

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

<u>Assembly Bill 1586</u>	Assembly Committee on Public Employees, Retirement and Social Security (As Amended 5/5/03)
<u>Position:</u>	Sponsor
<u>Proponents:</u>	Teachers' Retirement Board
<u>Opponents:</u>	None known

SUMMARY

Assembly Bill 1586 permits the recalculation of benefits paid to part-time and adult education community college employees who were members of the Defined Benefit (DB) Program prior to July 1, 1996 to correct inadvertent reductions in benefits paid as a result of legislation enacted in 1996 and 1998.

LEGISLATIVE HISTORY

Chapter 390, Statutes of 1995 (AB 1122—Cannella) establishes appropriate minimum standards for full-time when employed on a part-time basis in a community college, for the purposes of crediting service in CalSTRS.

CURRENT PRACTICE

Members of the DB Program accrue service credit based on the ratio of earned compensation to the compensation earnable, which is the compensation that would be earned if the member worked in that position on a full-time basis. Prior to July 1, 1996, the compensation earnable for a part-time community college instructor was equal to the hourly rate of pay, multiplied by 1,050 hours. Although 1,050 hours represented the amount of work that a full-time community college faculty member might work in a year, including activities such as office hours and paid preparation time, such a standard does not apply to a part-time instructor, who receives pay only for instructional hours. The maximum amount of instructional hours a full-time faculty member might work generally equals 525 hours per school year.

Beginning in July 1996, changes were made to the definition of full-time equivalent (FTE), the basis for determining compensation earnable for part-time community college instructors. Currently, the FTE for part-time instructors is a minimum of 525 hours. The minimum FTE for an adult education instructor in a community college is 875 hours. By reducing the FTE from 1,050 hours to a level more appropriate for part-time employment, members accrue credited

service at a more appropriate rate. Because final compensation is based on the member's compensation earnable, and the compensation earnable is based on the FTE, reducing the FTE reduces the member's final compensation. If the final compensation was based on employment after July 1, 1996, it would be based on a lower FTE and therefore would, itself, be lower. As a result, a member whose career was largely based on a high FTE from service prior to July 1, 1996, but whose final compensation is based on a low FTE would receive a lower benefit than a member whose career was largely based on a high FTE from service prior to July 1, 1996, but whose final compensation is based on a low FTE would receive a lower benefit than a member whose FTE was the same through the member's entire career.

DISCUSSION

Specifically, the amendments of May 5, 2003 removed the language related to permitting part-time classified employees as participants in the Cash Balance Benefit Program. As a result, AB 1586 contains one provision, and that is to authorize the recalculation of DB Program benefits for part-time and adult education community college instructors.

The previous FTE, 1,050 hours, created a situation where a part-time instructor who worked 60 percent of a full instructional load, or 315 hours, earned .300 years of credited service (315/1,050), rather than .600 years of credited service. Consequently, members with part-time employment did not accrue credited service as quickly as they should, and therefore, did not qualify, or vest, for DB Program benefits. To address this problem, the minimum standard for a part-time instructor was set at 525 hour to reflect the amount of service a part-time community college instructor could actually perform. Because FTE affects the determination of final compensation, it also affects their CalSTRS benefits. The reduction in FTE, although intended to provide a more appropriate accrual of credited service and determination of final compensation, had the unintended consequence of reducing some member's benefits below the amount the member would otherwise have received. This impact exposes CalSTRS to potential litigation from members who contend that CalSTRS unconstitutionally impaired their retirement benefits. CalSTRS cannot address this issue administratively, because the Constitution requires it administer the law, even if unconstitutional, unless an appellate court orders otherwise. The intent of AB 1586 is to provide a legal basis for correcting this unintended reduction in some member's benefits.

Under this bill, CalSTRS would recalculate the retirement benefits of part-time and adult education community college instructors who were employed in a community college prior to July 1, 1996 and retired after that date. The benefit that results from this recalculation would be compared to the benefit the member is currently receiving and the greater of the two benefits would be paid to the member. Part-time and adult education community college employees who began employment prior to July 1, 1996 and who retire in the future would also have their benefits calculated using both the FTE as it was in 1996 (1,050 hours), compared to the benefit that they would receive under the current FTE established by their employing district.

FISCAL IMPACT

Benefit Program Cost – No additional benefit cost, assuming that the existing law would subject CalSTRS to litigation regarding a reduction in benefits.

Administrative Costs – Estimated total one-time cost to recalculate the retirement allowance for up to 353 retired part-time community college instructors who retired after July 1, 1996 is approximately \$75,000 (1 PY). Additionally, requires ongoing resources of \$75,000 (1 PY) per year to calculate and determine the correct retirement allowance for up to 18,100 part-time community college instructors who began employment prior to July 1, 1996 and will retire in the future.

BOARD POSITION

Sponsor. To fund the administrative costs of this bill, an appropriation of \$150,000 should be amended into the bill. AB 1586 is consistent with the Board's mission to provide a financially sound retirement benefit to all of California's educators; the bill addresses a problem that otherwise might subject CalSTRS to successful litigation by affected members.