

**BILL NUMBER: AB 224 (Negrete McLeod) As Amended 5/3/05**

**SUMMARY**

Assembly Bill 224 is the annual California State Teachers' Retirement System (CalSTRS) technical "housekeeping" bill. The bill makes various technical and conforming changes to the Teachers' Retirement Law (TRL) to facilitate efficient administration of the State Teachers' Retirement Plan (Plan), which includes the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program and the Cash Balance (CB) Benefit Program.

**PURPOSE OF THE BILL**

AB 224 is necessary for the continued effective administration of the Plan.

**POSITION AND SUPPORTING ARGUMENTS**

Sponsor. This bill will make technical amendments necessary for continued effective administration of the System.

**ANALYSIS**

Specifically, the changes made by AB 224:

1. Conform the TRL to reflect the current name of the San Francisco Employees' Retirement System;
2. Conform existing law referencing the location of the CalSTRS headquarters building to the changes made by Chapter 378, Statutes of 2004;
3. Standardize the terminology used when referencing the accumulated retirement contributions returned to a member in the DBS Program and ensure correct interpretation of the distribution of these funds under federal law;
4. Clarify that the period of 12 consecutive months, which a member must wait after retiring to return to work to qualify for a post-retirement earnings limit exemption, begins from the date of the member's most recent retirement;
5. Conform existing law describing the amount of service an employee in a part-time position is required to perform in a school year to the changes made by Chapter 474, Statutes of 2004;
6. Clarify that the preretirement option election form must include the signature of the member's spouse or registered domestic partner and that the spouse or registered domestic partner's signature must be within 30 days of the member's signature on the same form;
7. Change the reporting date for the Board to supply the Governor and Legislature with the level of purchasing power provided by DB Program benefits, as required by Chapter 802 of the Statutes of 1979, to reflect the current timeframe in which the Board is able to review and adopt the annual Purchasing Power Report;

8. Provide consistent and accurate cross referencing between the Education Code section that provides a minimum guaranteed level of service retirement benefits and the Education Code sections that provide for the termination of a disability allowance and conversion to service retirement.

## LEGISLATIVE HISTORY

Chapter 378, Statutes of 2004 (AB 2680—Negrete-McLeod), expands the geographic area in which CalSTRS may locate its headquarters facility.

Chapter 474, Statutes of 2004 (AB 3076—Mullin), bases the threshold for mandatory membership in the DB Program on a community college employee's basis of employment for the school year, rather than on the amount of service performed in any single pay period.

Chapter 912, Statutes of 2004 (AB 2233—Assembly PER&SS), the CalSTRS annual technical housekeeping bill, which makes technical and conforming changes to the TRL for continued efficient administration of the System.

## PROGRAM BACKGROUND

### **1. Reflecting the current name of the San Francisco Employees' Retirement System**

The name of the public retirement system for employees of the City and County of San Francisco was changed from "San Francisco City and County Employees' Retirement System" to the "San Francisco Employees' Retirement System." This amendment conforms the TRL to this name change.

*Education Code sections affected by amendment: 22115.2, 22703, 22705, 22705.5, 24219, 24701, 24704, 24750 and 24751*

### **2. Conforming the Education Code to the changes made in 2004 legislation affecting the location of the CalSTRS headquarters building**

Chapter 378, Statutes of 2004 (AB 2680—Negrete McLeod), expands the geographic location in which the CalSTRS headquarters building may reside from Sacramento County to Sacramento County and Eastern Yolo County. This amendment makes conforming changes to sections of the TRL that currently reference the CalSTRS headquarters building as being located in Sacramento County.

*Education Code sections affected by amendment: 22662, 22663, 23001, 23104, 23202, 23300, 24005, 24105, 24306.5, 24306.7, 24307, 24311, 24312, 24613 and 27100*

### **3. Standardizing the terminology used when referencing the accumulated retirement contributions returned to a member in the DB Program and provide consistency between state and federal law**

Federal Internal Revenue Code (IRC) provisions restrict in-service distributions of benefits from tax-qualified public pension systems. CalSTRS maintains compliance with these IRC provisions by requiring members terminate employment prior to being eligible for a refund

of their accumulated employee contributions plus interest under the DB Program. This provision clarifies that this return of accumulated contributions plus interest does not constitute a benefit payment.

*Education Code section affected by amendment: 23202*

4. **Clarifying that the period of 12 consecutive months, which a member must wait after retiring to return to work to qualify for an exemption to the post-retirement earnings limit, begins from the date of the member's most recent retirement**

Current law does not specify the beginning date of the 12 consecutive months during which a member may not perform creditable service for the purposes of becoming eligible for an exemption to the post-retirement earnings limit when a retired member reinstates to active membership and subsequently retires. However, CalSTRS administers the post-retirement earnings limit based on the policy that the 12-month period begins on the date of the member's most recent retirement. Members have sought appeals to the earning limitation based on an interpretation that the 12 months may begin on the date of a previous retirement. This amendment clarifies that the 12-month period begins on the date of the most recent retirement to codify administrative policy and applies to the version of Education Code section 24214, which sunsets on December 31, 2007. The Legislative Counsel also included these provisions in the version of section 24214 that begins January 1, 2008, for consistency; however, that section does not provide an exemption for members who do not perform creditable service for a period of 12 months after retirement. Therefore, CalSTRS recommends amending AB 224 to remove these provisions from the version of section 24214 that begins on January 1, 2008.

*Education Code section affected by amendment: 24214*

5. **Conforming existing law describing the amount of service an employee in a part-time position is required to perform in a school year to the changes made by Chapter 474, Statutes of 2004**

Chapter 474, Statutes of 2004 (AB 3076—Mullin) changed the terminology used when describing the amount of service an employee in a part-time position is required to perform in a school year from “full-time equivalent for the position” to the description “full-time position” which is more meaningful to employers. This provision conforms other provisions of the TRL to this change.

*Education Code section affected by amendment: 24216*

6. **Clarifying the preretirement option election form must include the signature of the member's spouse or registered domestic partner and the date of such signature must be within 30 days of the member's signature on the same form**

Current law does not specify what constitutes a “properly executed form” for the purposes of electing a pre-retirement annuity option. However, other provisions of the TRL specify that a properly executed form includes the signature of the member's spouse or registered domestic partner. Existing law also specifies the pre-retirement election form must be received by the System within 30 days of the date the member signed it; however, it does not specify a

similar time period for the spousal or registered domestic partner's signature to be submitted. This amendment clarifies that the form on which the member elects a pre-retirement option must include the signature of the member's spouse or registered domestic partner and such signature must be dated within 30 days of the member's signature.

*Education Code section affected by amendment: 24307*

**7. Changing the reporting date for the Board to supply the Governor and Legislature with the annual Purchasing Power Report on DB Program benefits, to reflect the current timeframe in which the Board is able to review and adopt the report**

CalSTRS staff prepares an annual report on the purchasing power of DB Program benefits soon after the Department of Labor issues its annual report on the cost of living. Because of recent budget cuts and workload issues, the Department of Labor is not able to release the information earlier than March of each year. Staff provides the purchasing power report to the Board at the first meeting scheduled after the Department of Labor releases its data; however, the Board's adoption of the report does not occur early enough in the year to meet the statutory deadline for submittal to the Legislature and Governor by April 1<sup>st</sup>. This amendment changes the deadline by which the Board must submit the report from April 1<sup>st</sup> to June 1<sup>st</sup> to more closely reflect these constraints and ensure the deadline is met each year.

*Education Code section affected by amendment: 24400*

**8. Providing consistent and accurate cross referencing between the Education Code section that authorizes a minimum guaranteed level of service retirement benefits and the Education Code sections that provide for the termination of a disability allowance and conversion to service retirement**

The existing provisions providing for a minimum guaranteed level of benefits refer to the service retirement benefits received when a member's disability allowance terminates because the member has reached age 60 (or older, in the case of eligible dependent children) and the member has not returned to work. However, there are instances in which a member may terminate a disability allowance and return to perform creditable service prior to applying for service retirement. In addition, a member may terminate a disability allowance and apply for service retirement prior to reaching age 60 without returning to perform creditable service. This amendment specifies the minimum guarantee applies when a member who was previously receiving a disability allowance terminates the allowance and applies for a service retirement benefit under any of these three instances to better reflect current practice.

*Education Code section affected by amendment: 24410.6*

**FISCAL IMPACT**

Benefit Program Cost – None.

Administrative Costs/Savings – The cost of making the required changes to the System’s publications, database and manual process is expected to be minor and absorbable.

**SUPPORT**

CalSTRS

**OPPOSITION**

None