

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Bill Number:** AB 1852 - Mullin (As amended 8/04/04)

### SUMMARY

AB 1852 eliminates the minimum age requirement for a member of the California State Teachers' Retirement System (CalSTRS) Defined Benefit (DB) Program who elects to receive a lump-sum payment in return for an actuarial reduction in the monthly benefit. Additionally, DB Program members and Cash Balance (CB) Benefit Program participants would be exempt from paying employee contributions for the period of time served in the armed forces, not to exceed one year, if the period of service occurs between September 11, 2001 and July 30, 2005. AB 1852 appropriates \$53,000 from the Teachers' Retirement Fund to the Teachers' Retirement Board to modify the system's database of member accounts, as specified.

### PURPOSE OF THE BILL

AB 1852 provides all DB Program members who are eligible to retire with the option to receive part of their service retirement allowance in a lump-sum payment, regardless of age. Additionally, the bill helps ease the financial burden for CalSTRS members currently serving on active duty in the military, who would otherwise receive a lesser service retirement benefit if the member did not pay additional employee contributions to receive credit for time served in the armed forces.

### BOARD POSITION

Support. This legislation is consistent with past practice to provide CalSTRS retirement service credit for military service during times of conflict or national emergency. It is also consistent with CalSTRS' goal to raise the quality in delivery of benefits, products and services to the best in class.

### SUMMARY OF AMENDMENTS

The August 4, 2004 amendments:

- Clarify the monthly unmodified allowance payable in exchange for the partial lump-sum payment.

### ANALYSIS

Expanded Lump-Sum Payment - AB 1852 eliminates the explicit age requirement for the partial lump-sum payment in current law, and instead bases the partial lump-sum payment on the extent to which the member's allowance (including all bonuses) exceeds an amount equal to 2 percent of final compensation per year of service, up to the current maximum 15 percent reduction in the monthly benefit. The Teachers' Retirement Law presumes that these payments have no actuarial impact to the DB Program. To the extent, however, that a member knows that he or she will have a shorter-than-normal lifespan, there could be an actuarial impact on the DB Program if that person elected to receive a partial lump-sum payment. This is referred to as adverse selection. In order to maintain no net actuarial impact, the bill includes language to specify that any partial lump-sum payment made in a given year be adjusted by a factor adopted by the Board that accounts for adverse selection by members electing the partial lump-sum payment.

Military Service - Under this bill, the DB Program member and CB Benefit participant returning to CalSTRS-covered employment after a period of qualifying military service would submit his or her application to receive service credit in the same way as he or she would to purchase that time as additional service credit. However, the member or participant would not be required to submit payment for the employee contributions normally required by CalSTRS. The amount of the employers' contributions due to the system would be billed after the member or participant returns to work, and the employer would make one payment covering the contributions due for the period of military service.

## **LEGISLATIVE HISTORY**

AB 979 (Cedillo, 2001) would have exempted members of the DB Program and participants in the CB Benefit Program called to active military duty between September 11, 2001 and July 30, 2005, from paying the required employee contributions for up to one year and receive retirement benefits for their military service. This bill was held in Assembly.

Chapter 897, Statutes of 2000 (AB 2456—Wright) allows members of the DB Program to elect to receive a lump-sum payment and a reduced monthly allowance who retire on or after January 1, 2002 and before 2011.

Chapter 965, Statutes of 1998 (AB 2765—Assembly PER&SS) the CalSTRS annual technical housekeeping bill, among other things, makes technical changes to the Teachers' Retirement Law (TRL) that allow participants in the CB Benefit Program to receive credit for time served on active military duty.

Chapter 680, Statutes of 1996 (SB 1877—Rogers) conforms the laws affecting CalSTRS, the California Public Employees' Retirement System, and '37 Act County Retirement Systems to the federal Uniformed Service Employment and Reemployment Rights Act of 1994 (USERRA). It provides for a five-year limit on an individual's cumulative length of absence from a position of employment by reason of service in the uniformed services for the purposes of retirement benefits and requires employers to pay their share of retirement contributions for the period the member was on active duty.

Chapter 543, Statutes of 1991 (SB 1171—Senate PE&R) the CalSTRS annual technical housekeeping bill, among other things, allows DB Program members who served on active military duty in the Persian Gulf conflict to receive service credit for the time spent on military leave between August 1, 1990 to January 1, 1992, without cost to the member or employer.

## **PROGRAM BACKGROUND**

### Expanded Lump-Sum Payment

Members who retire on or after January 1, 2001, and accumulate at least 30 years of credited service by January 1, 2011, receive a longevity bonus that is added to the unmodified lifetime monthly retirement allowance. This bonus is equal to \$200 per month for 30 years of service; \$300 for 31 years; and \$400 for 32 or more years. In addition, a member who retires with at least 30 years of service credit receives a career factor, equal to 0.2 percent, which is added to the age factor in calculating the DB benefit.

Members who are at least age 60 and have an age factor, including any career bonus, in excess of 2 percent may elect at the time of retirement to receive the amount of the monthly benefit in excess of 2

percent of final compensation per year of service as a lump-sum payment, in return for a permanent actuarial reduction in their monthly benefit payment.

### Military Service

DB Program members and CB Benefit Program participants in the reserves and National Guard may purchase additional service credit (in the case of the DB Program) or make contributions (in the case of the CB Benefit Program) for their time spent on military duty away from employment, whether for active, inactive or training purposes. To purchase military service, DB Program members pay the employee contributions based on the compensation earnable they would have received had they not been absent. CalSTRS employers pay their normal contribution for their returning employees' military service based on compensation earnable only if the member elects to purchase their service and make the employee contributions. However, military service not purchased by a DB Program member does count towards plan vesting within specified limits. CalSTRS employers are required to notify their eligible returning employees of these options upon their return to the classroom, and to notify the System upon reemployment of a member following an eligible period of service in the uniformed services. Participants in the CB Benefit Program in the reserves and National Guard can purchase their time away from the classroom performing military service in much the same manner as members of the DB Program.

Eligible members have previously been exempted in statute from paying the required contributions if they served on active military duty during specified time periods that coincide with WWII and the Korean, Vietnam and Persian Gulf conflicts. In order to receive service credit paid by CalSTRS, the eligible member submitted their application and documentation to CalSTRS, and the employer submitted their records for the period the member would have performed creditable service. The costs associated forgoing member and employer contributions in these previous wars and conflicts were absorbed by the System.

### **FISCAL IMPACT**

#### Benefit Program Cost –

- Expanded Lump Sum Benefit – Any lump-sum payment would be subject to an actuarial adjustment to avoid any program impact on the DB Program.
- Military Service - Following the Persian Gulf conflict, approximately 100 members of the DB Program called to active military duty applied to receive service credit for that eligible period. Since September 11, 2001, CalSTRS estimates that 250 DB Program members would apply to be credited for contributions for the maximum allowable year. Based on 250 eligible members, staff estimates a cost to the Fund of approximately \$1 million. The cost would increase if more than the estimated 250 members are called to active duty. If 50 participants of the CB Benefit Program apply to receive credit for the eligible period, the additional cost to the Military Service Fund would be approximately \$17,725.

#### Administrative Costs/Savings –

- Expanded Lump-Sum Payment - The total one-time cost to modify START, the Web Retirement and Benefit Calculator is estimated to be \$53,000.

- Military Service - Due to the small population of affected members, any document or data processing costs associated with members returning from active duty would be minor and absorbable.

## **SUPPORT**

California State Teachers' Retirement System

California Federation of Teachers

California Teachers Association

Faculty Association of California Community Colleges

## **OPPOSITION**

None

## **ARGUMENTS**

### Expanded Lump-Sum Payment

**Pro:** AB 1852 offers more choice for members when considering their retirement options.

**Con:** Changing the eligibility for receiving the partial lump-sum does not contribute to pension simplification as supported by CalSTRS.

### Military Service

**Pro:** AB 1852 assists teachers who are called to active duty by maintaining the retirement coverage while on active duty.

Paying the employee contributions for members called away to active duty is consistent with the California Public Employees Retirement System coverage of state employees who are called to active duty.

**Con:** The military provisions will modestly increase program costs as members would not be required to pay contributions to receive service credit for the eligible period of time served in the uniformed services.