CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 821	**Assembly PER&SS Committee (As amended 8/31/00)**
Position:	**Support**
Proponents:	**CTA, CFT, UTLA, & ACSA (Co-Sponsors), FACCC**
Opponents:	**None known**

SUMMARY

AB 821 changes the definition of "final compensation" from the highest average annual compensation earnable by a member during any period of three consecutive school years to any period of 12 consecutive months for those members with 25 or more years of credited service.

HISTORY

SB 414 (Roberti) of 1993 (Vetoed) would have provided for employers to pay for highest single year final compensation benefit, as required by the Teachers' Retirement Board (Board). The Board adopted a support position.

Chapter 1184, Statutes of 1989 (AB 123—Elder) authorizes an allowance based on one year final compensation to teachers who spent 60 percent or more of the last ten years of their career as classroom teachers. The employer must pay the actuarial difference between the one-year final compensation and the three-year compensation and is subject to a collective bargaining agreement applied to all teachers in the district. The Board adopted an Oppose position because the bill created benefit inequities and would have created substantial increases in administrative costs.

AB 2882 (Elder) of 1988 (Vetoed) would have defined "final compensation" as the highest annual compensation earnable by a classroom teacher during any 12 consecutive months. The Board adopted an Oppose position because it would have provided a major unfunded benefit increase, raised program costs, and damaged the funding condition of California State Teachers' Retirement System (CalSTRS).

CURRENT PRACTICE

Generally, final compensation is defined as the highest average annual compensation earnable by a member during any period of three consecutive years while an active member of the Defined Benefit (DB) Program. For members whose salary has been reduced because of a reduction of school funds, final compensation may be defined as the highest average annual compensation earnable during any three "non-consecutive" 12-month periods. Basing final compensation on one 12-month period, (known as one-year final compensation), is available to members who retire, become disabled, or die after June 30, 1990 and, during the last ten years of employment with the same employer, provided 60 percent or more of their contract time in direct classroom instruction. In addition, the member must be employed by an employer who has entered into a written agreement with an exclusive representative to make this provision applicable to all classroom teachers, as defined. The written agreement must include a mechanism to pay the actuarial difference between the "one year final compensation" and the "three year final compensation," plus CalSTRS' administrative costs.

DISCUSSION

Changing the definition of final compensation from a three-year average to one year for CalSTRS members with 25 or more years of service credit would create a basis of determining final compensation more consistent with that used for state and school workers covered by the California Public Employees' Retirement System (CalPERS). It also would act as an incentive for teachers to remain in the classroom for at least 25 years in order to qualify for the benefit.

The bill provides that some service credit, such as nonqualified service and unused sick leave would not be used to qualify for one-year final compensation, because this calculation is intended to be used for and reward actual service. This is consistent with restrictions imposed on other CalSTRS benefits provided to career CalSTRS members.

FISCAL IMPACT

<u>Benefit Program Costs</u> – The estimated additional cost over 30 years, in current dollars, to pay benefits based on one-year final compensation for all members would be about $4,002 million. Financing this cost over 30 years would require an increase in annual contributions equal to 1.259 percent of payroll. Given current payroll levels, this would result in a required annual increase of $245 million in fiscal year 2001-02, with that amount increasing each year as payrolls increase.

<u>Administrative Costs</u> – CalSTRS anticipates that it could absorb any increased effort necessary to implement this proposal.