

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Senate Bill 501**      **Senate PE&R Committee (Introduced 2/22/01)**

**Position:**              **Sponsor**

**Proponents:**        **None known**

**Opponents:**        **None known**

### **SUMMARY**

Senate Bill 501 is the annual California State Teachers' Retirement System (CalSTRS) technical housekeeping bill, which makes various grammatical, technical and conforming changes to the Teachers' Retirement Law (TRL) to facilitate efficient administration of the system. The specific changes include:

- Clarifying the definition of full-time equivalent for part-time positions.
- Deleting a reference to a legislative committee that no longer exists.
- Repealing duplicative provisions in the law.
- Explicitly excluding unused educational leave credit in calculating the career factor and other benefit enhancements, consistent with the treatment of unused sick leave.
- Clarifying the relationship between the ad-hoc benefit increase and the minimum guarantee benefit enacted in 2000.
- Clarifying that the administrative expenses of the Replacement Benefits Program (RBP) include the employer portion of the Medicare payroll tax.

### **HISTORY**

Chapter 1027, Statutes of 2000 (AB 429—Correa) provides for an increase in benefits paid to members or beneficiaries based on the length of time since retirement, death or disability.

Chapter 1026, Statutes of 2000 (SB 1505—Burton) provides for a minimum guaranteed income for teachers who have a career of at least 20 years and have retired on or before January 1, 2000.

Chapter 678, Statutes of 1998 (AB 1166—House) modifies and clarifies minimum standards for determining full-time for purposes of crediting service for CalSTRS members.

## DISCUSSION

### **1. Clarify full-time equivalent definition**

Section 22138.6 defines full-time equivalent with respect to a person employed on a part-time basis. The bill modifies a provision of that section to clarify that the definition applies to a part-time position.

*Education Code section affected by amendment: 22138.6*

### **2. Delete reference to committee that no longer exists**

Section 22352 refers to the Joint Public Pension Fund Investments Committee, which is no longer in existence. The bill deletes that reference.

*Education Code section affected by amendment: 22352*

### **3. Clarify consent to deduct employee contributions**

Section 22900 requires a person to make contributions to the Defined Benefit (DB) Program if he or she accepts employment. The bill clarifies that the employment is for service that is being credited to the DB Program.

*Education Code section affected by amendment: 22900*

### **4. Modify or delete code section due to duplication**

Provisions included in some sections of the law are duplicated in other sections, and are therefore being deleted.

*Education Code sections affected by amendment: 22136.5, 24001 and 24101*

### **5. Clarify ineligibility of officer of employee organization for Disability Allowance**

Elected officials of an employee organization may take a compensated leave of absence from DB Program service. Current law prohibits such officials from receiving a disability benefit while on such a leave of absence. The bill clarifies that the prohibition applies to a disability allowance, reflecting current practice.

*Education Code section affected by amendment: 24001.5*

### **6. Exclude unused educational leave credit from various benefit calculations**

Chapter 402, Statutes of 2000 (AB 649—Machado) permits state employee members of the DB Program to convert unused educational leave to service credit upon retirement. This is similar to existing authority to convert unused sick leave to service credit upon retirement. Existing law provides a variety of benefit enhancements to members whose years of credited service equal to or exceed specified amounts. Credited service is service on which contributions are paid. Because contributions are not paid on unused sick leave or unused education leave, this service credit, by definition, does not count towards determining eligibility for the benefit enhancements.

To make that restriction clear, the TRL also explicitly excludes unused sick leave from being used to determine eligibility for the benefit enhancements. This bill makes it similarly explicit that unused educational leave does not count towards qualifying for such benefit enhancements. In addition, Section 24212 addresses the calculation of a disability allowance when a member does not return to CalSTRS-covered employment, but has unused sick leave at the time of retirement. The bill amends that section to provide for similar treatment of unused educational leave.

*Education Code sections affected by amendment: 24203.5, 24203.6, 24209, 24211, 24212, 24410.6 and 24410.7*

### **7. Clarify the relationship between ad-hoc benefit increase and minimum guarantee**

Chapter 1027, Statutes of 2000 (AB 429—Correa) provided an increase in benefits to members who died, retired or were disabled prior to 1998. Chapter 1026, Statutes of 2000 (SB 1505—Burton) provided a minimum guaranteed benefit to members whose CalSTRS benefit was below a specified amount, based on years of CalSTRS service. This bill clarifies that the calculation of the benefit paid pursuant to Chapter 1026 does not include the amount paid under Chapter 1027, consistent with current practice and the estimated cost of the previous legislation.

*Education Code section affected by amendment: 24410.7*

### **8. Medicare payroll taxes on the Replacement Benefits Program (RBP) benefits**

Section 415 of the Internal Revenue Code (IRC) imposes a limit on benefits that can be paid by a state or local government defined benefit plan, such as the DB Program. The RBP was established in CalSTRS, consistent with Section 415, to pay benefits to DB Program members in excess of these limits. Under the IRC, replacement benefit payments are considered wages, even though the retired member is no longer an 'employee on the payroll of an employer.' As a result, the member and the employer must continue to pay Medicare payroll taxes if the member was paying the Medicare tax while employed. (Currently, only one member receiving a benefit under the RBP is required to pay the Medicare tax on that benefit.) In order to simplify the collection and payment of the employer's portion of the payroll tax, this bill includes the employer portion of Medicare payroll tax as an administrative expense for the RBP to pay. The alternative would be to bill the member's former employer and then transfer the payroll tax, on a quarterly basis, to the IRS. CalSTRS staff determined that it is more efficient and less costly to pay the Medicare payroll tax as an administrative expense rather than to bill the employer for this tax and then transfer the payment to the IRS.

*Education Code section affected by amendment: 24260*

### **9. Grammatical changes to various sections**

- The bill removes the text "awarding certifications, in which eligibility for this certification is" from Section 22119.2 because the phrase is unnecessary.

*Education Code section affected by amendment: 22119.2*

- The bill replaces the word “person” with “member” in Section 22151, because it is a more accurate depiction of school employment and membership status.

*Education Code section affected by amendment: 22151*

- The bill capitalizes the phrase “Defined Benefit Program” in Section 24255.

*Education Code section affected by amendment: 24255*

### **FISCAL IMPACT**

Benefit Program Costs – The potential costs regarding payment of the employer portion of the Medicare payroll tax as part of the administrative expenses of the RBP are estimated to be less than \$5,000 to \$10,000 per year, which is less than it would cost to collect that tax payment from the affected employers. There are no other costs resulting from this bill.

Administrative Costs – Minor and absorbable.

### **BOARD POSITION**

Sponsor. This bill will make grammatical and technical amendments necessary for continued effective administration of the system. It also deletes superfluous provisions of the law.