

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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### **Senate Bill 334**

**Senator Ortiz (As amended 9/05/01)**

### **Position:**

**Support**

### **Proponents:**

**CFT, CRTA, CTA and FAIR**

### **Opponents:**

**None known**

### **SUMMARY**

Senate Bill 334 enhances benefits for members of the California State Teachers' Retirement System (CalSTRS) who retired for service, reinstate as an active member and perform at least 2.000 years of credited service after the most recent reinstatement. Members who retire on or after the effective date of the bill would receive a service retirement allowance by applying the benefit formula in effect at the time of the subsequent retirement to all the member's service. This bill would take effect immediately as an urgency statute.

### **HISTORY**

SB 1692 (Ortiz—2000) would have provided CalSTRS members enhanced service retirement allowances for members who retired for service, reinstate to active service and perform at least one year of creditable service. The Governor vetoed this bill. In his veto message, the Governor expressed his concerns that one year is not sufficient to warrant the significant benefit for which the bill would have provided, but stated that he would consider future legislation that lengthens the period of time to be at least two years.

SB 833 (Ortiz—1999) would have provided CalSTRS members who retired in 1998, or received their first check in 1998, the benefit enhancements available to members who retired after 1999, such as an increased age factor and a career bonus. The Governor also vetoed this bill. In his veto message, the Governor expressed his concerns about extending benefit increases to members who had already retired, but expressed a willingness to consider proposals that aid in the recruitment and retention of qualified teachers.

### **SUMMARY OF AMENDMENTS**

The September 5, 2001 version of this bill contains numerous changes of a largely technical nature to address situations in which a member retired for service after having previously received a disability allowance or disability retirement allowance. Under these amendments, the member's service retirement allowance following reinstatement would be calculated in the same manner as under current law, but the calculation would reflect the benefit enhancements in effect at the time of the subsequent retirement if the member performed at least 2.000 years of credited

service following reinstatement, as is required under the previous version of the bill. The estimated fiscal impact included in previous analyses reflected these scenarios.

## **CURRENT PRACTICE**

The CalSTRS retirement allowance is based on the member's year of credited service, age at retirement and final compensation. For members retiring after 2000 with 25 years or more of credited service, their final compensation is based on the highest compensation earnable for 12 consecutive months, rather than three consecutive years. A member retiring at the age of 60 receives an allowance equal to two percent of final compensation for each year of credited service. This percentage is reduced if the member retires before age 60. The percentage for a member retiring on or after January 1, 1999 increases after age 60, up to a maximum of 2.4 percent at age 63.

An additional allowance of two-tenths of one percent of final compensation for each year of credited service, up to a maximum age factor and career factor of 2.4 percent, is also payable to members who have earned 30 or more years of credited service and who retire on or after January 1, 1999. The additional .2 percent is generally referred to as the "career factor." In addition, a member who retires with 30 years of credited service by January 1, 2011, would qualify for a longevity bonus of \$200 per month. This amount increases to \$300 with 31 years and \$400 with 32 years of credited service.

Currently, a member who has terminated a service retirement allowance may, at least one year after the termination of the initial allowance, subsequently retire. Upon the subsequent retirement, the member receives the sum of (1) the allowance the member was receiving at the time of the initial termination, including any two percent cost-of-living adjustments (COLA) that would have been paid, and (2) an allowance based on the age and final compensation factors prescribed in current law for the credited service performed subsequent to termination of the original retirement. Members who reinstated from a service retirement after having received either a disability allowance or disability retirement allowance receive a subsequent retirement benefit that reflects service credit and final compensation the member would have earned if the member had not been disabled.

## **DISCUSSION**

This bill increases the retirement allowance for a member who retired for service and reinstated as an active member and performs at least 2.000 years of credited service after the most recent service retirement for at least two years of credited service. Upon a subsequent retirement on or after the effective date of this legislation, the member who had previously retired for service would receive the sum of:

- 1) an allowance based on the member's prior service (and where applicable, projected service) and age at the subsequent retirement, minus the number of years retired, and

- 2) an allowance based on the member's age at the subsequent retirement, for the credited service performed subsequent to termination of the original retirement.

A similar calculation would be made for members who reinstate for at least 2.000 years of credited service from a service retirement allowance after previously receiving either a disability allowance or disability retirement allowance. However, as under current law, the calculation would be based on the service credit and final compensation the member would have earned if he or she had not become disabled.

The benefit formula in effect at the time of subsequent retirement would be used as a basis to calculate both allowances. The proposed approach is consistent with how service retirement allowances after reinstatement are determined by the California Public Employees' Retirement System (CalPERS), except that CalPERS requires only 1.000 years of additional service credit in order to qualify for the any new benefits in effect at the time of the subsequent retirement.

For example, if a member retired in 1996 at age 56 after 30 years of service and a \$4,000 final compensation based on the highest three consecutive years, reinstated in 1998 after being retired for two years, taught an additional four years and re-retired in 2002 at age 62, the allowance the member would receive after re-retiring under current law would be:

1.52 percent (the age factor for age 56 in effect in 1996) x 30 years x \$4,000 = \$1,824  
+ \$72 in subsequent COLA's = \$1,896 per month

2.40 percent (the age factor in effect in 2002) x 4 years x \$4,000 = \$384, for a total allowance of \$2,208 per month.

Under SB 334, the same member would receive the following allowance after re-retiring:

2.20 percent (the age and career factor in effect in 2002, for the adjusted age: age 62 at the second retirement minus the 2 year retired, or age 60) x 30 years x \$4,200 (one year final compensation) = \$2,772 + \$72 in subsequent COLA's plus \$200 for longevity bonus for 30 years service credit = \$3,044 per month, plus

2.40 percent (the age factor in effect in 2002) x 4 year x \$4,200 = \$403 for a total allowance of \$3,447 per month or **\$1,239 more per month** than under current law.

Past experience has shown that approximately 50 members reinstate from service retirement and 50 re-retire annually, and approximately 200 members are reinstated at any one time. If this bill is enacted, there could be an increase of reinstatements from approximately 50 per year to 500 for two or more years after enactment.

**FISCAL IMPACT**

Benefit Program Costs – This cost analysis assumes, among other things, that 500 members would reinstate to active service and become eligible for this enhancement. Based on such assumptions, the bill would have the following actuarial impact:

	<b>Present value cost (in millions)</b>	<b>Increase in annual contributions needed as a percent of payroll</b>
Normal cost increase of future service	\$0	0.000%
Actuarial obligation for prior service <sup>1</sup>	\$45	0.013%
Total costs	\$45	0.013%

<sup>1</sup> Amortized over 15 years

This actuarial impact would result in the following expenditures over the first three full fiscal years (in millions of dollars):

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>
Total benefit payment increase	\$3.7	\$3.8	\$3.9
Annual increase in contributions (funding) needed to fund benefit <sup>2</sup>	--	\$3	\$3.1

<sup>2</sup> Based on a payroll of \$20.7 billion in 2002-03, increasing by 4.25 percent annually

Administrative Costs – CalSTRS anticipates that it could absorb any increased administrative costs. (estimated to be less than \$50,000) to implement the benefit increases.

**BOARD POSITION**

Support. SB 334 would provide a reasonable opportunity for members who retire to increase their benefits in a manner that attempts to address the Governor's concern with the attraction and retention of quality educators for California. This bill is similar to last year's SB 1692, which was vetoed by the Governor, because he believed a member should provide at least two years of additional service in order to receive the benefit enhancement.