

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Assembly Bill 434**     **Assembly Member Hancock (As amended 03/20/03)**

**Position:**             **Support**

**Proponents:**         **CTA and CRTA**

**Opponents:**          **None known**

### **SUMMARY**

Assembly Bill 434 extends an existing exemption from the earnings limitation for California State Teachers' Retirement System (CalSTRS) Defined Benefit (DB) Program members who return to provide direct classroom instruction to pupils in K-12, as specified. AB 434 extends the exemption to members who retired on or before January 1, 2003 and extends the sunset date from July 1, 2005, to January 1, 2010.

### **HISTORY**

Chapter 22, Statutes of 2000 (AB 141—Knox) extends current exemption from the earnings limitation for retired members who are employed to fill an administrative position vacated due to circumstances beyond the control of the employer.

Chapter 896, Statutes of 2000 (AB 1733—Wildman) temporarily eliminates the earnings limit exemption for members who return to work more than one year after retirement and increases limitation for other retired members.

Chapter 351, Statutes of 2000 (AB 1736—Ducheny) exempts from the earnings limit members who retired before 7/1/2000 and return to service to provide direct remedial instruction in grades 2-12, inclusive.

Chapter 70, Statutes of 2000 (SB 1666—Alarcon) exempts from the earnings limit a member who retires for service on or before January 1, 2000, if the member returns to provide direct classroom instruction to pupils in K-12, as specified.

Chapter 965, Statutes of 1998 (AB 2765—Assembly PER&SS) extends the earnings exemption for class size reduction to members who retired on or before July 1, 1998, and extends the sunset date to July 1, 2003. July 1, 2002.

## **CURRENT PRACTICE**

Under current law, CalSTRS DB Program members who retired for service and accept temporary part-time or full-time employment performing creditable service in the California public school system are subject to a post-retirement earnings limitation, unless they are otherwise exempt. Retired members can earn up to \$24,934 for the 2002-2003 school year without a reduction in their retirement allowance. This amount is increased as of July 1 by the average earnable salary of active members.

School districts must report all earnings paid to retired DB Program members, and CalSTRS monitors this information to determine if a member's earnings come close to or exceed the approved limit. If a retiree exceeds the limit, the monthly retirement allowance is reduced dollar-for-dollar by the amount of earnings received in excess of the limit.

Retired members may accept employment in any capacity outside of the California public school system with no limitation on their earnings. Retired members are exempt from the earnings limit if they retired from service (not disability) on or before January 1, 2000, and are employed to teach in grades K-12 or participate in teacher preparation programs. This exemption expires July 1, 2005. Members are also exempt if they return to post-retirement, CalSTRS-covered employment without performing CalSTRS-covered service for at least 12 consecutive months. This exemption date ends January 1, 2008.

## **DISCUSSION**

AB 434 extends from January 1, 2000, to January 1, 2003, the current eligibility date for DB Program members who are employed to provide instruction or support, including:

- ◆ New teachers;
- ◆ Individuals completing student teaching assignments;
- ◆ Individuals in an alternative certification program;
- ◆ Individuals in the School Paraprofessional Teacher Program.

The sunset date for this exemption would be extended from July 1, 2005, to January 1, 2010.

According to the author, this bill allows members who retired from service to return to part-time or full-time teaching in a capacity where their income is not restricted. AB 434 specifies an exemption of the earnings limit for teachers who retired from the system and then return to work.

This bill will not provide an incentive for active members to retire because it is limited to those who retire on or before January 1, 2003, a date that has already passed. CalSTRS anticipates that members who will receive a full retirement benefit under this bill when they otherwise would have received a reduced benefit will be relatively small. There are approximately 27,000 retired

members who currently are working under an earnings limitation exemption. For the 2001-2002 school year, 280 members exceeded the earnings limit by more than \$3,800 for the year, (approximately \$321 per month), and the total excess earnings equaled \$1.1 million.

### **FISCAL IMPACT**

Benefit Program Cost– The System Actuary estimates that this proposal will have no impact on the system because the valuation of the DB Program assumes that members do not work beyond the earnings limit. To the extent that members earn compensation in excess of the limit, the resulting reduction in CalSTRS benefits could result in an unanticipated actuarial gain to the program. Exempting members who retire prior to the bill's effective date for the limit would result in the System foregoing the actuarial gain, which has an estimated annual value of about \$1 million.

Administrative Costs– The cost of the required changes to the System's database is expected to be minor and absorbable.

### **BOARD POSITION**

Support. This proposal is consistent with previous proposals to provide exemptions to the earnings limit for members who retired prior to the bill's effective date in order to address difficulties in filling CalSTRS-covered positions. This is also consistent with CalSTRS' goal to proactively develop benefits and products that meet customer needs.