate of return on the value of the members and employer's contributions.

Permitting the member to receive relatively small portions of the allowance in a lump sum will enable the member to better meet his or her individual financial needs without jeopardizing his or her ability to receive an adequate ongoing monthly allowance. In addition, by limiting the option of that portion of the CalSTRS benefit accrued after age 60, the bill encourages members to work past age 60 in order to exercise this option.

FISCAL IMPACT

Benefit Program Costs – Because the bill requires that the monthly benefit be reduced to reflect the payment of the lump sum benefit, the bill would not have any actuarial impact.

Administrative Costs – It is estimated that ongoing administrative costs would not exceed $100,000 annually.