

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 1318

Senator Karnette (As introduced 1/24/02)

Position:

Support, if Amended (Staff recommendation)

Proponents:

UTLA (sponsor)

Opponents:

None known

SUMMARY

Senate Bill 1318 allows a California State Teachers' Retirement System (CalSTRS) employer to pay all or part of its credentialed employees' required member contributions to the Defined Benefit (DB) Program and the Defined Benefit Supplement (DBS) Program. This bill would take effect immediately as an urgency statute.

HISTORY

Chapter 236, Statutes of 1985 (SB 578—Dills) among other things, allows a state employer to “pick-up” all or a portion of the normal contributions required to be paid by a state employee member of the DB Program for the purpose of providing a tax-deferred benefit within the meaning of Section 414 (h)(2) of the Internal Revenue Code (IRC).

Chapter 1532, Statutes of 1985 (AB 1923—Elder) among other things, allows a school employer to “pick-up” all or a portion of the normal contributions required to be paid by an employee who is a member of the DB Program for the purpose of providing a tax-deferred benefit under the meaning of IRC Section 414 (h)(2).

CURRENT PRACTICE

Existing law prescribes fixed contribution rates for credentialed employees that are members of the DB Program, as well as for their employers. Currently, active members of the DB Program contribute an amount equal to 8 percent of their creditable compensation, while CalSTRS employers contribute 8.25 percent of creditable compensation. The member's contribution provides a portion of the funding for their DB Program and DBS Program benefits – three-quarters of the member's contribution is credited to his or her DB Program account, and one-quarter is credited to his or her individual DBS Program account. CalSTRS calculates a member's retirement benefit under the DB Program using (1) the member's credited service, (2) a factor based on the member's age at retirement and (3) the member's final compensation. The DBS Program provides supplemental benefits for members of the DB Program, where, upon retirement, death, disability or termination, the member receives the balance of credits in his or

her DBS Program account, either in a lump sum or as a monthly annuity, in addition to his or her normal DB Program retirement allowance.

Existing law allows a CalSTRS employer to “pick-up” all or a portion of the contributions a member of the DB Program is required to pay, provided that those contributions are deducted from the creditable compensation of the member. This “pickup”, however, is only for the purpose of allowing members to defer, until after retirement, income taxes on that portion of their earnings attributable to the contribution.

DISCUSSION

Specifically, SB 1318:

- Allows a CalSTRS employer to elect to pay all or a portion of their credentialed employees' member contributions to the CalSTRS DB and DBS Programs.
- Requires employer-paid member contributions be subject to collective bargaining and may not be applied by CalSTRS employers to their employees on an individual basis.
- Allows a CalSTRS employer to increase, reduce, or eliminate the member contributions they pay on behalf of their credentialed employees.
- Provides that the employer-paid contribution would be credited to the member's account.

According to the author, SB 1318 would enable teachers to take home a larger paycheck without receiving an increase in salary. It would also provide employers the same option the California Public Employees' Retirement System provides to employers of classified school employees.

Unlike the existing employer “pick up” of member contributions, which only effectively allows members to defer taxes on a portion of the income they earn until they begin to receive a retirement allowance, SB 1318 allows employers to pay all or a portion of the required member contributions in order to increase employees' current take home pay. However, because the member is not paying state and federal income taxes on the amount attributable to those contributions, reducing the amount a member contributes will result in an increase in his or her income tax liability.

The author, in consultation with CalSTRS staff, proposes clarifying amendments to require employers to report member contributions they elect to pay on behalf of their credentialed employees to CalSTRS in the same manner they would if their employees had made the contributions themselves. For example, even if, as a result of this bill, an employer contributed 9.25 percent of a member's earnings, and the member contributed 7 percent of earnings, the employer would report contributions to CalSTRS as if the employer contributed 8.25 percent of earnings and the member contributed 8 percent of earnings, as provided under current law. This would allow CalSTRS staff to properly credit members' DB Program and DBS Program

accounts without implementing any additional employer reporting requirements or increasing CalSTRS' processing costs or workload. The proposed amendments would also require that employer paid member contributions not be considered creditable compensation under the Teachers' Retirement Law (TRL).

FISCAL IMPACT

Benefit Program Costs – None

Administrative Costs – In its current form, there would be substantial costs to modify the corporate database to accept different rates of contributions from employers and members, If amended, there would be minor and absorbable costs associated with drafting and distributing an employer directive to CalSTRS employers, and answering members' questions relating to the bill.

RECOMMENDATION

Support, if amended to require employers to report member contributions they pay on behalf of their credentialed employees in the same way they would if the employees had made the contributions themselves, and that such employer paid member contributions not be considered creditable compensation under the TRL.