

BILL NUMBER: SB 1353 (Pan) as amended June 8, 2016

SUMMARY

SB 1353 makes a technical clarification specifying that state contribution changes that occurred after 1990 are not considered when determining future adjustments to the state contribution rate pursuant to the 2014 Full Funding Plan, except for the state contribution rate increases pursuant to that plan.

BOARD POSITION

Sponsor. This bill makes the technical changes necessary to ensure that the 2014 Full Funding Plan can be implemented as originally intended.

REASON FOR THE BILL

SB 1353 will provide continued effective and efficient plan administration for CalSTRS internal and external customers and ensure compliance with the Legislature's intent in enacting the 2014 Full Funding Plan.

SUMMARY OF AMENDMENTS

The June 8, 2016, amendments delete the content of the bill and insert the language clarifying the 2014 Full Funding Plan state contribution rate.

PROGRAM BACKGROUND & ANALYSIS:

Existing Law:

Education Code section 22955.1, as added by Chapter 47, Statutes of 2014 (AB 1469–Bonta), increases the state contribution rate through the 2016-17 school year and then requires the Teachers' Retirement Board to adjust the state contribution rate to eliminate any remaining unfunded actuarial obligation (UAO) for the benefit and contribution structure in effect in 1990. In making these adjustments, the board is prohibited from considering changes in "member or employer contribution rates" that occur after July 1, 1990. This particular requirement in Education Code section 22955.1 essentially mirrors Education Code section 22955, which provided adjustments to the previous state contribution rate. However, Education Code section 22955 is broader to prohibit changes in "contribution rates" that occur after July 1, 1990, from being considered, which includes member, employer and state contribution rates.

When the Full Funding Plan outlined in AB 1469 was developed in 2014, future state contributions were determined based on amounts that were estimated to be necessary to pay off, by June 30, 2046, the UAO attributable to the 1990 benefit and contribution structure. The contribution rates to achieve full funding that were included in Education Code section 22955.1 were estimated based on the existing language in subdivision (f) of Education Code section 22955, which states that contributions paid to CalSTRS from changes in all contribution rates after 1990 should be *excluded* from the determination of the UAO for the benefit and contribution structure in effect in 1990.

Under a technical reading of subdivision (e) of Education Code section 22955.1, it could be interpreted that all post-1990 changes to the state contribution rate should be *included* in the determination of the UAO for the benefit and contribution structure in effect in 1990. If this interpretation is accepted, the UAO for the benefit and contribution structure in effect in 1990 would be eliminated while the UAO for the post-1990 structure would be much larger than the one used at the time of the funding plan calculations.

Assuming all actuarial assumptions are met, this interpretation would be expected to result in a need to bring the supplemental state contribution rate down to 0 percent beginning in 2017-18, while the supplemental employer contribution rate would have to increase to reach the maximum of 12 percent set by Education Code section 22950.5 as early as 2022-23 and remain at that level through 2045-46. Furthermore, these contribution rates would not be sufficient to pay off the UAO of the system by 2046, contrary to what was intended by AB 1469.

This Bill:

Consistent with the original intent of the 2014 Full Funding Plan, this measure clarifies that state contribution changes that occurred after 1990 are not included when calculating the UAO for the benefit and contribution structure in effect in 1990, except that the state contribution increases pursuant to AB 1469 shall reduce that UAO.

LEGISLATIVE HISTORY

AB 1469 (Bonta, Chapter 47, Statutes of 2014) increased member, employer and state contributions to fully fund the DB Program by 2046.

FISCAL IMPACT

Program Cost – None.

Administrative Costs/Savings – None.

SUPPORT

CalSTRS (Sponsor)

OPPOSITION

None known.

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