

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

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**Senate Bill 627**      **Senate PE&R (As introduced 2/21/03)**

**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. Eliminates the current limit on the amount of out-of-state service that can be purchased;
5. Clarifies contributions to be credited under the DBS Program;
6. Clarifies community property rights of a nonmember spouse in the DBS Program;
7. Clarifies the calculation of the post-retirement earnings limitation;
8. Extends the existing dates under the postretirement earnings limitation;
9. Clarifies participation under the CB Benefit Program;
10. Clarifies member eligibility under an employer deferred compensation plan;
11. Clarifies eligibility of members receiving a disability allowance under the DBS Program;

12. Clarifies eligibility of DB Program members who are receiving a disability allowance under the Medicare Premium Payment (MPP) Program;
13. 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 provided 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.

## 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. 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*

**5. 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*

**6. 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 section affected by amendment: 23300 and 25000.9*

**7. Clarification of the postretirement earnings limitation calculation**

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.

*Education Code section affected by amendment: 24214*

**8. Extends existing dates under the earnings limitation**

Existing law allows members who retired for service to accept temporary part-time or full-time employment performing creditable service in the California public school system under a post retirement earnings limitation, unless they are otherwise exempt. This bill extends the existing exemption to members who retired on or before January 1, 2003, and extends the sunset date from July 1, 2005 to January 1, 2010.

*Education Code section affected by amendment: 24216.5*

**9. 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*

**10. 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*

**11. 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*

**12. 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*

**13. Correction of grammatical errors in the TRL**

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

*Education Code section affected: 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*

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.

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