

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

**BILL NUMBER: AB 2233 - PER&SS (As amended 8/17/04)**

### **SUMMARY**

Assembly Bill 2233 is the annual California State Teachers' Retirement System (CalSTRS) technical "housekeeping" bill. The bill makes various grammatical, technical and conforming changes to the Teachers' Retirement Law (TRL) to facilitate efficient administration of the State Teachers' Retirement Plan (Plan), which includes the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit Program.

### **PURPOSE OF THE BILL**

AB 2233 is necessary for the continued effective administration of the Plan.

### **BOARD POSITION**

Sponsor. This bill will make grammatical and technical amendments necessary for continued effective administration of the system, and delete unessential provisions of the law.

### **SUMMARY OF AMENDMENTS**

The August amendments:

August amendments:

- Education Code Sections 22134 and 22134.5 are amended to delete the term "concurrently" and add text to clarify *concurrent* retirement in determining final compensation under the Defined Benefit Program. Section 22134.5 additionally deletes redundant text that refers to the compensation earnable for purposes of determining final compensation for a Family Allowance;
- Education Code Section 22135 is amended to add the term "average" to clarify the definition of final compensation under the Defined Benefit Program;
- Education Code Section 22171 is amended to delete and add text to clarify the definition of a spouse and to include registered domestic partners, for the purpose of receiving Survivor Benefits;
- Education Code Section 24114 is amended to delete the text "retired for disability" and replace with "receiving a disability retirement benefit" to clarify the earnings limitation criteria under Disability Retirement;

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- Education Code Section 24203.6 is amended to delete Section 24209.5 that is a fictitious section reference and replace with the section references 24209 and 24209.3 for purposes of determining eligibility for the longevity bonus;
- Education Code Section 24204 is amended to add language to codify current practices for the cancellation of a Service Retirement application;
- Education Code Sections 24209.3, 24211, 24212, and 24213 are amended to add *Chapter 19* (the purchase of redeposits) to sections that currently include permissive and out-of-state service. Section 24209.3 is also amended to delete the term “retirement” and replace with “allowance” to clarify the criteria for receiving Service Retirement benefit after Reinstatement;
- Education Code sections 25100 and 25107 are amended to clarify investment options under the 403(b) investment vendor registration product.

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Specifically this bill:

1. Adds conforming language to clarify the rights of registered domestic partners, as outlined in Chapter 421, Statutes of 2003, and additionally deletes and adds text in Section 22171 to clarify the definition of a spouse, including registered domestic partners, for purposes of receiving Survivor Benefits;
2. Deletes and adds text to clarify *concurrent* retirement in determining final compensation under the DB Program, and deletes text that is redundant in defining compensation earnable for purposes of determining final compensation for a Family Allowance;
3. Adds the term “average” to clarify the definition of final compensation under the DB Program;
4. Adds the term “spouse” to clarify the nonmember spouse payment requirements for purchasing additional service credit;
5. Adds the term “Employees” to clarify service performed under the San Francisco City and County *Employees’* Retirement System is excluded under the CalSTRS DB Program;
6. Deletes the text “age and” to clarify that only additional service credit is granted to DB Program members under the 2-Year Retirement Incentive Program;
7. Replaces the text “purchase additional service credit” with “redeposit refunded accumulated retirement contributions” to clarify redeposit conditions under the DB Program;
8. Deletes text in order to eliminate the requirement for witness signatures on a beneficiary designation form;

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9. Deletes the term “annual” in order to allow the System to provide the correct calculation of the earnings limit imposed on members receiving a disability retirement benefit, and deletes and adds text to clarify the earnings limitation criteria under Disability Retirement;
10. Replaces in Section 24203.6 an incorrect section reference with Section references 24209 and 24209.3 for purposes of determining eligibility for the longevity bonus;
11. Adds language to codify the current practices for the cancellation of a Service Retirement application;
12. Adds *Chapter 19* (redeposits) to Education Code Sections 24209.3, 24211, 24212, and 24213 to conform existing law to current practice for calculating the Service Retirement benefit after Reinstatement, and in Section 24209 replaces the term “retirement ” with “allowance” to clarify the criteria for calculating a Service Retirement benefit after Reinstatement;
13. Deletes and adds language in order to be consistent with terminology used to describe the compensation earned when a member works full-time;
14. Replaces the term “benefit” with “unmodified” to clarify the actuarial reduction applied to the retirement benefit when a member elects a Partial Lump-Sum Payment under the DB Program;
15. Clarifies investment options under the 403(b) investment product vendor registration process;
16. Adds text to clarify the authority of the Teachers’ Retirement Board (Board) to set the employer contribution rate as a plan amendment.

## LEGISLATIVE HISTORY

Chapter 548, Statutes of 2003 (AB 106—Corbett) for purposes of receiving survivor benefits under the CalSTRS Defined Benefit Program, defines a spouse as a person who was continuously married to a member for less than 12 months prior to the accidental death of the member, for the period beginning prior to the occurrence of the injury or diagnosis of an illness that resulted in the member’s death.

Chapter 421, Statutes of 2003 (AB 205—Goldberg) extends the rights, protections, benefits, responsibilities, obligations and duties of current, former, and surviving married spouses to current, former and surviving registered domestic partners in California. This bill requires that any formal, same-sex union created in another state be recognized as a registered domestic partnership in California.

Chapter 313, Statutes of 2003 (AB 1207—Corbett) among other things, reopens and makes permanent an existing incentive program that provides an additional two years of service credit to members of the DB Program employed by participating school districts able to demonstrate cost savings.

Chapter 375, Statutes of 2002 (AB 2982—PER&SS) the CalSTRS annual technical housekeeping bill that among other things, clarifies the eligibility for disability benefits provided under the DB Program and the DBS Program.

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Chapter 1029, Statutes of 2000 (AB 1933—Strom-Martin) pays a longevity bonus of \$200 to \$400 per month for members who retire after 2000 and accrue at least 30 years of credited service by 2011.

Chapter 965, Statutes of 1998 (AB 2765—PER&SS) the CalSTRS annual technical housekeeping bill that among other things, authorizes service subject to coverage by the San Francisco City and County Retirement System is excluded from coverage in the DB Program.

Chapter 1166, Statutes of 1992 (SB 1885—C. Green) establishes new survivor benefits and disability programs for all new members entering CalSTRS on or after 10/16/92. Also authorizes persons who were CalSTRS members on 10/15/92, to elect to participate in the new programs.

Chapter 542, Statutes of 1988 (SB 1190—Lockyer) requires CalSTRS, pursuant to a court order, to establish a separate account for service credit and contributions and interest awarded a nonmember spouse in a division of community property. The nonmember spouse would be eligible to elect a retirement allowance or a refund of contributions and interest.

Chapter 431, Statutes of 1980 (AB 2885—Elder) increases the maximum amount of retirement service credit earnable by an active CalSTRS member on an approved leave to serve as an elected member of an employee organization, from a minimum of eight years to a maximum of 12 years.

Chapter 659, Statutes of 1977 (AB 1481—Bannai) the CalSTRS annual technical housekeeping bill that among other things, changes the definition of “effective date of retirement” to clarify that retirement will be effective on the date stated on the member’s application.

## **PROGRAM BACKGROUND**

### **1. Clarification of rights of registered domestic partners**

Chapter 421, Statutes of 2003 (AB 205—Goldberg) extends on and after January 1, 2005, the rights, protections, responsibilities, obligations and duties of current, former and surviving married spouses to current, former and surviving registered domestic partners in California. This bill makes conforming changes to the TRL to clarify the rights of registered domestic partners with respect to benefits and services under the Plan, as outlined in Chapter 421, and provides additional clarification to the definition of a spouse, for purposes of receiving survivor benefits under the DB Program.

*Education Code sections affected by amendment: 22007.5, 22171, 22650, 22651, 22661, 23812, 25000.9, 26002.5, 26004, 26140, 27400, 27401 and 27406*

### **2. Concurrent retirement**

Existing law permits a member to retire concurrently with certain California public retirement systems. CalSTRS may use the salaries for service performed under the other retirement system to calculate the member’s retirement benefit if the service was not performed simultaneously. This bill clarifies that the service under the other retirement system cannot be performed during the same pay period.

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*Education Code sections affected by amendments: 22134 and 22134.5*

### **3. Final Compensation**

Existing law defines “final compensation” as the highest average annual compensation earnable by a member during of three consecutive school years, or any period of 12 consecutive months for members who retire with 25 or more years of service. This bill adds “average” to this section to clarify final compensation under the DB Program.

*Education Code section affected by amendment: 22135*

### **4. Nonmember spouse purchase of additional service credit**

Existing law permits a nonmember spouse who is awarded a separate account to purchase additional service credit in which he or she has a community property interest. This bill adds the word “spouse” in one provision requiring all contributions and interest payments for the purchase of additional service credit by the nonmember spouse are due before the effective date of the nonmember spouse’s retirement.

*Education Code section affected by amendment: 22663*

### **5. Adds “Employees” to the San Francisco City and County Retirement System**

Existing law excludes service performed under the San Francisco City and County Retirement System from coverage in the DB Program. This bill adds the term “Employees” to clarify that existing law refers to the San Francisco City and County *Employees’* Retirement System.

*Education Code section affected by amendment: 22705.5*

### **6. Clarification of two years additional service credit granted under the DB Program**

Section 22714 authorizes participating school districts, community colleges and county offices of education to provide an additional two years of service credit as a retirement incentive to eligible members of the DB Program, if the school district is able to demonstrate a cost savings. This bill deletes the text “age and” to clarify that only additional service credit is granted to DB Program members under that specific section.

*Education Code section affected by amendment: 22714*

### **7. Redeposit conditions under the DB Program**

Section 23023 permits members to redeposit any previously refunded accumulated retirement contributions, including interest, and the payment must be paid in full prior to retirement. This bill deletes inappropriate references in that section related to the purchase of additional service credit, and replaces it with a reference to the redeposit refunded accumulated retirement contributions. It also clarifies System requirements for members who elect to redeposit previously refunded contributions and interest under the DB Program.

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*Education Code section affected by amendment: 23023*

### **8. Eliminates requirement for witness signature on beneficiary designation form**

Existing law permits members of the DB Program to designate on a form, one or more beneficiaries for any benefit payable under CalSTRS at the time of a member's death. A member must also have the beneficiary designation form signed by two witnesses who are not designated as a beneficiary for benefits. This bill eliminates the requirement for two witness signatures on the beneficiary designation form in order to reduce errors or omissions on the form due to incomplete witness signatures.

*Education Code section affected by amendment: 23300*

### **9. Calculation of the earnings limitation for Disability Retirement**

Existing law permits a DB Program member who is receiving a Disability Retirement benefit to earn up to the specified limit in one calendar year without a reduction in his or her retirement allowance. That limit is adjusted each year by the increase in the California Consumer Price Index. This bill deletes the word "annual" to provide for the correct calculation of the increase in the earnings limit and adds conforming text to clarify that the provisions pertain to receiving a benefit under Disability Retirement.

*Education Code section affected by amendment: 24114*

### **10. Eligibility for the Longevity Bonus under a Multiple Retirement**

Existing law pays a longevity bonus of \$200 to \$400 per month for members who retire after on or after January 1, 2000, and accrue at least 30 years of credited service by January 1, 2011. This bill corrects the section reference 24209.5 and replaces it with Sections 24209 and 24209.3 to clarify the eligibility for the longevity bonus for retired DB members who are qualify under a multiple retirement.

*Education Code section affected by amendment: 24203.6*

### **11. Cancellation of a Service Retirement Application**

A member who has filed a Service Retirement application may amend or cancel his or her retirement application if CalSTRS receives the request by the last day of the retirement month. This bill adds conforming language to be consistent with current practice.

*Education Code section affected by amendment: 24204*

### **12. Chapter 19- The Purchase of Redeposits**

Existing law permits the purchase of permissive and out-of-state service credit for members who are receiving a Service Retirement benefit after the most recent reinstatement of two or more years of credited service, or for members who are receiving a Service Retirement benefit after termination of a

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Disability Allowance, as defined. This bill adds *Chapter 19*, the purchase of redeposits, to the code sections that detail the purchase of permissive and out-of-state service credit.

Additionally, Section 24209.3(A) clarifies the receipt of a Service Retirement benefit for members who were receiving a disability allowance prior to the termination of that allowance. This bill amends language in this section to clarify the criteria for receiving a Service Retirement benefit after Reinstatement.

*Education Code sections affected by amendment: 24209.3, 24211, 24212 and 24213*

### **13. Clarification of the post-retirement earnings limitation calculation and average compensation earnable**

Existing law establishes a maximum amount of creditable earnings a retired member can earn in a school year. This bill clarifies that the amount of the earnings limitation be *adjusted* each year by the percentage *change* in the average *compensation* earnable.

The term “compensation” was inadvertently left out of Chapter 903, Statutes of 2002 (SB 1983-Soto), which changed the basis for calculating the post-retirement compensation limitation from the All Urban California Consumer Price Index to the average compensation earnable of active members, as amended in Chapter 859, Statutes of 2003 (SB 627-PE&R). This bill provides clarity in the terminology used to describe the compensation that would be earned if a member worked on a full-time basis.

*Education Code section affected by amendment: 24214*

### **14. “Unmodified” allowance payable under the Partial Lump-Sum**

Existing law permits a DB Program member who is age 60 and three months or age 60 with 30 years or more of service in the month he or she retires to receive part of his or her monthly service retirement benefit in a lump sum payment, in exchange for receiving a permanently reduced monthly benefit. However, the language is unclear that the allowance payable under this provision refers to the benefit payable before any modifications (*unmodified* allowance). This bill clarifies that the actuarial reduction applies to the member’s entire benefit.

*Education Code section affected by amendment: 24221*

### **15. Clarification of terms under the 403(b) product vendor registration process**

Chapter 1095, Statutes of 2002 establishes a 403(b) vendor registration program in CalSTRS that provides information on 403(b) investment options to school employees through the Internet. This bill narrows the definition of “broker-dealer” for purposes of qualifying as a registered vendor, and clarifies that vendors are only required to disclose fees associated with the purchase of a registered product, and not for other products and services.

*Education Code sections affected by amendment: 25100 and 25107*

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**16. Clarification of Board authority to set the employer contribution rate under the DB Program**

Section 44987 permits DB Program members to take a leave of absence to serve as an elected officer of an employee organization, without loss of compensation. Section 22711 requires the employer to contribute funds at a rate set by the Board. The text “contribution rate shall be the” inadvertently left out is added to Section 44987 in order to clarify the authority of the Board.

*Education Code section affected by amendment: 44987*

This bill also includes a provision that provides that any other bill that amends a section that is amended in this bill supercedes the changes made by this bill.

**FISCAL IMPACT**

Benefit Program Cost – None.

Administrative Costs/Savings – The cost of the required changes to the System’s database is expected to be minor and absorbable.

**SUPPORT**

CalSTRS

**OPPOSITION**

None