

BILL NUMBER: SB 13 (Beall) as amended September 11, 2013

SUMMARY

SB 13 makes various conforming and clarifying changes to the Public Employees' Pension Reform Act of 2013 (PEPRA).

BOARD POSITION

Neutral. This bill does not significantly or adversely affect the benefits or service provided through the funds administered by CalSTRS or the administration of the retirement plans, and makes provisions of PEPRA concerning eligibility for existing benefits apply to CalSTRS.

REASON FOR THE BILL

According to the author, PEPRA "passed at the end of the 2012 session as a conference committee report following over a year of meetings, hearings and various legislative efforts relative to comprehensive pension reform. Due to the scope of the bill and its complexity, and the requirement that a conference report may not be amended once in print, a number of provisions need clarification in order to be implemented as intended. SB 13 will provide employers and retirement system administrators with better guidelines for fully implementing the requirements of [PEPRA] in a timely manner."

SUMMARY OF AMENDMENTS

The September 11, 2013, amendments:

- Restrict the application of provisions that exclude specified compensation from the definition of "pensionable compensation" through collective bargaining to state employers and state employees.
- Change the date on which the California State University may require members to pay at least 50 percent of the normal cost of benefits from January 1, 2018, to January 1, 2019.
- Exclude the California State University from allocating savings resulting from increased employee contribution rates to any unfunded liability, instead allowing the savings to be retained by the university.

ANALYSIS:

Existing Law:

PEPRA made a variety of changes to the CalSTRS benefit structure that primarily affect those who are first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. These new members are under the benefit structure known as CalSTRS 2% at 62. Members who were first hired to perform creditable activities on or before December 31, 2012, are under the benefit structure known as CalSTRS 2% at 60. The changes that apply to 2% at 62 members include reducing the age factor,

increasing minimum and normal retirement age, eliminating the career factor, requiring final compensation be calculated based on the highest average annual salary rate over three consecutive school years, reducing the limit on compensation that counts toward retirement benefits, limiting the type of compensation that counts toward retirement benefits, eliminating the Replacement Benefits Program, and requiring the contribution rate to equal 50 percent of the normal, ongoing cost of benefits. PEPRA also made other changes that apply to all CalSTRS members (CalSTRS 2% at 60 and CalSTRS 2% at 62 members), including prohibiting the purchase of nonqualified service, requiring that a conviction for a work-related felony result in the forfeiture of benefits, expanding the separation from service requirement or zero-dollar limit to all members who retire on or after January 1, 2013, adding a narrow exemption to the separation from service requirement, extending the narrow exemption to the annual postretirement earnings limit to June 30, 2014, and prohibiting retroactive benefit enhancements.

This Bill:

SB 13, an urgency bill affecting California public employee pension systems, including CalSTRS, CalPERS and county retirement systems, makes various conforming and clarifying changes to PEPRA, as enacted in AB 340 (Furutani). (AB 1381 (PER&SS), sponsored by the Teachers' Retirement Board, makes more extensive changes to the Education Code to conform the Teachers' Retirement Law to PEPRA.) Most substantively, SB 13 allows for Defined Benefit (DB) Program members with concurrent membership as of December 31, 2012, who performed service under that system within the six months prior to becoming CalSTRS members, to be CalSTRS 2% at 60 members. This bill specifies that the annual adjustment to the compensation cap shall be based on the Consumer Price Index for All Urban Consumers: U.S. City Average. SB 13 also ensures that three consecutive school years are used to determine final compensation for 2% at 62 members by including the term "consecutive" when PEPRA refers to school years in this regard.

LEGISLATIVE HISTORY

AB 340 (Furutani, Chapter 296, Statutes of 2012) made various changes to California public employee pension systems through the enactment of PEPRA.

AB 2700 (Lempert, Chapter 1021, Statutes of 2000) made all compensation for creditable service creditable to CalSTRS and credited member and employer contributions for service in excess of 1.000 year of service per school year to the Defined Benefit Supplement (DBS) Program.

PROGRAM BACKGROUND

PEPRA provided for individuals with reciprocity (that is, a formal relationship in which membership in another retirement system affects the eligibility for benefits in a subsequent retirement system) to be included in the retirement benefit structure that existed before 2013 when joining a different public retirement system. CalSTRS does not have reciprocity with other public retirement systems. DB Program members can have "concurrent" membership if they previously performed service with other specified California retirement systems. Therefore, the language in PEPRA did not take into account new CalSTRS members who have been members of other public retirement systems. In order to accommodate these individuals, SB 13 allows for those with

concurrent membership as of December 31, 2012, who performed service under that retirement system within the six months prior to becoming a CalSTRS member, to be CalSTRS 2% at 60 members. This change will require updates to election forms to capture concurrent membership information and ensure members are under the correct retirement formula. If the form does not capture all of the eligible concurrent members, an additional solution may need to be established.

SB 13 also clarifies that the contribution rate for CalSTRS 2% at 62 members is 50 percent of the normal cost rate for that benefit structure. The comparison enacted in PEPRA to establish the member contribution rate as either that rate or a greater contribution rate would only apply to those retirement systems in which the greater contribution rate has been agreed to through collective bargaining, a circumstance that does not exist in the DB Program.

In addition, this bill sets parameters for determining the annual adjustment to the compensation cap. PEPRA required that the calendar year cap be adjusted based on changes to the Consumer Price Index for All Urban Consumers. SB 13 states that the changes are to be calculated from September to September. The CalSTRS conforming bill, AB 1381 (PER&SS), shifts the cap from a calendar year to a fiscal year to accommodate business practices of school districts and other CalSTRS employers. As a result, AB 1381 specifies a February to February comparison for CalSTRS in order to implement parallel parameters that align with a fiscal year.

FISCAL IMPACT

Program Cost – Any increases in benefits for accommodating additional members with concurrent membership in the 2% at 60 benefit structure would be offset by their contributions.

Administrative Costs/Savings – Required changes in procedures would be incorporated into the training of affected staff and CalSTRS forms and communications materials.

SUPPORT

CalPERS
Los Angeles County Employees Retirement Association

OPPOSITION

None known.

ARGUMENTS

Pro: Allows specified members with concurrent membership to be under the CalSTRS 2% at 60 benefit structure.

Clarifies the contribution rate for CalSTRS 2% at 62 members.

Con: None identified.

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