

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 906 **Assembly Member Salinas (As amended 9/14/01)**

Position: **Neutral (Staff recommendation)**

Proponents: **AFSCME, CA Association of Professional Scientists, CA Association of Psychiatric Technicians, DPA, International Union of Operating Engineers, Union of American Physicians and Dentists**

Opponents: **None known**

SUMMARY

Assembly Bill 906 temporarily reduces employee retirement contribution rates for specified state employees who are members of the California Public Employees' Retirement System (CalPERS) or the Defined Benefit (DB) Program of the California State Teachers' Retirement System (CalSTRS).

HISTORY

Chapter 74, Statutes of 2000 (AB 1509—Machado) requires that 25 percent of the contributions of members of the DB Program be redirected to a separate nominal account in the Defined Benefit Supplement (DBS) Program until January 1, 2011.

CURRENT PRACTICE

Existing law prescribes fixed contribution rates for state employees who are members of the DB Program, as well as their employers. Currently, all CalSTRS active members contribute an amount equal to 8 percent of their creditable compensation to the DB Program. The member's contribution provides a portion of the funding for DB Program and DBS Program benefits. CalSTRS calculates a member's retirement benefit under the DB Program using (1) the member's credited service, (2) a factor based on the member's age at retirement and (3) the member's final compensation.

The DBS Program provides supplemental benefits for members of the DB Program, in which a quarter of the member's contributions (currently equal to 2 percent of the member's creditable compensation) are credited to the member's DBS account, rather than the member's DB Program account. These contributions to the DBS Program began January 1, 2001 and will continue until January 1, 2011. Contributions credited to the DBS account are credited with interest at a guaranteed minimum rate and the Teachers' Retirement Board may declare an additional earnings credit if actual earnings are higher. A Gain and Loss Reserve has been established to

pay interest earnings in years when investment returns are less than the minimum rate. Upon retirement, death, disability or termination, the member receives the balance of credits in his or her account, either in a lump sum or as a monthly annuity, in addition to his or her normal DB Program retirement allowance.

DISCUSSION

AB 906 reduces state employee contributions to the CalSTRS DB Program to 5.5 percent of the member's creditable compensation from August 31, 2001 to June 30, 2002, and to 3 percent from July 1, 2002 to June 30, 2003, for all members who are:

- 1) state employees in Bargaining Units 10, 12, 16, 18, and 19;
- 2) employed by the state and excluded from the definition of "state employee" in subdivision (c) of Section 3513 of the Government Code;
- 3) officers or employees of the executive branch of state government who are not members of the civil service.

Currently, only 23 state employees are active members of the DB Program. Of this total, 19 members are employed by the State Board of Education and one member is employed at a state hospital. These employees are represented by bargaining units 21 and 3, respectively, which are not included under the bill. There are three "excluded" employees in the California Community College Chancellor's Office who would be eligible for the temporarily reduced employee contribution rates.

Members of the DB Program also have contributions, equal to 2 percent of creditable compensation from January 1, 2001 until January 1, 2011, credited to the member's Defined Benefit Supplement (DBS) account. These contributions are credited with interest, and the balance of credits is distributed to the member upon his or her retirement, disability, death or termination. As drafted, AB 906 excludes the employees affected by this bill from these contributions being credited to their DBS accounts while their DB contributions are reduced. This will reduce these employees' future DBS Program benefit.

If it was not the intent of the bill to reduce benefits under the retirement program, the language reducing the affected members' DB Program contributions would need to be modified by future legislation.

FISCAL IMPACT

Benefit Program Costs – The three affected state employees contribute a combined \$1,433 per month to the DB Program. AB 906 will reduce total contributions to the DB Program by \$12,539 for the period from August 1, 2001 to June 30, 2003. These reduced contributions to the DB Program by the three affected employees would not have a material effect on the DB Program.

Administrative Costs – Undetermined, likely nominal costs associated with adjusting reporting procedures, manually receiving employee and employer contributions, and inputting corrected data into CalSTRS' automated systems.

RECOMMENDATION

Neutral. The bill enhances benefits for only three members employed by the state, and would have no material effect on the DB Program. Legislation will be necessary to allow these members to contribute to their DBS accounts for the period their contribution rates are reduced.