

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 649 **Assembly Member Negrete McLeod (As Amended 7/9/01)**

Position: **Support**

Proponents: **FACCC**

Opponents: **None known**

SUMMARY

Assembly Bill 649 requires community college districts to offer Social Security coverage and an alternative retirement plan to all eligible part-time employees. Eligible employees could elect retirement coverage under either Social Security or the alternative plan selected by their employer, but not both. Alternative retirement plans would impose a minimum employer contribution of 4 percent of the employee's salary and a minimum total contribution rate of 8 percent. The bill also allows part-time classified community college employees not subject to mandatory membership in the California Public Employees Retirement System (CalPERS) to elect coverage under the Cash Balance (CB) Benefit Program, if the employer offers it as an alternative plan for such employees.

HISTORY

P.L. 101-508 Omnibus Budget Reconciliation Act of 1990 among other things, mandated Social Security coverage for previously uncovered governmental employees, such as part-time, temporary, and seasonal (PST) employees, and allowed governmental retirement systems to offer coverage under their plans to these PST employees in lieu of Social Security.

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

SUMMARY OF CHANGES

The July 9, 2001 version deletes the requirement that community college districts offer the CalSTRS CB Benefit Program to their eligible part-time certificated employees and the July 1, 2002 operative date. Instead, the amendments require the districts to offer all their eligible part-time employees the opportunity to select Social Security or an alternative retirement plan featuring specified minimum contribution rates. Community college districts would have until July 1, 2003 to offer coverage under an alternative plan with a minimum 4 percent employer contribution rate, unless a district provides an alternative retirement plan with a lower employer

contribution rate by January 1, 2002. In such a case, the district would have until the later of July 1, 2004 or the termination of the collective bargaining agreement to pay the minimum 4 percent contribution rate. It also allows community college districts to offer participation in the CB Benefit Program to part-time classified employees. Finally, the bill eliminates the requirement that the CB Benefit Program be the mandatory default retirement plan when a part-time community college employee fails to select a retirement option, and instead allows the community college district to select the default retirement plan.

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 in lieu of offering Social Security, or as a choice between Social Security and an alternative retirement plan. If Social Security and/or another alternative retirement plan is offered in addition to the CB Benefit Program, a part-time employee is enrolled in the CB Benefit Program if the employee makes no other selection.

Based on data reported to CalSTRS as of June 30, 2000, approximately 37,000 part-time faculty teach in California's community colleges. Of that total, approximately 49 percent are members of the Defined Benefit (DB) Program, 19 percent participate in the CB Benefit Program, and 32 percent have coverage under either Social Security or an alternative retirement plan. Currently, 18 of the 72 community college districts offer the CB Benefit Program to their eligible employees (The Los Angeles Community College District is in the initial phase of completing the changes necessary to report to the program). Within these 18 districts, approximately 20 to 30 percent of eligible CalSTRS DB Program members elect to join the CB Benefit Program, which at this time has a total of 10,705 participants.

The CB Benefit Program has a contribution rate of four percent of salary for employers and four percent of salary for employees. Although different contribution rates under the CB Benefit Program may be negotiated through collective bargaining agreements, the employer must contribute a minimum of four percent of an employee's salary and the sum of the contributions must equal or exceed eight percent. Employees covered by Social Security pay a contribution of 6.2 percent of salary, with the employer paying an equal amount. Participants in other alternative retirement plans contribute an amount that varies by district. The CB Benefit 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.

Generally, classified school employees hired to perform creditable service for less than 50 percent of the full-time equivalent for a position and full-time seasonal and temporary employees

who work fewer than six months are excluded from membership in CalPERS unless a school district, community college district or county office of education formally resolves to provide such employees the opportunity to elect coverage under CalPERS. Classified employees who work less than half-time may elect coverage, if offered by their employer, under Social Security or an alternative retirement plan in lieu of Social Security. School employers must monitor their part-time classified employees' level of service and enroll them in CalPERS when they reach the threshold for mandatory membership.

DISCUSSION

This bill:

- Requires community college districts to provide their eligible part-time employees retirement coverage under Social Security by July 1, 2003.
- Requires community college districts to provide their eligible part-time employees retirement coverage under an alternative retirement plan featuring specified notification requirements and a minimum employer contribution of 4 percent of the employee's salary and a minimum total contribution rate of 8 percent by July 1, 2003. Districts that on January 1, 2002 offer an alternative retirement plan and contribute less than 4 percent of salary would have until July 1, 2004 or the termination of the collective bargaining agreement, whichever is later, to pay the minimum 4 percent contribution rate.
- Allows part-time classified community college employees to participate in the CB Benefit Program, if their employer offers the program for such employees and they are not subject to membership in CalPERS.
- Requires eligible employees to elect participation in Social Security or any qualified retirement option offered by the district within 60 days of the effective date of the district board's resolution to provide a new retirement option, or within 60 days of their date of hire.
- Allows an employee's election to be revocable unless otherwise prohibited by state or federal law and allows an employee to change retirement plans once per year.
- Permits the employer to select Social Security or the alternative retirement plan for their part-time employees who do not make an election.

According to the sponsor, part-time employees of community college districts are not provided a meaningful opportunity to participate in a retirement plan suited to their needs. The sponsor believes that by requiring community colleges to offer coverage under Social Security and an alternative retirement plan in lieu of Social Security, employees will be better able to elect retirement coverage that best meets their individual needs, whether it is Social Security, the CalSTRS DB Program, or an alternative retirement plan such as the CB Benefit Program.

Currently, CalSTRS provides CB Benefit Program and DB Program election packets to district personnel who distribute them to all eligible employees. At that time, a 60-day election period for eligible employees begins. Employers offering the CB Benefit Program are required to provide information regarding the Program, the DB Program, 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. They must also maintain a record of the employee's acknowledgement that they received this information. The CalPERS Defined Benefit Program also requires employers to provide information to employees on their retirement options and election procedures. AB 649 extends these notice and disclosure requirements to any alternative retirement plan a community college employer offers its part-time employees making an election, and requires the following information be furnished to each employee:

- The employee's rights, responsibilities under each plan, as well as the benefits payable.
- The retirement plan the employee will be placed in if they fail to make an election.
- Whether the retirement plan offered is a defined benefit, defined contribution, or hybrid plan.
- The benefits offered under each retirement plan.
- The contribution rates, vesting period and fees assessed by each plan, including who is responsible for paying the fees.
- Benefit distribution and portability terms.

Under most circumstances, an election to participate in the CB Benefit Program is currently only revocable if the participant is electing membership in the DB Program. AB 649 allows eligible part-time employees to change coverage to another retirement plan no more than once per year. This change would permit a CB Benefit Program participant to elect to make future service creditable to any available retirement plan.

AB 649 also changes the definition of creditable service under the CB Benefit Program to include service performed by classified community college employees excluded from mandatory CalPERS membership and requires classified employees to leave the CB Benefit Program when their base of employment changes to require mandatory membership in CalPERS. Community college districts offering the CB Benefit Program would only report to CalSTRS the service of classified employees who elect to participate in the CB Benefit Program, and would transmit the associated contributions to CalSTRS along with those of their credentialed employees who also elect the CB Benefit Program.

FISCAL IMPACT

Benefit Program Costs – This bill may result in an increase in the current level of contributions to the CB Benefit Program and a corresponding increase in CB Benefit Program benefit payments. 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 districts that would now offer the CB Benefit Program or another alternative retirement plan elect to participate in the CB Benefit Program or other alternative retirement plan. For those latter employees, contributions made by the employer would decrease, because the employer

contribution rate is lower in the CB Benefit Program and other alternative retirement plans than in the DB Program. Because the General Fund contribution to the DB Program is calculated as a percentage of the total creditable compensation earned by members of the DB Program with no corresponding contribution to the CB Benefit Program or other alternative plans, the General Fund contribution would decrease as eligible DB members elect to participate in the CB Benefit Program and other alternative retirement plans.

Administrative Costs – Additional resources to handle a possible 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 requiring one-time printing costs for election pamphlets and other materials of up to \$50,000.

BOARD POSITION

Support. This measure provides community college employees who work less than half-time the opportunity to participate in a retirement program tailored to their needs.