BILL NUMBER: SCA 10 (Moorlach) as introduced February 17, 2017

SUMMARY

SCA 10 prohibits a government employer from providing public employees any retirement benefit increase, as defined, until that increase is approved by a two-thirds vote of the electorate of the applicable jurisdiction and that vote is certified.

BOARD POSITION

Oppose. The board's policy is to oppose legislation that deprives members or participants of vested benefits. It is also the board's policy to oppose legislation that makes changes to the structure of benefits provided through the funds administered by CalSTRS that would adversely affect the funding of CalSTRS benefits or that would be impracticable to administer.

REASON FOR THE BILL

According to the author, growing unfunded public pension obligations will have serious ramifications for future generations unless changes are made to California's public employee retirement systems, and taxpayers who bear a significant cost of public employee pensions should have a voice if those costs are increased.

ANALYSIS:

Existing Law:

Chapter 694, Statutes of 1913 (AB 1263), established the Public School Teachers' Retirement Salary Fund as a function of the State Board of Education, effective July 1, 1913. CalSTRS was created to provide California educators with a secure financial future during their retirement years and to provide an incentive for them to stay in the teaching profession during their entire careers. All certificated public school teachers and educational administrators automatically became members of the retirement system when it was established.

Membership in the Defined Benefit (DB) Program currently includes all full-time certificated and electing part-time employees in approximately 1,700 California public schools, county offices of education and the state, from prekindergarten through community college. With more than 914,000 members and benefit recipients, CalSTRS is the nation's largest public teachers' pension fund. The State Teachers' Retirement Plan is a multiple-employer, cost-sharing defined benefit plan. Although CalSTRS is the administrator of the plan, the state is the plan sponsor and obligor of the trust.

This Bill:

Specifically, SCA 10:

- Prohibits a government employer from providing public employees any retirement benefit increase until that increase is approved by a two-thirds vote of the electorate of the applicable jurisdiction and that vote is certified.
- Defines "benefit increase" as any change that increases the value of an employee's retirement benefit, including, but not limited to, increasing a benefit formula or the rate of cost-of-living adjustments, expanding categories of pay included in pension calculations, reducing vesting periods, lowering the retirement age or otherwise providing a new economic advantage for the government employee.
- Defines "government employer" as the state, or a political subdivision of the state, including, but not limited to, counties, cities, charter counties, charter cities, a charter city and county, school districts, special districts, boards, commissions, the Regents of the University of California, the California State University and agencies thereof.
- Defines "retirement benefit" as any postemployment benefit, including, but not limited to, a benefit providing through a defined benefit pension plan, defined contribution plan, retiree health care plan or any form of deferred compensation offered by government employers.

LEGISLATIVE HISTORY

AB 1469 (Bonta, Chapter 47, Statutes of 2014) increased member, employer and state contributions to fully fund the DB Program by 2046.

AB 340 (Furutani, Chapter 296, Statutes of 2012), also known as PEPRA, reduced retirement benefits and established a new benefit structure for educators who were first hired on or after January 1, 2013.

PROGRAM BACKGROUND

The language in SCA 10 is unclear as to what constitutes an "electorate of the applicable jurisdiction." If the jurisdiction for CalSTRS members is statewide, this legislation undermines the California Constitution, CalSTRS statutory authority and case law. Benefits and contribution rates for CalSTRS members are established in state law and are not negotiated at the employer level. Improvements already require action by the Legislature and the Governor. SCA 10 would additionally require that any prospective benefit improvements, as permitted by law, would be subject to a statewide vote. However, CalSTRS members and participants have a vested right to the benefits that are set forth in statute enacted through the legislative process. Requiring voter approval of CalSTRS retirement benefits infringes on a member or participant's vested right to a benefit established by the Legislature.

If the author's intent is to allow voters of individual school districts to approve retirement benefit increases, there are other significant concerns for CalSTRS. SCA 10 would provide voters in local jurisdictions with the flexibility to establish myriad funding approaches and benefit tiers that would have to be administered by CalSTRS, fundamentally transforming CalSTRS structure. Rather than a cost sharing plan for accounting purposes, CalSTRS would become an agent plan, similar to CalPERS. There are approximately 1,700 employers, including K-12 school districts, community college districts, county offices of education and a number of independent charter schools, that would each have the flexibility to establish different rules related to funding and benefits. For perspective, CalPERS administers benefits for classified staff at those same school employers under a single benefit formula; in addition, it administers health and retirement benefits for the state and 1,580 public agencies, with varying rates for different classifications and benefit tiers within those entities. CalPERS programs are complex, and its operating budget and staffing are each approximately three times that of CalSTRS. The effect of the potential new complexity on CalSTRS staffing and technology requirements to implement and administer these new programs would be considerable.

By potentially allowing each school employer to have a distinct retirement benefit plan, SCA 10 may affect teacher mobility when plans are not compatible from employer to employer. Members' employment decisions would likely be affected by such factors. If a teacher wishes to remain under a more generous plan formula, he or she may be less likely to seek other more appropriate teaching opportunities in other California school districts.

In addition, CalSTRS funding plan enacted by Chapter 47, Statutes of 2014 (AB 1469–Bonta), relies on future contributions to eliminate the unfunded liability by 2046. The foundation of that plan rests on future payroll assumptions for CalSTRS membership under the current benefits structure. The potential for varied benefits structures and mechanisms for funding benefit increases posed by this constitutional amendment is a serious threat to success of the funding plan. Furthermore, CalSTRS unfunded liability could increase should local voters approve a retirement benefit increase without appropriating the additional contributions necessary to fund that increase.

FISCAL IMPACT

Program Cost – Unknown due to the fact that any potential changes to the CalSTRS benefit structure are not determined by individual school or community college districts.

Administrative Costs/Savings – Unknown.

SUPPORT

None known.

OPPOSITION

CalSTRS

ARGUMENTS

Pro: None.

Con: Threatens success of the funding plan for the DB Program if benefit increases are provided without the necessary additional contributions from employers.

May allow for the creation of multiple benefit calculations or multiple benefit structures under the DB Program.

May affect teacher mobility if school employers offer distinct retirement benefit plans.

Potentially results in extreme and unsustainable complexity in administering retirement benefits.

LEGISLATIVE STAFF CONTACT

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