

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Bill Number: AB 2232 – Assembly Committee on Public Employees, Retirement and Social Security (As Amended 4/15/04)

SUMMARY:

AB 2232:

- Changes the divisor used in the calculation to convert accumulated unused sick leave to service credit for members of the Defined Benefit (DB) Program;
- Requires that the divisor reflect the appropriate minimum full-time equivalent (FTE) for each class of employees, whether employed by a K-12 district, community college or county office of education, even if the FTE is less than 175 days;
- Provides that, if the member's basis of employment changed from full-time to part-time in the last year of employment, the divisor reflects the FTE for the position held in the prior year.

PURPOSE OF THE BILL:

- Correct the current inconsistency between the calculation to convert unused sick leave to service credit and the method for calculating service credit for actual service performed;
- Provide both full-time and part-time employees with service credit for actual service performed and for unused sick leave based on the employee's appropriate FTE;
- Grant a proportionate amount of service credit to all members of the DB Program.

ANALYSIS:

The current calculation to convert unused sick leave to service credit is inconsistent with the method for calculating service credit for actual service performed. A part-time instructor employed in a community college receives service credit for actual service performed based on an FTE of as little as 525 hours (the equivalent of 87.5 days). The same part-time instructor receives service credit for unused sick leave based on an FTE of 1,050 hours (the equivalent of 175 days).

The following is an example of the **current** method for calculating the amount of service credit derived from unused sick leave for a part-time community college instructor, assuming the FTE is 525 hours:

60 days of unused sick leave ÷ 175 days = 0.343 year service credit

Here is an example of the calculation under AB 2232, which uses the actual number of days required, derived from the 525-hour FTE:

60 days of unused sick leave ÷ (525 hours ÷ 6 hours/day) = 0.686 year service credit

The above examples show that the part-time community college instructor would receive an additional 0.343 of a year of service credit at the time of retirement, which would increase the monthly retirement allowance for the life of the member.

CalSTRS staff notes that while AB 2232 would result in a more proportionate calculation of service credit for unused sick leave for many part-time instructors, not all part-time instructors would gain from the bill's changes. Many community college employers do not appear to report the FTE for part-time instructors accurately. Although CalSTRS constantly attempts to address this issue, those part-time instructors employed by districts that do not accurately report FTE will continue to receive an inaccurate, albeit different amount of service credit from accumulated unused sick leave due to the incorrect reporting of their FTE by their employers. In addition, part-time instructors employed by K-12 districts do not have a lower minimum requirement than their full-time co-workers do; both full-time and part-time employees work under an FTE of 175 days. Therefore, AB 2232 would not affect part-time instructors employed by K-12 districts.

LEGISLATIVE HISTORY:

Chapter 89, Statutes of 1974 (SB 647—Harmer) grants service credit for unused sick leave for members of the DB Program who retire on or after March 23, 1974.

Chapter 1201, Statutes of 1979 (SB 797—Russell) prohibits the granting of service credit for accumulated unused sick leave to any person who becomes a member of the DB Program, or any classified school employee who becomes a member of the California Public Employees' Retirement System, after June 30, 1980.

Chapter 592, Statutes of 1982 (AB 2527—Hughes) establishes the minimum number of days required to be performed by a class of employees as 175, for the purposes of calculating the amount of service credit to be granted for accumulated unused sick leave.

Chapter 1006, Statutes of 1998 (AB 1102—Knox) extends the eligibility to receive service credit at retirement for unused sick leave to members of the DB Program who became members on and after July 1, 1980, and who retire on or after January 1, 1998; it also eliminates the restriction that prohibited a member who reinstates from service retirement from receiving service credit at a subsequent retirement for unused sick leave accrued after termination of the original retirement.

PROGRAM BACKGROUND:

DB Program members receive service credit equal to the amount of money they earn divided by the amount of money they would earn by working full-time in that position. For members working part-time, that full-time salary rate is determined by multiplying their daily or hourly salary rate by their FTE. The FTE varies by employer and type of employment. In addition, members who retire with unused sick leave receive service credit for that unused leave. The amount of service credit granted from unused sick leave is equal to the number of days of accumulated unused sick leave, divided by the number of days of service included in the member's FTE. However, current law requires this latter calculation to use a divisor of no less than 175 days, even when the employee's actual minimum requirement is fewer than 175 days. For instructors whose minimum requirements are in terms of hours, the employer divides the number of hours by 6 to arrive at the number of days.

FISCAL IMPACT:

Benefit Program Cost – The total present value cost over 30 years of basing the determination of service credit for accumulated unused sick leave on the member's appropriate FTE would be

approximately \$52 million dollars. The annual revenue needed to support the maximum cost would be \$3 million, increasing by 4.25 percent annually, beginning in fiscal year 2005-06.

Administrative Costs – The total estimated one-time cost to modify the Benefits Counseling Calculator and the START database is \$25,780. All other administrative implementation costs are similarly minor and absorbable.

ECONOMIC IMPACT:

AB 2232 will increase the retirement benefit received by part-time instructors primarily employed in California's community colleges, provides more financial security for CalSTRS retired members.

SUPPORT/OPPOSITION

Support: Faculty Association of California Community Colleges (Sponsor)

Opposition: None known.