

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

<u>Assembly Bill 649</u>	Assembly Member Negrete McLeod (Introduced 2/22/01)
<u>Position:</u>	Support, if amended
<u>Proponents:</u>	FACCC
<u>Opponents:</u>	ACCCA, PARS, Mendocino College, Long Beach CCD, North Orange County CCD, Hartnell CCD, Lake Tahoe CCD, Santa Clarita CCD

SUMMARY

Assembly Bill 649 permits eligible part-time community college employees to participate in the California State Teachers' Retirement System (CalSTRS) Cash Balance (CB) Benefit Program, Social Security, or any other retirement program offered by the district.

HISTORY

Chapter 592, Statutes of 1995 (AB 1298—Duchney) established the CB Plan administered by CalSTRS to provide retirement benefits for certificated part-time public school employees.

Chapter 1020, Statutes of 2000 (AB 820—Assembly PER&SS), among other provisions, authorized the board members of districts that participate in the CB Benefit Program to elect membership in the program for their trustee service.

CURRENT PRACTICE

The CalSTRS CB Benefit Program is a retirement program for certificated public school employees who are hired to perform creditable service for less than 50 percent of the full-time equivalent of the position. School districts, community college districts and county offices of education may choose to provide the CB Benefit Program to their eligible employees as an alternative to Social Security entirely, or as a choice between Social Security and an alternative retirement plan. Part-time certificated employees continue to have the alternative to have that service credited to the CalSTRS Defined Benefit (DB) Program.

Based on data reported to CalSTRS as of June 30, 2000, the approximate distribution of part-time community college faculty statewide among the different retirement plans is as follows:

Retirement program	Number of participating part-time community college faculty, rounded to nearest thousand (percent of total part-time community college faculty)
Defined Benefit Program	18,000 (49 percent)
Cash Balance Benefit Program	7,000 (19 percent)
Social Security or alternative retirement plan	12,000 (32 percent)
Total	37,000 (100 percent)

The CB Benefit Program has a contribution rate of 4 percent of salary for employers and 4 percent of salary for employees. Although different contribution rates may also be negotiated through collective bargaining agreements, the employer must contribute a minimum of 4 percent of an employee's salary and the sum of the contributions must equal or exceed 8 percent. The program provides a guaranteed rate of return set annually by the Teachers' Retirement Board, which may also declare additional earnings credits. Participating employees become vested in the CB Benefit Program immediately and upon retirement may choose an annuity option if their account balance is at least \$3,500. The CB Benefit Program also provides disability and death benefits, as well as refunds one year after a member's termination from creditable service.

Under current law, an employing entity's governing board must formally resolve to offer the CB Benefit Program to its part-time certificated staff in order for it to be available to eligible employees. At that time, a 60-day election period for eligible employees begins. During this election period, CalSTRS staff conduct overview presentations to employers and educational workshops for employees. Employers are required to provide information regarding the CB Benefit Program, the DB Program and Social Security and any available alternative retirement program to all eligible employees within 10 days of the effective date of the resolution or within 10 days following employment. CalSTRS provides CB Benefit Program and DB Program election packets to district personnel who distribute them to all eligible employees.

Currently, 25 districts offer the CB Benefit Program to their eligible employees, 18 of which are community college districts. (The Los Angeles Community College District is in the initial phase of completing the changes necessary to report to the program.) Within these districts, approximately 20 to 30 percent of eligible CalSTRS DB Program members elect to join the CB Benefit Program, while approximately 80 to 90 percent of employees not currently covered by a CalSTRS retirement program elect to participate. The CB Benefit Program currently has a total of 10,705 participants, and participation has grown by approximately 3,000 participants each year since its inception in 1996.

DISCUSSION

This measure:

- Requires community college districts to offer the CalSTRS CB Benefit Program to faculty employees who are hired to perform creditable service for less than 50 percent of the full-time equivalent for the position. It also requires community college districts to offer eligible employees coverage in Social Security or any alternative retirement plan it may make available to employees to elect in lieu of electing the CB Benefit Program.
- Continues the current requirement that employers inform all part-time employees of the availability of all retirement plan options that are offered, including the CB Benefit Program. AB 649 also allows an eligible employee to elect membership in the CB Benefit Program, Social Security or any other retirement option offered to them by the district. Finally, the bill requires an employee to make an election within 60 days of the effective date of a governing board's resolution or within 60 days of their date of hire, and allows an employee's election to be revocable unless otherwise prohibited by federal law. Under current law, an election to participate in the CB Benefit Program is only revocable if the participant is electing membership in the DB Program. This change would permit a CB Benefit Program participant to elect to make future service creditable to any available retirement plan.

According to the sponsor, employees employed by districts not offering the CB Benefit Program are not provided a meaningful opportunity to select a retirement option and can, by default, be placed in the DB Program. The sponsor believes that by requiring community colleges to offer the CB Benefit Program, employees will be better informed not only about the CB Benefit Program but would be in a position to make an informed choice about the DB Program, Social Security, or an alternative retirement plan.

At the present time, 18 of California's 72 community college districts participate in the CB Benefit Program. By requiring the remaining 54 community college districts to offer the CB Benefit Program to their eligible employees, this measure has the potential to rapidly expand the number of participants in the program. Approximately 63 percent of the part-time community college faculty in the state are employed in districts not currently offering the CB Benefit Program, including 11,000 members of the DB Program.

CalSTRS staff process completed election packets and enter the appropriate information into a database. Staff also assist employers in resolving implementation issues surrounding the rules, regulations and other requirements of the CB Benefit Program. In order to achieve increased efficiencies in the program, further automation of CB Benefit Program functions is currently under consideration. Once a final decision is made regarding which systems to automate, CalSTRS estimates that the project will be completed early in 2002. Due to the program development that is currently underway, staff recommends that the bill be amended to become operative July 1, 2002. In addition, to allow for a staggered implementation by districts across

the state, this bill should also be amended to allow community college districts a one-year period to sign participation agreements with CalSTRS.

FISCAL IMPACT

Benefit Program Costs – This bill would likely result in a significant increase in the current level of contributions to the CB Benefit Program and a corresponding increase in CB Benefit Program benefit payments. In addition, there would likely be a reduction in contributions to the DB Program, as well as a reduction in DB Program liabilities, to the extent that DB members employed in those districts that would now offer the CB Benefit Program would elect to participate in the CB Benefit Program. In addition, for those latter employees, contributions made by the employer and the state General Fund would decrease, because the employer contribution rate is lower in the CB Benefit Program than in the DB Program, and the General Fund makes no contributions to the CB Benefit Program.

Administrative Costs – This bill increases the number of community colleges offering the CB Benefit Program by 300 percent, from the current 18 to 72, with a resulting increase in the number of participants. Additional resources to handle this increase in workload will be determined after the redesign of the CB Benefit Program database and other programmatic efficiencies are completed. In addition, this bill would require an initial increase in employee-election activities. Based on a potential increase of 20,000 to 25,000 participants, one-time printing costs for election pamphlets and other materials would be at least \$50,000.

BOARD POSITION

Support, if amended to specify that the effective date shall be no earlier than July 1, 2002, and that community college districts have until July 1, 2003 to sign agreements with CalSTRS, specifying the terms and conditions of the employer's formal action to provide the CB Benefit Program. This will provide CalSTRS staff time to implement and test scheduled automation projects, coordinate the entrance of the remaining 54 community college districts into the program, and provide the best service possible to existing members and prospective participants.