

Bill Number: AB 1852 (Mullin) As amended 8/23/04

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 at retirement, to receive a lump-sum payment in return for an actuarial reduction in the monthly benefit. Additionally, 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.

BOARD POSITION

Support. This legislation removes the age requirement for electing a partial lump-sum payment at the time of retirement, in lieu of a monthly "longevity bonus" that is added to the monthly retirement benefit received over the lifetime of the eligible member. This is 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 23, 2004 amendments:

- Add conforming and chaptering-out-language for Section 24216 of the Education Code as proposed by AB 2753, the CalSTRS Retirement Incentive Program.

ANALYSIS

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.

LEGISLATIVE HISTORY

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.

PROGRAM BACKGROUND

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.

FISCAL IMPACT

Benefit Program Cost – Any lump-sum payment would be subject to an actuarial adjustment to avoid any program impact on the DB Program.

Administrative Costs/Savings – The total one-time cost to modify START, the Web Retirement and Benefit Calculator is estimated to be \$53,000.

SUPPORT

California State Teachers' Retirement System

California Federation of Teachers

California Teachers Association

Faculty Association of California Community Colleges

OPPOSITION

None

ARGUMENTS

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

Con: Changing the eligibility for receiving the partial lump-sum may produce an early distribution of retirement for members who are under age 59 ½.