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**Bill Number:** Assembly Bill 1852 (Mullin) – As Amended 5/20/04

## 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
- Exempts DB Program members from paying employee contributions to their DB Program accounts, 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

## PURPOSE OF THE BILL

AB 1852 provides all DB members who are eligible to retire 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 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.

## POSITION AND SUPPORTING ARGUMENTS

Support, if amended to (1) include Cash Balance (CB) Benefit Program participants who return from active duty military service to be exempted from paying the required employee contributions (2) appropriate \$53,000 from the Teachers' Retirement Fund (Fund) to the Teachers' Retirement Board (Board) for system changes needed to implement the requirements for partial lump-sum payments. 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.

## 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 two 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 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 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 returns to work, and the employer would make one payment covering the contributions due for the period of military service.

Provisions in the bill do not address CB Benefit Program participants who are called to active military service since September 11, 2001, and whose account would not be credited with retirement contributions while they are serving in the armed forces. Staff recommends amendments to include CB Benefit Program participants, and to specify how the amount of contributions granted for the 12-month period following entry into the uniformed services would be determined.

## **LEGISLATIVE HISTORY**

AB 979 (Cedillo, 2001) would have exempted members of the DB Program and the CB Benefit Program called to active military duty between September 11, 2001 and July 30, 2005, from paying the required member 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 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 conform with 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.

## **PROGRAM BACKGROUND**

### Expanded Lump-Sum Payment

Members who retire on or after January 1, 2001, and accumulate at 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

Members of the DB Program and participants in the CB Benefit Program 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, 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.

### **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 of the 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.

#### 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**

CalSTRS

California Federation of Teachers

California Teachers Association

### **OPPOSITION**

None