

LEGISLATIVE PROPOSAL: CalSTRS Individual Retirement Accounts

SUMMARY

This proposal would authorize CalSTRS to offer a traditional (tax-deferred) Individual Retirement Account (IRA) in addition to a Roth IRA, accept rollovers from any eligible retirement plan to those IRAs, enable CalSTRS to receive contributions from IRA participants and allow spouses of CalSTRS members to participate in a CalSTRS IRA plan.

RECOMMENDATION

Sponsor. The board's policy is to support or sponsor legislation that is consistent with the objectives of providing financially sound primary and supplemental retirement plans for California's educators.

REASON FOR THE PROPOSAL

This proposal would provide additional opportunities for CalSTRS members and deferred compensation plan participants to supplement their retirement savings and to take advantage of lower-cost, higher-performing options.

ANALYSIS

Existing Law:

Existing statute allows CalSTRS to offer:

- 403(b), 457(b), Roth 403(b) and Roth 457(b) plans.
- A Roth IRA for the purposes of accepting a rollover from a CalSTRS 403(b) plan.

This Proposal:

Specifically, this proposal authorizes CalSTRS to:

- Offer a traditional (tax-deferred) IRA in addition to a Roth IRA.
- Allow rollovers to a CalSTRS IRA from any eligible retirement plan as stated in Section 408 and 408A of Title 26 of the U.S. Code.
- Receive contributions from IRA participants.
- Allow spouses of CalSTRS members to also participate in a CalSTRS IRA.
- Make other conforming changes to the Teachers' Retirement Law.

PROGRAM BACKGROUND

The CalSTRS Defined Benefit Program provides approximately 50% of a member's preretirement salary. In addition, California public school educators do not pay into Social Security, so they do not receive Social Security benefits for their CalSTRS-covered employment. To provide a low-cost means for CalSTRS members to supplement their retirement benefits, CalSTRS offers voluntary tax-deferred savings, including a 403(b) plan, a 457(b) plan, a Roth 403(b) plan and a Roth 457(b) plan. Beginning January 1, 2009, CalSTRS was granted authority to offer Roth IRAs for the purpose of receiving rollovers from a CalSTRS 403(b) account.

While these supplemental retirement savings options are helping CalSTRS members prepare financially for retirement, there is a need to expand what CalSTRS offers. Currently, none of the

deferred compensation plans offered by CalSTRS allow for participants to make end of year contributions for tax purposes. Additionally, only current school employees have access to CalSTRS deferred compensation plans. Retired CalSTRS members without a 403(b) or 457(b) account at their former school district and spouses of current participants are not able to access any of CalSTRS deferred compensation products or services.

Assets in a participant's 403(b) and 457(b) account must be accessed through a school district's compliance administrator, which can lead to increased wait times for withdrawals and other transactions. Additionally, 403(b) and 457(b) contributions can only be made via an employer's payroll or from a qualified rollover. Currently, members wishing to make end of the year contributions for tax purposes or wishing to avoid dealing with third party administrators must seek an IRA vendor outside of their employer to make such contributions or rollovers. As evidence of this trend, CalSTRS is noting an increase in participants requesting rollovers of CalSTRS deferred compensation plans into outside IRAs.

FISCAL IMPACT

Program Cost – None. Any additional costs would be offset by plan fees in the future.

Administrative Costs/Savings – Increased assets under management help the plan gain leverage in reducing overall administrative costs for participants. They also help decrease the expense ratios charged by the individual underlying investment options.

ARGUMENTS

Pro: Provides additional opportunities for CalSTRS members to take advantage of CalSTRS deferred compensation plans over other higher-cost, lower-performing options.

Allows plan participants to have more control over their supplemental retirement savings.

Assists CalSTRS in meeting the evolving needs of its deferred compensation participants.

Provides avenues for CalSTRS to reduce rollovers to outside IRA vendors.

Provides potentially lower program costs and expense ratios by retaining assets and increasing the number of those participating in CalSTRS deferred compensation plans.

Con: Uncertainty about the overall utilization of a CalSTRS IRA plan.