

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 627 **Senate PE&R (As amended 5/08/03)**

Position: **Sponsor**

Proponents: **Author**

Opponents: **None known**

SUMMARY

Senate Bill 627 is the annual California State Teachers' Retirement System (CalSTRS) technical "housekeeping" bill. The bill make various grammatical, technical and conforming changes to the Teachers' Retirement Law (TRL) to facilitate efficient administration of the State Teachers' Retirement Plan (Plan), which includes the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit Program. Specifically, the bill:

1. Replaces the term "teacher" with "employee" in order to clarify other substitute positions are subject to mandatory membership under the DB Program;
2. Makes conforming changes to the nonmember spouse purchase of additional service credit monthly installments;
3. Clarifies language under the Reduced Workload Program to specify five years of "credited service";
4. Clarifies the 120 monthly payment time period for service credit purchases and the redeposit of contributions;
5. Eliminates the current limit on the amount of out-of-state service that can be purchased;
6. Clarifies the integration of Title 5 Regulations, as they read on January 1, 2000, for service credit purchases and the redeposit of contributions;
7. Clarifies contributions to be credited under the DBS Program;
8. Clarifies community property rights of a nonmember spouse in the DBS Program;
9. Clarifies the calculation of the post-retirement earnings limitation, and replaces the term "average earnable salary" with "average compensation earnable" to be consistent with terminology used to explain the compensation earned if a member worked full-time;

10. Replaces California Code Section 37252.5 referring to "Remedial instruction" that was repealed effective January 1, 2003, and is replaced by California Code Section 37252.2 that became effective January 1, 2003;
11. Clarifies participation under the CB Benefit Program;
12. Clarifies the disposition of funds from reverted warrants under the Teachers' Retirement Plan;
13. Clarifies member eligibility under an employer deferred compensation plan;
14. Clarifies eligibility of members receiving a disability allowance under the DBS Program;
15. Clarifies eligibility of DB Program members who are receiving a disability allowance under the Medicare Premium Payment (MPP) Program;
16. Corrects grammatical errors and name changes in the TRL.

HISTORY

Chapter 903, Statutes of 2002 (AB 2982—Soto) changes the calculation of post-retirement earnings limits.

Chapter 74, Statutes of 2000 (AB 1509—Machado) requires that 25 percent of the contributions made by members of the DB Program be credited for the next ten years to a separate nominal account in the DBS Program.

Chapter 1021, Statutes of 2000 (AB 2700—Lempert) makes all compensation for creditable service creditable to CalSTRS and credits member and employer contributions for service in excess of 1.000 years of service per school year to the DBS Program.

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 569, Statutes of 1997 (SB 1027—Schiff) among other things, authorizes members of CalSTRS to purchase additional service credit for out-of-state public school employment without any date restriction.

Chapter 592, Statutes of 1995 (AB 1298—Ducheny) authorizes CalSTRS to establish the CB Benefit Program for part-time public school employees, which employers may elect to provide for persons employed less than half time at a contribution rate that is lower than Social Security tax.

Chapter 542, Statutes of 1988 (SB1190—Lockyer) requires CalSTRS, pursuant to court order, to establish a separate account for service credit and contributions and interest awarded a non-member spouse in a division of community property. The non-member spouse would be eligible to elect a retirement allowance or a refund of contributions and interest.

Chapter 1293, Statutes of 1974 (AB 3579—Lewis) makes technical and various clarifying changes to the TRL respecting costs of administration, tax exemptions, limitations on actions, fund references, definitions, service, membership, tax-sheltered annuities, contributions, merger of local systems, beneficiary designations, and allowance;

Chapter 795, Statutes of 1974 (SB 2247—Robbins) among other things, deletes the definition of “permanent fund” for purposes of the TRL. Requires the Teachers' Retirement Board to establish and maintain an adequate system of records and accounts following recognized accounting principles and controls;

Chapter 1010, statutes of 1972 (AB 962—Barnes) among other things, revises the TRL with respect to various matters, including credit and contributions for certain out-of-state, deaf and blind school, and war service; disability allowances; employer contributions; nomination of beneficiary; death benefits; member's accounts; members of local teachers' retirement systems; reinstatement from retirement; unclaimed warrants; membership qualifications; and board meetings.

Summary of Amendments

The most recent amendments include the following changes to the February 21, 2003 version of the bill:

- Clarifies the 120-month payment period for service credit purchases and the redeposit of contributions;
- Clarifies the integration of Title 5 Regulations, as they read on January 1, 2000, for service credit purchases and the redeposit of contributions;
- Replaces the term “average earnable salary” with “average compensation earnable” to be consistent with terminology used to explain the compensation earned if a member worked full-time;
- Replaces California Code Section 37252.5 referring to “Remedial instruction” that was repealed effective January 1, 2003, with California Code Section 37252.2 that became effective January 1, 2003;
- Clarifies the disposition of funds from reverted warrants under the Teachers' Retirement Plan;

- Corrects additional grammatical errors.

DISCUSSION

1. Clarification regarding the rights of substitute "employees" to mandatory membership

Existing law specifies the mandatory membership requirements for any person employed to perform creditable service as a substitute teacher. This bill replaces the term "teacher" with "employee" in order to clarify that other substitute employees, such as counselors and librarians, are subject to mandatory membership in the DB Program if the person performs 100 or more complete days of creditable service during the school year. This is consistent with current practice.

Education Code section affected by amendment: 22503

2. Conforming change in the nonmember spouse purchase of additional service credit

Existing law permits a member who purchases additional service to pay for the service over 120 months. Existing law also permits a nonmember spouse who is awarded a separate account to purchase additional service credit that he or she has a community property interest in, and to purchase such service over 60 months. This bill makes a conforming change in the purchase of additional service credit for nonmember spouses by extending the maximum installment period from 60 to 120 months.

Education Code section affected by amendment: 22663

3. Clarification of credited service under the Reduced Workload Program

Existing law specifies the service requirement for eligibility to participate in the Reduced Workload Program including five years of employment immediately preceding the reduction in workload. This bill clarifies the additional employment requirement of five years of "credited service".

Education Code section affected by amendment: 22713

4. Clarification of payment time period for service credit purchases and redeposit contributions

Existing law specifies monthly payments for service credit purchases and redeposit of contributions are not to exceed 120 monthly payments. This has been interpreted to mean the maximum time to complete the payments is equivalent to 10 years. Consequently, when a member is paying via payroll deduction and the member is either a ten pay (10 paydays per year) or an eleven pay (11 paydays per year), an interpretation of the 120 monthly installments may imply that the payments may be made over a 12 year period (10 payments per year for 12 years

equals 120 payments). This bill clarifies that the 120 monthly payment period to purchase service credit purchases and redeposit contributions will not exceed 10 years.

Education Code sections affected by amendment: 22801, 22801.5, 22823, 22826 and 23203

5. Eliminates the current limit for the amount of out-of-state service that can be purchased

Existing law permits a DB Program member to purchase up to 10 years of out-of-state service credited in a public retirement system for service covering public education in another state or territory of the United States. That limit was established in state law because it was anticipated that federal law would be enacted to require such a limit. The federal legislation was not enacted. This bill eliminates the 10-year purchase restriction for members who performed eligible out-of-state service and wish to purchase the full service. The cost of purchasing the service is fully paid for by the member.

Education Code section affected by amendment: 22820

6. Clarification of Permissive Service Credit Purchases and Redeposit Contributions under Title 5 Regulations

Existing law integrates Title 5 of the California Code of Regulations, as they read on January 1, 2000. Inadvertently, language was omitted that pertained to the purchase of service credit and the redeposit of contributions for DB Program members. This bill clarifies Title 5 Regulations that pertain to, prior to retirement, the payment of all service credit purchases and the redeposit of contributions.

Education Code sections affected by amendment: 22823 and 23203

7. Clarification of contributions to be credited under the DBS Program

Existing law specifies the crediting of contributions to the DBS Program, but is unclear as to when the contributions are credited. This bill clarifies that employer contributions related to limited-term enhancements (such as a bonus in the final year of teaching) and other types of one-time payments are to be credited to the member's DBS account upon receipt. This change also specifies that employer contributions in excess of one-year of service credit are creditable to the DBS Program as of July 1. This corresponds to current practice.

Education Code section affected by amendment: 22905

8. Clarification of the community property rights of a nonmember spouse in the DBS Program

Existing law extends the provisions of the TRL to nonmember spouses who are eligible for benefits in the plan under community property laws and who are awarded a separate account for

service retirement allowance. This bill provides clarification that community property rights of a nonmember spouse under the DBS Program conform to community property rights a nonmember spouse has under the DB Program.

Education Code sections affected by amendment: 23300 and 25000.9

9. Clarification of the post-retirement earnings limitation calculation and the “average earnable compensation”

Existing law establishes a maximum amount of creditable earnings a retired member can earn in a school year. This bill provides clarifying language that the amount of the earnings limitation be increased each year by the *percentage increase* in the average earnable salary. The term “percentage increase” were inadvertently left out of Chapter 903 Statutes of 2002 (SB 1983-Soto) which changed the basis for calculating the post retirement compensation limitation from the All Urban California Consumer Price Index (CCPI) to the average earnable salary of active members.

Additionally, existing law establishes the term “average earnable salary” in determining the basis for the increase in the post-retirement earnings limit. This term is not defined in law, but applies the same language used in “compensation earnable”, that is defined in law. This bill provides consistency by the use of one term to mean the compensation that would be earned if a member worked on a full-time basis.

Education Code section affected by amendment: 24214

10. Replaces existing section pertaining to “Remedial Instruction”

Section 37252.5 allowed members who retired for service to accept temporary part-time or full-time employment performing “Remedial instruction” to be exempt from the post-retirement earnings limitation. That section was repealed and replaced by Section 37252.2, effective January 1, 2003. This bill would delete Section 37252.5 and replace it with Section 37252.2 in the TRL.

Education Code section affected by amendment: 24216.6

11. Clarification of "participant" eligibility under the CB Benefit Program

Existing law authorizes CalSTRS to evaluate the existing options and annuities provided under the DB Program, DBS Program and the CB Benefit Program and adopt as Plan amendment, any appropriate changes to the options and annuity options offered to members and participants. This bill clarifies that any amendments made to Part 13 (governing the DB and DBS Program) will also apply to Part 14 of the TRL that governs the CB Benefit Program.

Education Code section affected by amendment: 24300

12. Clarification of disposition of funds from reverted warrants

Existing law authorizes the disposition of all reverted warrants, from whichever program they originated when reverted, to be used to pay benefits of the DB Program. CalSTRS has three programs in the Plan, and all of the assets of the Plan are available to pay benefits in any of the three programs. This bill will delete language that, contrary to the plans' design, limits the disposition of reverted funds.

Education Code section affected by amendment: 24606

13. Clarification of "participant" eligibility in an employer deferred compensation plan

Existing law authorizes CalSTRS to provide deferred compensation plans to school employers pursuant to the Sections 403(b) and 457 of the Internal Revenue Code. This bill adds the term "participant" to clarify that a CB Benefit Program participant can participate in a 457 deferred compensation plan if offered by the employer.

Education Code section affected by amendment: 24975

14. Clarification of disability benefits under the DBS Program

Existing law permits a disabled member who returns to work in his or her former position of employment or comparable level position, if within six months of returning to employment, experiences a recurrence of the original disability, to again become eligible for the DBS Program disability benefit. This bill conforms the requirements for the resumption of disability benefits payments under the DBS Program after the reoccurrence of a disability to the requirements specified in the DB Program.

Education Code section affected by amendment: 25018.5

15. Clarification of eligibility of members receiving a disability allowance under the Medicare Premium Payment Program

Under the MPP Program, CalSTRS pays the Medicare Part A premiums and Part A (hospital) and Part B (medical) surcharges for retired eligible DB Program members age 65 or older who are not eligible for premium-free coverage. Eligibility for the MPP Program is limited to retired DB Program members; members receiving a disability allowance are not considered retired and therefore do not qualify for the MPP Program benefit until they reach age 60 when their disability allowance is converted to retirement status. A small number of disabled members continue to receive a disability allowance after age 60 because they have dependents and under certain circumstances they may never become eligible for the MPP Program. This bill expands the eligibility for the MPP Program to include DB Program members age 65 or older who are receiving disability allowance payments.

Education Code section affected by amendment: 25940

16. Correction of grammatical errors in the TRL

- This bill adds a comma and includes hyphen in reference to roll-call.

Education Code section affected by amendment: 22203.5

- This bill adds a comma and deletes 'and' in reference to employers and employing agencies.

Education Code section affected by amendment: 22213

- This bill includes a hyphen in reference to mid-career.

Education Code section affected by amendment: 22303.5

- This bill makes formatting changes.

Education Code section affected by amendment: 22714

- This bill deletes a comma and adds 'the' in reference to receipt of a disability application.

Education Code section affected by amendment: 24002

- This bill adds a comma in reference to "participate in the program".

Education Code sections affected by amendment: 24012 and 24111

- This bill deletes a comma in reference to installment payments.

Education Code sections affected by amendment: 24615

Finally, this bill adds 'the' in reference to the Internal Revenue Code, respectively.

Education Code section affected by amendment: 25101

FISCAL IMPACT

Benefit Program Cost– Based on the number of affected DB Program members and the experience with eligibility for the MPP Program, CalSTRS estimates that extending the MPP Program to members who are receiving a disability allowance would cost up to \$30,000 per year.

Administrative Costs– The cost of the required changes to the System's database is expected to be minor and absorbable.

RECOMMENDATION

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