

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 272 **Senator Soto (As Amended 5/12/03)**

Position: **Support**

Proponents: **FACCC (Sponsor)**

Opponents: **None known**

SUMMARY

Senate Bill 272 requires community college districts to offer Social Security coverage to their part-time faculty, by formal action of the governing board, no later than July 1, 2004.

HISTORY

AB 1710 (Negrete McLeod—2002) vetoed by Governor Davis, among other things, would have required community college districts to offer Social Security coverage and an alternative retirement plan to all eligible part-time employees. Eligible employees would have been able to elect retirement coverage under either Social Security or the alternative plan selected by their employer, but not both.

Chapter 364, Statutes of 2001 (AB 649—Negrete McLeod) Previously would have required community college districts to offer an alternative retirement plan and Social Security to all their part-time employees. These provisions were deleted and the bill was amended to ratify a Memorandum of Understanding for state employees in bargaining units five and eight.

P.L. 101-508 Omnibus budget Reconciliation Act of 1990 Mandated Social Security coverage for previously uncovered governmental employees, such as part-time, temporary, and seasonal employees, and allowed governmental retirement systems to offer coverage under their plans to these employees in lieu of Social Security.

Chapter 592, Statutes of 1995 (AB 1298—Duchney) Established the Cash Balance Benefit Program (CB) Benefit Program administered by the California State Teachers' Retirement System (CalSTRS) to provide retirement benefits for certificated part-time public school employees.

CURRENT PRACTICE

Under current law, part-time public employees must participate in Social Security if they are not participating in a qualified retirement plan. Of California's 72 community college districts, 24 offer only Social Security to their employees who work less than half time, while 37 provide coverage under an alternative retirement plan, and 11 provide their employees a choice of Social Security or an alternative retirement plan. Certificated employees in these districts also have the option to become members of the CalSTRS Defined Benefit (DB) Program, the primary CalSTRS retirement program.

The CalSTRS CB Benefit Program is an alternative retirement program for certificated public school employees who are hired to perform creditable service for less than 50 percent of the full-time equivalent of the position. School districts, community college districts and county offices of education may choose to provide the CB Benefit Program to their eligible employees in lieu of offering Social Security, or as a choice between Social Security and another alternative retirement plan. The CB Benefit Program provides a guaranteed rate of return set annually by the Teachers' Retirement Board, which may also declare additional earnings credits. Participating employees become vested in the CB Benefit Program immediately, and upon retirement may choose an annuity option if their account balance is at least \$3,500. The CB Benefit Program also provides disability and death benefits, as well as refunds one year after a member's termination from creditable service. Other alternative retirement plans have some of these features, but none offer all of these features.

Currently, employees covered by Social Security pay a contribution of 6.2 percent of salary, with the employer paying an equal amount. Employers and employees who participate in alternative retirement plans contribute an amount that varies widely by district; however, federal law requires a combined employer/employee minimum total contribution of 7.5 percent. The DB Program requires an employer contribution rate of 8.25 percent, a member contribution rate of 8 percent and a General Fund contribution of 2.017 percent. The CB Benefit Program features a minimum employer contribution of 4 percent of the employee's salary and a minimum total contribution rate of 8 percent.

Based on June 30, 2001, reported data, approximately 47,000 part-time faculty employees teach in California's community colleges. Of that total, approximately 45 percent are members of the DB Program, 15 percent participate in the CB Benefit Program, and 40 percent have coverage under either Social Security or an alternative retirement plan. Currently, 18 of the 72 community college districts offer the CB Benefit Program to their eligible employees. Within these 18 districts, approximately 20 to 30 percent of eligible DB Program members elect to join the CB Benefit Program, which at this time has approximately 12,000 active and inactive participants.

AB 1710 from last session would have:

- Required community college districts to provide their eligible part-time employees retirement coverage under Social Security by July 1, 2004;

- Required community college districts to provide their eligible part-time employees retirement coverage under an alternative retirement plan featuring a minimum employer contribution of 4 percent of the employee's salary and a minimum total contribution rate of 8 percent by July 1, 2004;
- Allowed part-time classified community college employees to participate in the CB Benefit Program if their employer offers the program for such employees and they are not subject to membership in the California Public Employee Retirement System;
- Allowed an employee's election to be revocable unless otherwise prohibited by state or federal law and allows an employee to change retirement plans once per year.

Governor Davis vetoed AB 1710 bill, expressing his concern that requiring employers to contribute a minimum of 4 percent of employees' salary to an alternative retirement plan was likely to increase costs for many districts. He cited Department of Finance estimates of \$44 million in additional costs to the General Fund, at a time when community college districts are confronting significant fiscal constraints.

SUMMARY OF AMENDMENTS

The amendments of May 12, 2003 make the following changes:

- Specifies that the governing board of a community college district must take formal action to offer Social Security to the part-time faculty of the district;
- Provides a 60-day election period after the governing board's formal action, in which part-time faculty may elect coverage under Social Security or choose to remain covered by their current pension system;
- Requires the district to inform their part-time faculty of the governing board's formal action to offer Social Security within 10 days of the action;
- Technical and other clarifying changes.

DISCUSSION

Senate Bill 272 requires community college districts to offer Social Security coverage to their part-time faculty no later than July 1, 2004.

According to the sponsor, part-time faculty employees currently suffer because they do not have access to a consistent retirement system, such as Social Security. The sponsors believe SB 272 will help those part-time faculty who are forced to work at multiple community college districts that may not offer the same retirement options. CalSTRS notes however, that the DB Program is available to all part-time community college faculty employees in all districts. The sponsor also states that this bill would enable part-timers who are shy of the required 40 quarters in Social Security an opportunity to vest in that program.

Approximately 45 percent of part-time faculty participate in CalSTRS' DB Program. Because of that program's vesting requirements, however, it can take 8 years or more for a part-time

member to become eligible for DB Program benefits. As a result, for many employees, participating in an alternative retirement plan, such as the CB Benefit Program, is the most appropriate retirement plan choice because these programs provide immediate vesting, and participants benefit from the contributions made both by themselves and their employer. For others, participating in Social Security is the most appropriate choice for retirement benefits because they are very close to qualifying for Social Security benefits, or their primary employment is covered by Social Security, which would be reduced by the provisions of the federal Government Pension Offset (GPO) or Windfall Elimination Provision (WEP) if they were in some other retirement plan.

Recent CalSTRS data indicates that in districts that only offer coverage under the DB Program and Social Security, 61 percent of part-time faculty employees elect the DB Program, while 39 percent choose Social Security. In districts that offer an alternative retirement plan, 44 percent of part-time faculty employees elect the DB Program, while 56 percent choose an alternative retirement plan.

To the extent that the part-time faculty in the 37 districts that only provide an alternative retirement plan featuring an employer contribution rate lower than Social Security, leave these plans and elect Social Security, the district's retirement costs will increase. Much of the movement will depend on (1) the need of the employee to vest with Social Security and (2) the employee contribution rate of these alternative plans. In other words, the greater the gap between the employee contribution rate of their alternative plan and the 6.2 percent employee contribution rate of Social Security, the fewer employees will leave their alternative plans for Social Security.

The Teachers' Retirement Law requires school districts that participate in the CB Benefit Program to provide a 60-day election period for existing part-time faculty members to change their retirement coverage, and also requires districts to provide their employees information on all the available alternative retirement programs within ten days following the Boards' action to provide the CB Benefit Program. Under most circumstances, an election to participate in the CB Benefit Program is currently only revocable if the participant is electing membership in the DB Program, and membership in the DB Program is irrevocable unless a member elects to participate in the CB Benefit Program.

Part-time community college faculty who elect Social Security coverage also may also be adversely affected by the federal WEP. This provision primarily affects people who spend much of their working lives in employment that is not covered by Social Security and who also have other jobs where they pay Social Security taxes long enough to qualify for benefits. The formula used to calculate the Social Security benefit for these individuals is modified, resulting in a lower Social Security benefit. SB 272 requires the districts to offer a 60-day election period after the district's governing board makes a formal action to provide Social Security to its part-time faculty. During this period, employers must provide faculty members with information on the potential effect that the WEP and GPO may have on their future Social Security benefit.

FISCAL IMPACT

Benefit Costs/Savings—Of the 37 community college districts that do not offer Social Security, all provide alternative plans with employer contribution rates that are lower (below 4.15 percent) than Social Security's 6.2 percent contribution rate minus the difference (2.05 percent), between the DB Program's 8.25 percent employer contribution rate and Social Security's.

Under current law, the DB Program requires a General Fund contribution of 2.017 percent of members' salaries. There are 11,033 members of the DB Program working part-time in these districts, with earnings totaling \$94,430,696 for an average salary of \$8,559 per person annually.

If 10 percent of these DB members switch, the 37 districts will realize savings of approximately \$193,584 per year, and the General Fund will realize savings of approximately \$422,581 per year.

If 5 percent of these DB members switch, the 37 districts will realize savings of approximately \$96,792 per year, and the General Fund will realize savings of approximately \$211,290 per year.

The alternative retirement plans offered by the 37 districts instead of Social Security feature:

- Employee contribution rates lower than Social Security;
- Employee contribution rates of 7.5 percent with no employer contribution;
- Employee contribution rates of 6.2 percent with employer contribution rates of 1.3 percent.

Because of this situation, if one part-time employee belonging to an alternative retirement plan chooses coverage under Social Security, for every member of the DB Program that does so, these districts will incur a net cost.

Administrative Costs – Minor and absorbable costs.

BOARD POSITION

Support. This measure will provide community college faculty who work less than half time the opportunity to participate in either an alternative retirement plan, such as the CB Benefit Program, or Social Security. These provisions are consistent with CalSTRS efforts to improve benefits provided to its members.