

BILL NUMBER: AB 757 (PER&SS) As Introduced 02/22/07

SUMMARY

Assembly Bill 757 is the annual California State Teachers' Retirement System (CalSTRS) technical "housekeeping" bill. The bill makes various technical and conforming changes to the Teachers' Retirement Law (TRL) to facilitate efficient administration of the State Teachers' Retirement Plan (Plan), which includes the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program and the Cash Balance (CB) Benefit Program.

PURPOSE OF THE BILL

AB 757 is necessary to maintain a well-organized Plan.

POSITION AND SUPPORTING ARGUMENTS

Sponsor. This bill will make technical and conforming amendments necessary for continued effective administration of the System.

ANALYSIS

Specifically, the changes made by AB 757 (all sections refer to the Education Code):

1. Amends Section 22803 to clarify that up to 24 consecutive months of a partial workload may be purchased as maternity/paternity leave as long as the employer approved the partial workload as this type of leave.
2. Amends Sections 23805 and 23855 to clarify reference to "Option 3," a joint and survivor option that became unavailable to members for new election as of January 1, 2007.
3. Conforms Section 24213 to include reference to service credit granted for unused education leave among the types of service credit excluded from the service retirement benefit calculation, which was originally left out due to an oversight.
4. Conforms Section 24312.1 to include an existing restriction that applies to active and retired members naming an option beneficiary, but was mistakenly left out of Chapter 655, Statutes of 2006, which codified the new joint and survivor options.
5. Amends Section 24410.7 to clarify that an ad hoc benefit increase is a percentage of the total benefit amount.
6. Amends Section 24976 to establish the operating account in the Deferred Compensation Fund that is necessary to manage the new CalSTRS 403(b) compliance and administrative services.
7. Amends Section 25009 to clarify that a retired DB member may not use the lump-sum distribution of the DBS retirement benefit to complete payment of a service credit purchase or a redeposit of service credit.
8. Amends Section 4404 to correct a typographical error.

LEGISLATIVE HISTORY

Chapter 780, Statutes of 2006 (AB 2462—Mullin), establishes the CalSTRS 403(b) administrative and compliance program for school employers who wish to contract with CalSTRS for those services.

Chapter 655, Statutes of 2006 (SB 1466—PE&R), among other things, codifies the new joint and survivor options that took effect as of January 1, 2007.

Chapter 1027, Statutes of 2000 (AB 429—Correa), authorizes ad hoc benefit increases for all benefits in effect as of January 1, 2000.

PROGRAM BACKGROUND

1. Clarifying maternity/paternity permissive service credit.

Current law is unclear whether a partial workload is considered an employer-approved maternity/paternity leave. Federal law allows a partial workload to be purchased as maternity leave under permissive service credit guidelines. Therefore, this amendment clarifies that a partial workload may be purchased as maternity/paternity leave permissive service credit as long as the employer approved the partial workload as this type of leave. In addition, the amount of service credit from maternity/paternity leave that may be purchased is also unclear. This amendment also clarifies the amount of service credit that may be purchased from maternity/paternity leave may not exceed 24 months.

Education Code section affected by amendment: 22803

2. Clarify reference to “Option 3.”

Reference is made under the Family Allowance and the Survivor Benefit Spousal Allowance to “Option 3,” a joint and survivor option that became unavailable to members for new election as of January 1, 2007. This amendment clarifies reference to Option 3, as that section read on December 31, 2006, to avoid potential member and staff confusion and eliminate the interpretation that CalSTRS is providing a benefit that is no longer available.

Education Code sections affected by amendment: 23805 and 23855

3. Conform the calculation of a service retirement benefit after terminating a disability benefit.

Service credit from unused sick and education leave, and permissive and out-of-state service credit purchased by the member are not included in the calculation of a member’s service retirement allowance after converting from disability. However, Section 24213 does not exclude the service received from unused education leave, due to an oversight. Therefore, this amendment includes reference to service credit for unused sick leave among the other types of service credit that are excluded from the benefit calculation.

Education Code section affected by amendment: 24213

4. Conform existing restrictions on the naming of an option beneficiary.

Members are currently restricted from naming an option beneficiary if either the member or the beneficiary is inflicted with a known terminal illness. Chapter 655, Statutes of 2006, established new joint and survivor options and a window period during which active and retired members with an existing option may change their selection. However, the terminal illness restriction was inadvertently left out of the provision that provide the window period for changes to options. While the Plan Amendment adopted by the Board provides the authority to enforce this restriction, it is added by this amendment to eliminate potential confusion and provide consistency.

Education Code section affected by amendment: 24312.1

5. Clarify application of ad hoc benefit increases.

Chapter 1027, Statutes of 2000, provides ad hoc increases to benefits in effect on January 1, 2001. These ad hoc increases are a percentage of the total benefit amount, not a flat dollar amount. As such, if the member's benefit amount increases or decreases after the effective date of the benefit, the ad hoc benefit increase should adjust proportionately. Therefore, this amendment is necessary to clarify application of these ad hoc increases.

Education Code section affected by amendment: 24410.7

6. Establish the CalSTRS 403(b) compliance and administrative services operating account.

Chapter 780, Statutes of 2006, authorizes CalSTRS to provide compliance and administrative services for employer-sponsored 403(b) plans to employers who contract with CalSTRS for these services. This amendment creates the account in the Deferred Compensation Fund that is necessary to manage the new CalSTRS compliance and administrative services.

Education Code section affected by amendment: 24976

7. Conform the authorized uses of the DBS lump-sum retirement benefit to the authorized uses of the Partial Lump Sum benefit.

Members are required to complete a purchase or redeposit of service credit prior to retirement because this additional service credit enhances the member's retirement benefit. Therefore, members are prohibited from using funds received through the payment of a lump-sum retirement benefit to complete their payment for such purchases. Current law prohibits the use of the Partial Lump Sum retirement benefit for these purposes. This amendment provides consistency among the restrictions on the use of lump-sum benefit distributions by clarifying that the DBS distribution may also not be used to complete a service credit purchase or redeposit.

Education Code section affected by amendment: 25009

8. Corrects a typographical error.

A typographical error was made during the drafting of Chapter 780, Statutes of 2006. This amendment corrects that error.

Education Code section affected by amendment: 44041

FISCAL IMPACT

Benefit Program Cost – None.

Administrative Costs/Savings – Minor and absorbable.

SUPPORT

CalSTRS

OPPOSITION

None