

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

---

**Assembly Bill 607**                      **Assembly Member Negrete McLeod (As introduced 2/22/01)**

**Position:**                                      **Support, if amended**

**Proponents:**                                **FACCC, CFT**

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

### **SUMMARY**

Assembly Bill 607 eliminates the 2.4 percent limit on the combined age factor and career factor for members who retire on or after January 1, 2002.

### **HISTORY**

SB 39 (Alpert—2000) would have increased the career factor for members with 29 or more years of credited service who retired on or after January 1, 2001. This bill was held in the Senate Appropriations Committee.

Chapter 1006, Statutes of 1998 (AB 1102—Knox) provides a career factor of .2 percent of final compensation per year of credited service up to a combined age factor and career factor of 2.4 percent for members with 30 or more years of credited service who retire on or after January 1, 1999. The Teachers' Retirement Board co-sponsored this bill.

### **CURRENT PRACTICE**

The retirement allowance in the California State Teachers' Retirement System (CalSTRS) Defined Benefit (DB) Program is based on the member's years of credited service, age at retirement, and final compensation. For members retiring after 2000 with 25 years or more of credited service, final compensation is based on the highest compensation earnable for 12 consecutive months, rather than three consecutive years. A member retiring at the age of 60 receives an allowance equal to two percent of final compensation for each year of credited service. This percentage is reduced if the member retires before age 60, and increases after age 60, up to a maximum of 2.4 percent at age 63.

An additional allowance of two-tenths of one percent of final compensation for each year of credited service, up to a maximum combined age factor and career factor of 2.4 percent, is also paid to members who have earned 30 or more years of credited service and who retire on or after January 1, 1999. This increase is known as the career factor. The maximum combined age factor and career factor of 2.4 percent is reached at age 61 and six months. In addition, a member who has 30 years of credited service by January 1, 2011 qualifies for a longevity bonus of \$200 per

month upon retirement. This amount increases to \$300 if the member retires with 31 years of service and \$400 if the member retires with 32 or more years of credited service.

## DISCUSSION

By imposing the 2.4 percent limit on the combined age factor and career factor, a member with at least 30 years of credited service who retires after age 61 and six months will receive a declining career factor, because the difference in the age factor and the 2.4 percent limit will be less than the 0.2 percent career factor. AB 607 effectively increases the career factor for members retiring on or after January 1, 2002 and who are over age 61 and six months at retirement by eliminating the maximum combined age factor and career factor.

The following table identifies how the combined age factor and career factor would change under AB 607.

<b>Member's Age</b>	<b>Age Factor</b>	<b>Age Factor and Career Factor Under Current Law</b>	<b>Age Factor and Career Factor Under AB 607</b>
61 yrs. And 9 months	2.233	2.400	2.433
61 yrs. And 10 months	2.233	2.400	2.433
61 yrs. And 11 months	2.233	2.400	2.433
62 yrs. And 0 months	2.267	2.400	2.467
62 yrs. And 1 month	2.267	2.400	2.467
62 yrs. And 2 months	2.267	2.400	2.467
62 yrs. And 3 months	2.300	2.400	2.500
62 yrs. And 4 months	2.300	2.400	2.500
62 yrs. And 5 months	2.300	2.400	2.500
62 yrs. And 6 months	2.333	2.400	2.533
62 yrs. and 7 months	2.333	2.400	2.533
62 yrs. and 8 months	2.333	2.400	2.533
62 yrs. and 9 months	2.367	2.400	2.567
62 yrs. and 10 months	2.367	2.400	2.567
62 yrs. and 11 months	2.367	2.400	2.567
63 yrs. and older	2.400	2.400	2.600

According to the bill's sponsor, the intent of this bill is to provide an incentive for teachers to continue teaching beyond the age of 61 years and six months. In 1999-2000, there were over 1,709 members age 61½ or older who retired with 30 or more years of service.

As an example of the potential impact of this bill, members who retired at age 63 with 35.6 years of service credit and a final compensation of \$5,320 (the average service credit and final compensation for a 63 year old member affected by this bill), would receive an increase in their monthly allowance of approximately \$379 per month due to the 0.2 percent increase in the

combined age and career factor. For a member who continued to work from age 61½ to age 63, and assuming the same final compensation of \$5,320 and 35.6 years of service credit, the additional 1.5 years of service credit and combined age and career factor of 2.6 percent would result in an approximate increase of \$570 per month. Of this amount, \$207 is due to the additional 1.5 years of service credit.

**FISCAL IMPACT**

Benefit Program Costs – Eliminating the 2.4 percent limit on the combined age factor and career factor for members who retire on or after January 1, 2002 would increase costs to the DB Program as follows:

	<b>Present value cost (in millions)</b>	<b>Increase in annual contributions needed as a percent of payroll</b>
Normal cost increase of future service	\$803	0.237%
Actuarial obligation for prior service <sup>1</sup>	\$1,377	0.407%
Total costs	\$2,180	0.644%

<sup>1</sup> Amortized over 30 years

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Total benefit payment increase	\$3.5	\$9.5	\$12.5
Annual increase in contributions (funding) needed to fund benefit <sup>2</sup>	--	\$134	\$140

<sup>2</sup> Based on a payroll of \$20.7 billion in 2002-03, increasing by 4.25 percent annually

Administrative Costs – CalSTRS anticipates that it could absorb any increased administrative cost to implement this proposal.

**BOARD POSITION**

Support, if amended to identify a funding source to finance the benefit enhancement. This bill would eliminate the declining career factor for members who retire after age 61 and 6 months, thereby providing an additional incentive for career members to work beyond that age.