

Bill Number: AB 1316 (Bass) – Service Retirement Pending Disability

SUMMARY

AB 1316 allows members of the Defined Benefit (DB) Program who apply for disability to receive a service retirement allowance during the time it takes for CalSTRS to process their application for disability.

PURPOSE OF PROPOSAL

To assist members who are disabled and face months without income while CalSTRS processes their application for disability.

BOARD POSITION

Sponsor.

LEGISLATIVE HISTORY

Chapter 386, Statutes of 1997 (SB 629—Karnett), expands eligibility for disability benefits by eliminating the minimum service credit requirement for members applying for a disability benefit due to injury that arises out of a violent act while performing official duties.

Chapter 1166, Statutes of 1992 (SB 1885—C. Green), establishes new survivor benefits and disability programs for all new members on or after October 16, 1992 to bring CalSTRS into compliance with the federal Older Worker's Benefit Protection Act of 1990.

PROGRAM BACKGROUND

Under current law, members of the DB program who have been receiving a service retirement allowance beyond the initial calendar month of the allowance's effective date cannot terminate that benefit in order to receive a disability benefit (for example, a service retirement that began on April 5 cannot be terminated after April 30). Because it can take up to six months for CalSTRS to process a disability application, members who apply for disability face many months without an income source. Members who need an immediate stream of income and who are eligible to retire for service may apply for service retirement, which takes only 30-45 days for CalSTRS to process. A service retirement allowance, however, typically provides less income than a disability benefit. Therefore, members who are eligible to retire and eligible for a disability benefit must choose between receiving a larger monthly benefit if and when CalSTRS approves their disability, and receiving a smaller, though immediate, monthly benefit from a service retirement allowance.

ANALYSIS

AB 1316:

- Allows members who are eligible to retire for service to submit a new Service Retirement Pending Disability Application and receive a service retirement allowance pending determination of their disability claim;
- Prohibits members who apply for service retirement pending disability from receiving the Partial Lump-Sum (PLS) payment available to other members of the DB Program who retire prior to January 1, 2001;
- Prohibits members who apply for service retirement pending disability from electing to retire under the early retirement limited-term reduction program;
- Delays including service credited for accumulated and unused sick leave or leave of absence for education in the calculation of the service retirement allowance until the member's application for disability is denied;
- Upon approval of the application for disability, automatically cancels the member's service retirement application, begin paying a disability benefit;
- If the application for disability is denied, requires the member continue the service retirement unless the member submits a request to terminate their service retirement allowance;
- If the member continues receiving the service retirement allowance, requires the benefit effective date and the option selection to remain unchanged.

Because the two benefit application processes differ, members who apply for service retirement pending disability would do so under several conditions and restrictions. These limitations are necessary to simplify the application process for the member, protect the Teachers' Retirement Fund from unnecessary risk, reduce implementation costs and provide ease of administration.

The early retirement limited term reduction program allows members between ages 55 and 59 to retire early and receive one-half of the monthly benefit amount the member would received if the member waited until age 60 to retire. When the member turns age 60, the reduced benefit continues to be paid for the same number of months after age 60 as before age 60. After that, the retirement benefit amount increases to the full amount the member would have received had the member retired at age 60. Because this program is often very confusing to members and complex for CalSTRS to administer, members who apply for service retirement pending disability would not be eligible to retire under this program.

Members retiring for service receive credit for accumulated unused sick leave or education leave. However, members applying for disability do not receive service credit for these leaves of absence. Therefore, a member receiving a service retirement allowance pending disability would not immediately receive credit for accumulated unused sick leave or education leave. If the member's application for disability is denied, then CalSTRS would recalculate the member's service retirement allowance to include this service credit to the benefit effective date.

The DB Program provides eligible members with a portion of their retirement benefit as a lump-sum payment in exchange for a permanently-reduced monthly allowance. However, if a member applying for service retirement pending disability were to receive a PLS and later be approved

for disability, CalSTRS would have to collect from the member the full amount of the PLS payment prior to beginning payment of the disability benefit. To eliminate the risk to CalSTRS of not being able to recover the entire amount of a large PLS distribution prior to paying the disability benefit, a member who applies for service retirement pending disability would forfeit the ability to receive a PLS payment. However, very few members are eligible for both a disability benefit and a PLS.

The following table shows the number of applications for disability during fiscal years 2003/04 through 2005/06:

# of Applications for Disability*	# of Members Eligible to Retire for Service	# of Applications for Disability Denied	# of Members Denied Disability & Eligible to Retire	# of Members Retired
2,174	1,308	461	250	132

* Does not include those who canceled or withdrew their application.

A survey of other public retirement systems shows that providing a service retirement allowance pending disability is not uncommon:

# of Retirement Systems Surveyed	# Providing Service Retirement Pending Disability	# of Teachers' Retirement Systems	Average Length of Time to Process Disability Application
16	6	5	3.5-7 months

FISCAL IMPACT

Benefit Program Cost – Approximately \$60,000 in one-time costs to modify the CalSTRS corporate data base. Minor and absorbable training and communication costs, increases to staff workload processing the new dual application. Minor decrease in staff time spent processing Executive Reviews.

Administrative Costs/Savings – No additional benefit program costs. Any service retirement benefit overpayment will be recovered from the subsequent disability benefit.

ARGUMENTS

Pro:

- Fulfills the member’s need for a steady income stream;
- Provides an immediate service retirement benefit to those who are eligible for one;
- Presents no new program or benefit costs.

Con:

- Benefits only those members who are eligible to retire for service;
- Members may choose an unmodified allowance in order to temporarily maximize their monthly income. That decision, however, is irrevocable and, should the member be denied disability, he or she cannot later elect an option.