

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Assembly Bill 91 **Assembly Member Dutton (As Amended 5/13/03)**

Position: **Sponsor**

Proponents: **Teachers' Retirement Board**

Opponents: **School Services of California**

SUMMARY

Assembly Bill 91 permits part-time classified employees to participate in the Cash Balance (CB) Benefit Program as of July 1, 2004.

HISTORY

Chapter 364, Statutes of 2001 (AB 649—Negrete McLeod) would have required community college districts to offer an alternative retirement plan and Social Security to all their part-time employees. It also would have permitted community colleges to offer classified part-time employees the CB Benefit Program. However these provisions were deleted and bill was amended to ratify a Memorandum of Understanding for state employees in bargaining units five and eight. The former provisions of AB 649 were amended into AB 1710, which was vetoed by the Governor due to the increased cost to community college districts, as well as the State General Fund.

Chapter 592, Statutes of 1995 (AB 1298—Duchney) established the CB Benefit Program administered by the CalSTRS to provide retirement benefits for certificated part-time public school employees.

P.L. 101-508 Omnibus Budget Reconciliation Act of 1990, among other things, mandated Social Security coverage for previously uncovered governmental employees, such as part-time, temporary, and seasonal (PTS) employees, and allowed governmental retirement systems to offer coverage under their plans to these PTS employees in lieu of Social Security.

CURRENT PRACTICE

The CalSTRS CB Benefit Program is an alternative retirement program for certificated public school employees hired to perform creditable service for less than 50 percent of the full-time equivalent of the position. School districts, community college districts and county offices of

education may choose to provide the CB Benefit Program to their eligible certificated employees in lieu of offering Social Security, or as a choice between Social Security and another alternative retirement plan. The CB Benefit Program has a contribution rate of four percent of salary for employers and four percent of salary for employees. Although collective bargaining agreements may negotiate different contribution rates under the CB Benefit Program, the employer must contribute a minimum of four percent of an employee's salary and the sum of the contributions must equal or exceed eight percent.

Generally, classified school employees hired to perform creditable service for less than 50 percent of the FTE for a position and full-time seasonal and temporary employees who work fewer than six months, cannot be members of CalPERS unless a school district, community college district or county office of education formally resolves to provide such employees the opportunity to elect coverage under CalPERS. Classified employees who work less than half time may elect coverage, if offered by their employer, under Social Security or an alternative retirement plan in lieu of Social Security. There are currently approximately 3,500 classified, part-time employees employed in California community colleges and 140,000 part-time classified employees employed in K-12 schools.

SUMMARY OF AMENDMENTS

The May 13, 2003 amendments:

- Establish an effective date of July 1, 2004;
- Remove references to community colleges, thereby applying the bill to all part-time, classified employees, not only those employed in a community college;
- Establishes an election period that may be provided by the district's governing board upon their determination that the CB Benefit Program will be offered to their part-time, classified employees.

DISCUSSION

For many employees, participating in an alternative retirement plan such as the CB Benefit Program is the most appropriate retirement plan choice because these programs provide immediate vesting, and participants benefit from the contributions made both by themselves and their employer. For others, participating in Social Security is the most appropriate choice for retirement benefits, because they are very close to qualifying for Social Security benefits, or their primary employment is covered by Social Security, which would be reduced if they were in some other retirement plan. By expanding the retirement options available to part-time employees, AB 91 permits such employees to participate in the retirement plan that best meets their needs.

Some school districts, community college districts and county offices of education have been unwilling to offer the CB Benefit Program to their employees because they prefer to offer an alternative retirement plan that is available to all of their employees. In addition, classified school employees who work less than full time have few choices with regards to retirement plan

coverage and are prohibited from becoming members of CalPERS. By allowing part-time classified employees into the CB Benefit Program, employers can offer one plan in which all of their employees can participate.

Allowing part-time classified employees to participate in the CB Benefit Program, rather than in Social Security or another alternative plan, will impact employers fiscally; it could result in higher or lower costs to the employers, depending on whether the contribution rate for the CB Benefit Program is higher or lower than the rate imposed by the current option and how many part-time classifieds choose the CB Benefit Program over other the alternatives. The employer would, however, make the decision whether to offer the CB Benefit Program to their classified employees.

FISCAL IMPACT

Benefit Program Costs – No net benefit cost increase; the increased liability to the CB Benefit Program will be offset by increased program contributions.

Administrative Costs – One-time costs of \$397,000 to modify the Cash Balance IT system database.

BOARD POSITION

Sponsor. AB 91 presents an opportunity to expand eligibility under the CB Benefit Plan, making it more attractive for employers to consolidate retirement coverage for all their employees that work less than half time.