

BILL NUMBER: AB 224 (Negrete McLeod) As Amended 5/27/05

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 to clean-up grammatical errors, provide consistency between code sections and clarify misunderstood provisions of the law, which allows the System to administer the Plan effectively.

POSITION AND SUPPORTING ARGUMENTS

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

SUMMARY OF AMENDMENTS

The amendments of May 27, 2005:

- Remove the amendments to Education Code section 24214, effective January 1, 2008, and to Education Code section 24410.6, made by an earlier version of the bill;
- Clarify the provisions of Chapter 856, Statutes of 2003;
- Provide a process for cancellation of an application to terminate a service retirement allowance;
- Make additional technical amendments to the TRL; and
- Include supercession language that allows other chaptered legislation amending the same code sections to prevail over this bill.

ANALYSIS

The changes made by AB 224:

1. Conform the TRL to reflect the current name of the San Francisco Employees' Retirement System;
2. Clarify Chapter 856, Statutes of 2003, which allows the Teachers' Retirement Board to set salary levels and performance standards for the positions of Chief Executive Officer, System Actuary, Chief Investments Officer and investment managers to specify they do not receive annual Merit Salary Adjustments;
3. Conform existing law referencing the location of the CalSTRS headquarters building to the changes made by Chapter 378, Statutes of 2004;

4. Clarify permissive service credit purchases by specifying the service that is to be purchased must have been from an employer-approved leave that was not covered by another public retirement system;
5. 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;
6. Provides a process by which a member may cancel an application to terminate a service retirement allowance that is consistent with current practices that allow members to rescind various other actions within the same month as the effective date of the action;
7. 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;
8. 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;
9. Clarify that the preretirement option election form must include the signature of the member's spouse and that the spouse's signature must be within 30 days of the member's signature on the same form;
10. 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, Statutes of 1979, to reflect the current timeframe in which the Board is able to review and adopt the annual Purchasing Power Report;
11. Specify any section of any piece of legislation enacted during the first year of the 2005-2006 legislative session will prevail over amendments made by this bill.

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.

Chapter 856, Statutes of 2003 (SB 269—Soto), allows the Board to set salary levels and performance standards for the positions of Chief Executive Officer, System Actuary, Chief Investment Officer and investment managers.

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. Specifying the positions of Chief Executive Officer, System Actuary, Chief Investment Officer and investment managers do not receive annual merit salary adjustments

Chapter 856, Statutes of 2003 (SB 269—Soto), allows the Board to set salary levels and performance standards for CalSTRS' top executives and investment managers. Consistent with the authority that the Board determines the compensation levels, this amendment specifies that those positions do not also receive automatic annual Merit Salary Adjustments.

Education Code section affected by amendment: 22212.5

3. 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

4. Clarifying permissive service credit purchases

CalSTRS permits members to purchase certain types of service credit associated with service performed in various positions not covered by the System, such as county child care centers. This amendment specifies the service that may be purchased must have been from leave approved by a California employer and cannot have been covered by another public retirement system.

Education Code section affected by amendment: 22803

5. 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

6. Providing a process for members to cancel an application to terminate a service retirement allowance

Current law allows members to rescind various actions within the same month as the effective date of the action, such as rescinding an application for service retirement. This amendment provides a method by which members may cancel an application to terminate a service retirement allowance that is consistent with current practices.

Education Code section affected by amendment: 24208

7. 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.

Education Code section affected by amendment: 24214

8. 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

9. Clarifying the preretirement option election form must include the signature of the member's spouse 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. 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 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 and such signature must be dated within 30 days of the member’s signature.

Education Code section affected by amendment: 24307

10. 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 1st. This amendment changes the deadline by which the Board must submit the report from April 1st to June 1st to more closely reflect these constraints and ensure the deadline is met each year.

Education Code section affected by amendment: 24400

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