

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 501 **Committee on Public Employment and Retirement
(Amended 5/16/01)**

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 1032, Statutes of 2000 (SB 1435—Johnston) requires CalSTRS to pay the Medicare Part A premium for retired members who are not eligible for Medicare Part A without payment of a premium.

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 874, Statutes of 2000 (AB 2383—Keeley) expands eligibility under Public Employees Medical and Hospital Care Act (PEMHCA) for part-time employees and requires CalSTRS to report on prescription drug and retiree health program

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.

SUMMARY OF AMENDMENTS

The May 16, 2001 version of this bill contains numerous changes of a technical nature. The major changes clarify:

- The award of the longevity bonus in a dissolution of marriage and when a member with 30 or more years of service retires after previously receiving a disability allowance.
- (1) That the Medicare division (election) occurs during the 10 day period in which a member can elect Medicare coverage; (2) a member's eligibility for the Medicare Benefits (MB) Program and (3) when any applicable surcharges for Medicare Part B will be paid by the System.
- Language permitting an employee to participate in the Defined Benefit (DB) Program with one employer and participate in the Cash Balance (CB) Benefit Program for different employers, consistent with the intent of Chapter 1020, Statutes of 2000 (AB 820—Assembly PER&SS).

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 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: 24410.6 and 24410.7

8. Medicare payroll taxes on the Replacement Benefits Program 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 Internal Revenue Service (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. Clarifications to 2000 benefit legislation

In 2000, 19 bills were enacted that affected benefits provided under the State Teachers' Retirement Plan, including significant benefit enhancements. This bill clarifies, consistent with the estimated cost of the original legislation, how these changes are applied in specific situations, such as the application of the longevity bonus when a member divorces, retires for service after receiving a disability allowance or dies prior to retirement but after making a preretirement election of an option.

Education Code sections affected by amendment: 22664, 24203.6, 24209, 24211, 24307 and 26401

10. Clarification of annuity payments in the Defined Benefit Supplement (DBS) Program and the Cash Balance Benefit Program

Current law establishes the DBS Program for DB Program members and, for part-time members who elect to participate, the CB Benefit Program. The design of the two programs is nearly identical. Under the programs, members and participants may elect to take their benefit in the form of a lump sum, or, if the member or participant has at least \$3,500 in his or her DBS or CB Benefit account, a monthly annuity. This bill clarifies how annuity payments are made and makes the basis of computing the annuity the same for the two programs, without increasing or decreasing the benefit paid, to simplify program administration and avoid confusion on the part of the member and participant.

Education Code sections affected by amendment: 24402, 25011, 25018, 25014, 25019, 25021, 26807, 26906, 27004, 27007 and 27008

11. Clarification of the Medicare Benefits Program and other health benefit provisions

Chapter 1032, Statutes of 2000 (SB 1435—Johnston) established the MB Program to pay the Medicare Part A (hospitalization) premiums for retired DB Program members who are not eligible for premium-free coverage through other employment or through their spouse. For members retiring in the future, eligibility is dependent on the member retiring from a district that has conducted a Medicare division or is in the process of conducting that division. In addition, if the member is under age 58 at the time of the division, the member must agree to be subject to the Medicare payroll tax. This bill specifies, consistent with current practice, when a division is being conducted. It also clarifies that a district does not need to conduct the division if none of the potentially affected employees were under age 58 on January 1, 2001, or if the district was formed after April 1, 1986. In both cases, conducting the division would not result in any reduction in the number of potential participants in the CalSTRS program. Finally, it renames the program the Medicare Premiums Payment Program, which more accurately describes the objectives of the program.

Education Code sections affected by amendment: 25926 and 25940

Chapter 874, Statutes of 2000 (AB 2383—Keeley) extended participation in the PEMHCA Program administered by the California Public Employees' Retirement System to family members of deceased CalSTRS members and to part-time members of CalSTRS. Certificated employees are not members of CalSTRS; they are members and participants in the State Teachers' Retirement Plan (consisting of the DB Program and the CB Benefit Program), which is administered by CalSTRS. This bill clarifies this terminology.

Government Code sections affected by amendment: 22878.2 and 22878.3

12. 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

- The bill adds text “any allowance that has accrued and is unpaid, and” to clarify that a beneficiary is entitled to any allowance that has accrued and is unpaid.

Education Code section affected by amendment: 24300.5

- The bill provides the correction of an inadvertent reference to a code section.

Education Code section affected by amendment: 24404(b)

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.