

# STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Senate Bill 2047**      **Senator Lewis (As Amended 4/13/1998)**

**Proponents:**            STRS(Sponsor), ACSA, CFT, CRTA, CTA, Family Law Section State Bar of California

**Opponents:**            None

### SUMMARY

This bill would: 1) provide Option 8 allowing a member to select more than one option beneficiary, 2) provide for a change from Option 4 or 5 to Option 6 or 7 under specified circumstances, and 3) provide members upon retirement under an option with the greater of the benefit determined under the option factors in place at the time of retirement or in place at the time of election of a preretirement election of an option. The bill was amended April 13, 1998 to make the new option, Option 8, effective on or after January 1, 2000.

### HISTORY

SB-754 (Hughes), Chapter 911, Statutes of 1993, allowed STRS members who retired before January 1, 1991, under Option 2 or Option 3, to elect to change to Option 6 or Option 7 (added by SB-682 (Green) Chapter 97, Statutes of 1990) during the period of July 1, 1994 through December 31, 1994. The retired member could change options only if the same option beneficiary was named, the option beneficiary was not deceased at the time of the change in options, and the option beneficiary had no known terminal illness. The retirement allowance payable to the retired member after an option change under this bill would be reduced from the current modified allowance.

SB-1658, 1996, was introduced to allow STRS members who retired under Options 2, 3, 4, or 5 before January 1, 1991 to return to the unmodified allowance amount if the option beneficiary had died before January 1, 1995. SB-1658 was later amended to exclude Option 4 and 5 retired members from eligibility and, ultimately, the bill was amended to require a study to determine the cost and impact to STRS of providing this benefit. The bill died 8/7/96.

### CURRENT PRACTICE

A member may designate an option beneficiary either at the time of retirement or as a pre-retirement election. The Option allowance provides for a continuation of an allowance to the beneficiary upon the death of the member. The allowance payable to the member is actuarially

reduced, or modified, to provide for the continued allowance based upon the age of both the retired member and the beneficiary designated. Each of the existing six options allow the member to designate only a single option beneficiary.

A member may cancel a pre-retirement election of an option and make a new election designating a new beneficiary prior to retirement. A retired member can cancel an election of an option and make a new election designating a new beneficiary only if the former beneficiary was the spouse of the retired member and the retired member has obtained a divorce from the former beneficiary. In situations where there is a dissolution of marriage, the system has been experiencing an increased number of cases where the courts are awarding ex-spouses the right to remain as the option beneficiary on the member's account. This prevents the member from providing an option allowance for a future spouse in the event they should so wish.

A member retired under an option has his or her allowance modified in order to provide a continuing allowance to the specified option beneficiary. The factors used in the modification are determined by the option selected and the ages of the retired member and option beneficiary. Option 6 and Option 7 allow for the retired members' allowance to return to the unmodified amount if the option beneficiary pre-deceases the retired member. These two options were not available to members retiring prior to January 1, 1991, consequently, any member retired under Options 2, 3, 4, or 5 who's beneficiary is deceased will not have his or her allowance amount returned to the unmodified amount.

When a member files a pre-retirement election of an option, naming an option beneficiary, the member and beneficiary birthdates are used to determine the member's modified allowance. Periodic experience analysis results in changes to the factors used in the computation of the modified allowance. The factors used in the computation of the modified allowance at retirement could result in a lower amount than the computation at the time the pre-retirement election of an option occurred.

## **DISCUSSION**

Option 8 would provide a member with the opportunity to designate more than one beneficiary under the provisions of any of the other six options. The ages of the member as well as all designated option beneficiaries would be used in the computation of the modified allowance payable to the retired member and the continuing allowances to the option beneficiaries. Upon the death of the retired member, a continuing allowance would be paid to each of the option beneficiaries according to the provisions of the option selected. If one or more of the option beneficiaries pre-deceases the retired member, the retired member's modified allowance will be adjusted. The member can designate the percentage of the unmodified allowance to be modified by a specific option for each of the beneficiaries. In no event will the sum of the modified allowances be greater than the actuarial equivalent of the unmodified allowance. The Board reserves the right to approve all Option 8 elections, assuring that this option is cost neutral to the plan.

STRS has determined that providing a new Option under which members can retire would be a significant administrative workload to attached to the system's developing State Teachers' Automation Redesign Team (START). The START project is currently scheduled for full implementation in the spring of the year 2000. As many staff resources are currently dedicated to the START project, a delayed effective date, after START is implemented, for the Option 8 proposal would provide staff the opportunity to utilized the new START technology to provide for a smoother, more efficient implementation.

SB-754 allowed STRS members who retired before January 1, 1991, under Option 2 or Option 3, to elect to change to the two new options, Option 6 or Option 7, during a 6 month window period, under certain circumstances. This bill would also allow STRS members who retired before January 1, 1991, under Option 4 or 5, to elect to change to the to Option 6 or Option 7, during a 6 month window period, and under certain circumstances. Under SB-2047 the member retired under Option 4 or 5 can elect to change to Option 6 or Option 7 only if the designated option beneficiary has predeceased the retired member.

The use of the higher option factors will ensure that any member who files a pre-retirement election of an option and subsequently retires will not be adversely impacted in the event the option factors are changed before or at the time of the effective date of retirement. Because only a limited number of members make a pre-retirement election of an option, and when a change in actuarial assumptions results in change in option factors, the change is relatively minor, this modification would result in no measurable increase in the actuarial liabilities for STRS.

## **FISCAL IMPACT**

**Program** – Minor, Option 8 is cost neutral, as is the change from either Option 4 or Option 5 to Option 6 or Option 7. There may be a minor cost of providing the greater of the option factors.

**Administrative** – Approximately \$125,000 is estimated as the cost for system modifications, printing, and postage necessary for the implementation of the change in options and the greater of the option factors.

## **POSITION**

**Sponsor** – The addition of a new option to allow for multiple option beneficiaries is consistent with the Board's policy to improve the benefits and services provided to our members. STRS does, however, have some technical amendments that are needed in order to ensure the correct implementation of the bill.