

BILL NUMBER: AB 1310 (Allen) as introduced February 17, 2017

SUMMARY

AB 1310 requires CalSTRS and other public retirement systems, as defined, to disclose the unfunded liability and healthcare debt of the system on each member statement provided to members of the system.

BOARD POSITION

Oppose. The board's policy is to oppose legislation that appropriates amounts from the funds administered by CalSTRS for purposes that are not solely in the best interest of the members, participants or beneficiaries of the retirement plans.

REASON FOR THE BILL

According to the author, not addressing the unfunded liability could have significant negative impacts on the financial security of more than 300,000 civil servants. According to the author, additional information would help these employees understand this financial uncertainty and allow them to actively engage in the process to minimize that uncertainty.

ANALYSIS:

Existing Law:

Education Code sections 22309 and 26214 require CalSTRS to make statements of member's and participant's individual Defined Benefit (DB), Defined Benefit Supplement (DBS) and Cash Balance (CB) accounts.

This Bill:

Specifically, AB 1310 requires CalSTRS and other public retirement systems, as defined, to disclose the unfunded liability and healthcare debt of the system on each member statement provided to members of the system.

CalSTRS currently provides information on the unfunded liability, along with demographic and long-term investment information to provide added context, to not only members receiving annual statements, but also retirees and beneficiaries. While this information could be added to the annual statement, doing so would be redundant and would likely create unneeded confusion and concern. The member statement is intended to provide specific information about a member's benefit. While the unfunded liability is critical to the overall health of the plan, it does not relate directly to the member's benefit.

The current CalSTRS member benefit statement has very limited space due to the amount of information provided to members. To mitigate any undue concern resulting from the inclusion of the unfunded liability in the member statement, CalSTRS would incur additional costs to responsibly provide the necessary contextual information as an

addendum to the statement. Overloading the members with so much information could discourage members from fully digesting or even reading any of the information. The resulting confusion may lead to increased member inquiries and additional costs to respond via email, written correspondence and telephone.

LEGISLATIVE HISTORY

AB 1469 (Bonta, Chapter 47, Statutes of 2014) increased member, employer and state contributions to fully fund the DB Program by 2046.

PROGRAM BACKGROUND

CalSTRS provides an annual member statement, or Retirement Progress Report, in early September to every active and inactive member of the DB Program and all participants of the CB Benefit Program. Currently, 52,000 annual statements are mailed out, while 627,000 are posted on members' and participants' online accounts. The annual statement contains important member information, including a summary of benefit program transactions during the prior year, accumulated service credit, contribution and interest balances, death benefit recipient and beneficiary information, and projections of retirement benefits for members at least 45 years of age. It provides a personalized overview of the individual's CalSTRS account and benefits that are constitutionally guaranteed.

The unfunded liability is a snapshot of the gap between CalSTRS current assets and the obligations facing the system, which as of the June 30, 2016, actuarial valuation is \$96.7 billion. The unfunded liability is less relevant in determining the long-term viability of a pension fund than the direction in which the funding level is headed. It is important to look at the expected contributions and economic and demographic assumptions as factors for the fund's long-term sustainability. In response to the expected long-term depletion of the fund, in 2014, California enacted Chapter 47, Statutes of 2014 (AB 1469–Bonta), which implemented a funding plan for the DB Program through June 30, 2046, with shared contribution increases by the state, employers and members phased in over several years. The funding plan also gave the board limited rate setting authority to adjust the state and employer contribution rates. Even with recent changes to economic and demographic assumptions, the funding plan's scheduled increases and limited board authority have put CalSTRS on path to nearly reach full funding by 2046.

In order to ensure that members are aware of CalSTRS funded status, the unfunded liability is provided in a summary report inserted into newsletters that are sent to retired members and beneficiaries in February and to active and inactive members in May. The summary report shows CalSTRS funding ratio and asset value over time and investment performance compared to benchmarks, providing a comprehensive and responsible illustration of the long-term health of the fund. This summary report to members is included in newsletters that are tailored to a specific audience based on a member's status or whether the individual is a retiree or beneficiary. The newsletters are delivered by mail to 476,581 individuals and electronically to 339,589 additional people. Additionally, the summary report can be found as a stand-alone publication on the CalSTRS website.

FISCAL IMPACT

Program Cost – None.

Administrative Costs/Savings – \$18,000 increase in administrative costs in order to provide the summary report to members, which discloses the unfunded liability, as an addendum to the annual member statement. There may also be increased contact center call times in order to respond to questions about the unfunded liability.

SUPPORT

None known.

OPPOSITION

CalSTRS

ARGUMENTS

Pro: None.

Con: Requires redundant information to be provided that is already disclosed to a much broader audience, including active and inactive members, retirees and beneficiaries, on an annual basis.

Creates the need to present excessive information that can be confusing and cause unneeded worry for a member trying to review his or her statement.

Forces additional pages to be added to the limited space on annual member statements.

LEGISLATIVE STAFF CONTACT

Kristoffer Fernandez
Legislative Analyst,
CalSTRS Governmental Relations,
(916) 414-1994
kfernandez@calstrs.com

John Maradik-Symkowick
Manager,
CalSTRS Governmental Relations,
(916) 414-1977
jmaradik-symkowick@calstrs.com

Joycelyn Martinez-Wade
Director,
CalSTRS Governmental Relations,
(916) 414-1981
jmwade@calstrs.com