CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 212	**Assembly Member Maze (As amended 5/12/03)**
Position:	**Support**
Proponents:	**Author (Sponsor), CTA, CFT, Porterville USD**
Opponents:	**None known**

SUMMARY

Assembly Bill 212 reopens and makes permanent an existing retirement incentive program (often referred to as the "Golden Handshake" program) which provides an additional two years of service credit to members of the Defined Benefit (DB) Program employed by participating school districts able to demonstrate cost savings. It also establishes a new retirement incentive program to allow school districts to add four years of service credit to those DB Members that agree to retire.

HISTORY

Chapter 20, Statutes of 1994 (SB 858—PE&R) reestablished the California State Teachers' Retirement System (CalSTRS) retirement incentive program, from 3/30/94 through 12/31/98.

SB 107 (Hughes—1993) vetoed by the Governor, would have removed the 1/1/94 sunset date of the Golden Handshake provisions, thereby continuing the program on a permanent basis.

Chapter 996, Statutes of 1990 (AB 2609—Hughes), reestablished until 12/31/93, the retirement incentive program.

Chapter 601, Statutes of 1987 (AB 960—Hughes) extended the retirement incentive program through 6/30/90. There was, however, a six-month period from 7/1/87 through 12/31/87 when the provisions of this bill were not operative.

Chapter 293, Statutes of 1985 (SB 835—Marks) A provision included in Chapter 361, Statutes of 1984 required the Chancellor of the California Community Colleges certify that implementation of the legislation will result in no costs to CalSTRS, the community college district, or the County Superintendent of Schools, as specified. This bill required the community college district make the certification to the Chancellor, instead of the Chancellor making the certification.

Chapter 361, Statutes of 1984 (AB 2223—Hughes) established the CalSTRS retirement incentive program, permitting members to receive an additional two years of service credit, under specified conditions, if the employer, by formal action, makes specific determinations and transmits the actuarial equivalent amount of money and the System's related administrative costs to CalSTRS.

CURRENT PRACTICE

The basic retirement formula under the DB Program is calculated by multiplying the member's years of credited service by his or her final compensation and an age factor based on the member's age at the time of retirement (currently 2 percent at the normal retirement age of 60). A member may retire starting at age 50 with 30 years credited service, or starting at age 55 with at least 5 years credited service. The retired member's benefit calculation is viewed as follows:

The age factor ranges from 1.1 percent at age 50 to a maximum 2.4 percent at age 63. Members with at least 30 years of creditable service receive an additional .2 percent credit to their age factor, not to exceed 2.4 percent. Final compensation is calculated as either the average of the member's highest 36 consecutive months creditable compensation, or, if the member has at least 25 years creditable service, the average of their highest 12 consecutive months' creditable compensation. A longevity bonus is also added to the monthly unmodified retirement allowance of members who accumulate at least 30 years of service credit prior to January 1, 2011. The amount of the longevity bonus depends on their years of service credit at retirement. With 30 years of service credit, members receive a monthly increase of $200; with 31 years, an increase of $300; with 32 or more years, an increase of $400.

Retirement Incentives in the DB Program
School districts may provide their credentialed employees an incentive for early retirement by adding two years of service credit in calculating the DB benefit. This additional service credit, like other forms of service credit not associated with actual educational service within California, does not count towards other CalSTRS benefit enhancements. In order to participate, a school district must have taken formal action by December 31, 1998 to offer the program, establish window periods in the formal action within which its eligible employees must retire, and demonstrate a cost savings or other benefit to the district. In order for employees to receive the benefit, they must meet the requirements for a service retirement, retire within the window period and file a retirement application with CalSTRS before the end of the month in which they retire. In addition, the district must submit the proper forms to CalSTRS, pay the actuarial cost of the benefit and an administrative fee to the System.

At various time since the incentive program was established in 1984, school districts have been able to elect to participate in the program and establish window periods of 60 to 120 days by formal board action, usually a resolution. The deadline for a board to approve these window periods is set in the Teachers' Retirement Law, and has alternately lapsed and later been extended through legislation. Employees who retire during the window period are granted the two additional years of service credit. An employer may have multiple, but not overlapping, window periods in any year. In fact, a small number of school districts have multiple window periods extending many years into the future. The school district retains control of whether to open the window and encourage employees who are members of the DB Program to retire.

The employer must pay CalSTRS the actuarial cost of the benefit plus an administrative fee of $250 within 30 days of the effective retirement date. This payment is based on an estimate of the present value cost of the benefit, and when the exact billing is determined, the employer may receive a refund, if overpaid, or be notified that more money is due, if underpaid. Under a deferred payment plan established by the Teachers' Retirement Board (Board), the employer can pay the present value over a period of four years, with the first billing sent to the district one year after their participating employee's effective retirement date. The administrative cost under the deferred plan is $285, with the System charging its regular interest rate of 6% for the 2003-03 fiscal year on the balance–the same rate charged to DB members making payments on their own service credit purchases. The employee's retirement incentive benefit is not affected by the method of payment and CalSTRS does not wait for the present value payment before granting the additional years of credit. Approximately 70 percent of the individual retirement incentive benefits are paid by school districts on a deferred basis.

FISCAL YEAR	School Districts Offering Golden Handshake	Retirees Receiving Golden Handshake	Total Retirements
2001 / 2002	29	107	9,762
2000 / 2001	40	258	8,701
1999 / 2000	140	943	7,556
1998 / 1999	420	1,792	7,248
1997 / 1998	400	1,450	7,332
1996 / 1997	300	1,441	6,011
1995 / 1996	407	1,402	6,985
1994 / 1995	342	789	7,140

Cost Savings Realized by Districts

Participating districts are required to document their cost savings and the State Controller's office to review the program and report annually to the Legislature on the cost savings realized by these districts.

Participating districts must disclose the following supplementary information in their annual audit reports:

- The reason for granting the additional years of service;
- Number and type of positions vacated;
- Age, service credit, salary and benefits of the retirees receiving the additional service credit;
- Average and service credit for the retirees;

- Comparison of the salary and benefits of each retiree receiving the additional service credit with the salary and benefits of any replacement employee;
- Resulting retirement cost and post-retirement health care benefit costs incurred by the employer;
- Total additional costs and yearly payroll savings resulting from the Program; and
- Number of years it will take for the yearly payroll savings to recover the additional costs generated by the Program.

From this data, the Controller's Office has previously reported to the Legislature the following:

Fiscal Year	Average Age of Retiree	Average Years of Service Credit	Average Number of Positions Vacated	Total Annual Personnel Savings[1]	Total Additional One-Time Costs	Net Cost for the Initial Year[2]	Net Cost Recovery Period (years)
2001-02	59.88	26.34	7.16	$5,247,407	$7,165,233	$1,917,826	1.37
2000-01	60.12	28.20	6.70	$5,735,904	$6,255,150	$519,246	1.09
1999-00	59.71	27.21	6.02	$9,151,845	$12,862,544	$3,710,699	1.41
1998-99	60.57	26.61	5.29	$34,234,574	$47,626,410	$13,391,836	1.39
1997-98	60.20	26.85	5.08	$35,450,874	$49,297,379	$13,846,505	1.39
1996-97	60.38	26.28	4.18	$23,534,624	$31,586,545	$8,051,921	1.34
1995-96	60.19	26.17	4.61	$22,886,733	$30,904,049	$8,017,316	1.35
1994-95	59.88	26.90	4.26	$27,026,746	$32,789,588	$5,762,842	1.21
1993-94	60.13	26.06	4.43	$24,030,738	$26,141,637	$2,110,899	1.09

[1] *Current year savings only; cumulative total is not available because school district reports only reflect current year retiree costs and savings.*

[2] *Net cost for the initial year is the difference between the total annual personnel savings and total additional one-time costs.*

According to the Controller's Office report to the Legislature for the year ending June 30, 2002:

> "An analysis of the audits of local educational agencies indicates that the STRS Early Retirement Incentive Program resulted in a net cost of $1,917,826 during fiscal year 2002-01. The total program cost was $7,165,233 through June 30, 2002, and was calculated based on one-time retirement contributions by the school districts. The annual savings realized in fiscal year 2001-02 is estimated to be $5,247,407. Accordingly, the total program costs will be recovered in 1.37 years. Based upon data presented in this report, the agencies will continue to achieve cost savings in future years."

As of June 30, 2002, there were approximately 80,000 members of the DB Program with sufficient age and service credit to become eligible to retire. This represents the potential statewide pool of DB members able to qualify for the Golden Handshake Program.

DISCUSSION

Specifically, Assembly Bill 212:

Reopens and makes permanent the existing provisions that grants two additional years of service credit to retiring members of the DB Program employed by participating school districts and community college districts. It makes additional changes to:

It also creates a new early retirement incentive program to provide an additional four years of service credit to retiring members of the DB Program whose employers have elected to participate.

Features of the new program include:

- The employer pays the actuarial cost of the additional benefit over a period of up to eight years, in a manner specified by the System.
- The four additional years of service credit provided to members under the program would not count towards the service credit necessary to qualify for the longevity bonus, career factor bonus or one-year final compensation.
- The district is required to certify its participation will result cost savings, occurred as a result of declining enrollment, or will result in the retention of credential employees or employees qualified to teach in teacher shortage disciplines.
- District participation in the new program is subject to collective bargaining, however it may be provided to a non-represented employee upon formal action by the district's governing board.
- Allows CalSTRS to bill employers for the costs to implement and administer the program.
- The program ends January 1, 2005.

AB 212 becomes effective the day it is signed by the Governor.

According to the author, schools are struggling to find and implement costs savings measures to bridge their large budget deficits. He believes allowing districts to participate in a retirement incentive program will generate savings and avoid teacher layoffs, and is an appropriate cost savings measure for schools throughout the state.

AB 212 reauthorizes and makes permanent the existing retirement incentive program for members of the DB Program employed by school districts and community college districts. Eliminating the sunset date for CalSTRS' existing retirement incentive program that provides 2 years of service credit to school employees is consistent with the part of the program that applies to state employees who are members of the DB program, which does not have a sunset date.

Eligibility for the New Retirement Incentive Program

The remainder of this analysis focuses on the new early retirement incentive program to provide four years of service credit to retiring members of the DB Program employed by participating districts. A participating employer may provide the new retirement incentive benefit to its employees either as part of a memorandum of understanding with a representative employee organization, or, through formal action by its governing board to provide the benefit to all employees who are members of the DB Program and are eligible to retire.

This measure permits CalSTRS to recover its administrative costs to implement and maintain a new early retirement incentive program. Under current law, CalSTRS charges participating school districts an administrative fee per member to calculate the value of their new benefit and process the required paperwork under the existing program. Currently, there is a $250 fee when the district agrees to pay the contribution immediately and a $285 fee when the district pays the contributions on a deferred basis. The administrative fee CalSTRS will charge employers participating in the new program will be slightly higher to cover the additional costs associated with doubling the number of billings to districts opting for the deferred payment plan.

Value and Cost of Granting Four Years Additional Service Credit

From data on the average member participating in the existing CalSTRS retirement incentive program collected by the Controller's Office in its Cost Analysis Report, it appears that providing service credit as an incentive does not have a major effect on the age at which a member retires, however, the level of service credit a member has accrued at the time of retirement is lower by approximately the amount of additional service credit they receive. On average, it appears that a retiring member's target age and goal for the amount of service credit they must accrue at the time they retire appears to remain stable.

The chart on the following page demonstrates the value and the costs of the existing and the proposed early retirement incentive benefit. Since the chart is based on an average retiree at a particular age and/or point in time, the effect and cost of the one year final compensation benefit cannot be included in these calculations.

		Unmodified Allowance	Increase in Monthly Allowance	Percent of Final Compensation	Present Value Cost to District
The Average 2002 Retiree: *61.1 years old; 28.3 years svc Earns $5,586/mo*	Current law	$3,432		60%	
	2 years additional service	$3,675	$243	65%	$37,322
	4 years additional service	$3,917	$485	69%	$74,643
The Average Age 55 Retiree: *22.844 years svc Earns $5,116/mo*	Current law	$1,636		32%	
	2 years additional service	$1,779	$143	35%	$24,542
	4 years additional service	$1,923	$287	38%	$49,084
The Average Age 60 Retiree: *29.543 years svc Earns $5,727/mo*	Current law	$3,384		59%	
	2 years additional service	$3,613	$229	63%	$35,960
	4 years additional service	$3,842	$458	67%	$71,920
The Average Age 62 Retiree: *30.699 years svc Earns $5,917/mo*	Current law	$4,360		74%	
	2 years additional service	$4,644	$284	78%	$42,796
	4 years additional service	$4,928	$568	83%	$85,591
The Average Age 65 Retiree: *25.975 years svc Earns $5,468/mo*	Current law	$3,409		62%	
	2 years additional service	$3,671	$262	67%	$36,939
	4 years additional service	$3,934	$525	72%	$73,879

Potential Savings to School Districts and the General Fund
The existing CalSTRS retirement incentive program has demonstrated personnel savings to school districts throughout its existence, with a relatively short payback period of between 1.09 and 1.41 years. While the additional cost to participating districts for in the proposed new early retirement incentive will be substantial and lengthen the time it takes districts to realize any savings, savings will eventually be realized. Districts who do not replace their participating employees will realize the greatest savings, however, the districts who do later replace participating employees will also be able to maximize their savings by stabilizing the cost of salary and benefits for the replacements into the future. In addition, due to the higher assumed rate of return of the DB program, compared to annuities offered by private vendors, it may cost districts less to offer an incentive under this bill than through available alternatives.

Existing law requires the state to make an annual contribution from the General Fund to the TRF equal to 2.017 percent of payroll for members of the DB Program in the fiscal year two years preceding the fiscal year the contribution is made. To the extent that a early retirement incentive program that provides four years of additional service credit to DB members who agree to retire, replaces highly paid teachers with lower paid teachers, or not at all, contributions the TRF and costs to the General Fund will decrease in the future.

FISCAL IMPACT

Benefit Program Costs – Any increased benefit costs will be offset by payments by employers. In addition, districts may realize reduced costs to offer an incentive provided under this bill relative to a comparable benefit provided by an alternative vendor.

Administrative Costs – Additional costs to administer the program, offset by fees paid by participating employers, depending upon the number of participating members.

BOARD POSITION

Support. This bill is consistent with CalSTRS efforts to improve benefits provided to its members.