CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 2753 changes existing restrictions on post-retirement employment imposed on retired members of the California State Teachers' Retirement System (CalSTRS) Defined Benefit (DB) Program who receive an additional retirement benefit under retirement incentives under the program. Specifically, the bill:

- Reduces from five years to one year the period of time a member would be prohibited from returning to work for the K-12 school district that provided the benefit and eliminates any restriction for returning to work for any other K-12 district employer;

- Imposes the same restriction on members who return to work for a County Office of Education or Community College within one year of their retirement date.

PURPOSE OF THE BILL:

According to the author, the return to work provisions contained in Chapter 313, Statutes of 2003 (AB 1207—Corbett), have made the CalSTRS Retirement Incentive Programs less attractive because districts would not be able to employ experienced teachers with knowledge of the district during temporary staffing shortages or emergencies. Although many teachers prefer to take a retirement incentive benefit from CalSTRS rather than from the private annuities, some districts have decided to use private annuity companies instead of CalSTRS because the private companies do not impose return-to-work restrictions.

POSITION AND SUPPORTING ARGUMENTS:

Support – AB 2753 ensures consistent and equitable treatment of CalSTRS members who are granted the new retirement incentives by standardizing post-retirement employment restrictions between K-12 school districts, community college districts and county offices of education. It would also simplify administration of the CalSTRS retirement incentives, potentially saving resources.

SUMMARY OF SUGGESTED AMENDMENTS:

None

ANALYSIS:

Although it may have been the intent of the Legislature to apply the restrictions to K-12 school districts, County Offices of Education, and Community Colleges equally, the actual language contained in Chapter 313 requires CalSTRS to apply the post-retirement employment restrictions narrowly to members who return to work for K-12 employers. If a conforming change is not made, retired members will be able to keep their retirement incentive benefit and earn up to an annually adjusted $25,740 working on a part-time or substitute basis in a County Office of Education or Community College District, and retired administrators may be able to keep their retirement incentive benefit and earn an unlimited amount without penalty.

The provisions of AB 2753 concerning post-retirement employment would affect a retired member of the DB Program who receives a CalSTRS retirement incentive and returns to work for their former employer within one year. It would, however, allow the retired member to go to work for another K-12 school district, county office of education or community college district immediately, and earn up to the $25,740 annual earnings limit without penalty.

Finally, AB 2753 replaces references to sunsetted code sections that detail Department of Education audit requirements in order to avoid confusion for participating employers and makes technical and clarifying amendments to Chapter 313.

LEGISLATIVE HISTORY:

AB 212 (Maze) establishes a new retirement incentive program to allow school districts to add four years of service credit to those DB Members that agree to retire.

Chapter 313, Statutes of 2003 (Assembly Bill 1207—Corbett) reopened and made permanent an existing retirement incentive program (often referred to as the “Golden Handshake” program) that provides an additional two years of service credit to members of the DB Program employed by participating school districts able to demonstrate cost savings. It also established a new retirement incentive program through 2004 that allows school districts to add two years of service credit and two years of age to the age factor calculation in determining a member’s retirement allowance.

Chapter 361, Statutes of 1984 (AB 2223—Hughes) established the CalSTRS retirement incentive program, permitting members to receive an additional two years of service credit, under specified conditions, if the employer, by formal action, makes specific determinations and transmits the actuarial equivalent amount of money and the System’s related administrative costs to CalSTRS.

PROGRAM BACKGROUND:

DB Program members who retire for service and accept employment performing creditable service in the California public school system are subject to a post-retirement earnings limitation, unless they are otherwise exempt from the limit. For fiscal year July 1, 2003 through June 30, 2004, retired members can earn up to $25,740. The earnings limit is adjusted each year on July 1, by the percentage increase in the average earnable salary of active members. If the compensation paid to a retired member exceeds the limit, his or her monthly retirement allowance is reduced dollar-for-dollar by the amount of earnings received in excess of the limit. There are exemptions to this limit under specified circumstances.

Prior to the passage of Chapter 313, the Teachers' Retirement Law required that DB members who receive a CalSTRS retirement incentive, and, at any point in the future, change their retired status to reinstate into active service would lose the additional service credit when they retire the second time. Chapter 313 added two new restrictions on post-retirement employment to require DB members who receive a retirement incentive beginning January 2004 to forfeit their retirement incentive benefit if they return to work for any K-12 school district in the state within one year of their retirement date, or the K-12 school district that provided the benefit within five years of their retirement date.

Unfortunately, the chaptered legislation's use of the term "school district" places these new post-retirement restrictions only on members that return to work for a K-12 employer. If a conforming change is not made, retired members will be able to keep their retirement incentive benefit and earn up to an annually adjusted $25,740 working on a part-time or substitute basis in a County Office of Education or Community College District, and retired administrators may be able to keep their retirement incentive benefit and earn an unlimited amount without penalty.

FISCAL IMPACT:

Benefit Program Costs – AB 2753 reduces the potential forfeiture of retirement incentive benefits paid to members who otherwise would not comply with the post-retirement restrictions imposed by current law. Although there is insufficient history with these restrictions to project the total impact with any precision, it would likely not be substantial. In addition, it would likely be at least partially offset by applying the new restrictions to all members receiving a retirement incentive, not just those who return to work for a K-12 district, as provided under current law.

Administrative Costs – None. The minor implementation costs should be offset by savings generated by monitoring one post-retirement employment rule instead of two.

ECONOMIC IMPACT:

Unknown

SUPPORT/OPPOSITION

Support:
California Federation of Teachers

Opposition:
None Known