

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 18, 2008
POSITION: Neutral, note concerns
SPONSOR: State Teachers' Retirement System

BILL NUMBER: SB 1376
AUTHOR: P. Wiggins

BILL SUMMARY: State Teacher's Retirement System

This bill would make non-substantive, technical and conforming amendments to the California State Teachers' Retirement System (CalSTRS) law.

FISCAL SUMMARY

The CalSTRS staff indicate that the costs associated with this bill would be minor and absorbable.

We would point out that the clarification in regards to the timeline and calculation of the credible compensation could result in higher or lower General Fund costs to the Teacher's Retirement Funds than originally estimated in any given year.

COMMENTS

The Department of Finance is neutral on this bill, but we do note concerns on the date changes for the creditable compensation as outlined in the subsequent two paragraphs.

Every year, the state uses the creditable compensation to calculate (1) a total contribution of 2.017 percent, in quarterly payments, to the Defined Benefit (DB) program and (2) an annual contribution to the Supplemental Benefit Maintenance Account (SBMA) of 2.5 percent. CalSTRS calculates the prior year's creditable compensation, used for both contributions, each October and forwards this data to the Finance to support the state's contributions for the following fiscal year. This bill would change and specify the date that CalSTRS must report to Finance and Legislature from October 1 to October 25. In addition, it would allow CalSTRS to adjust the credible compensation amount, if adjustments are necessary, by April 15 of the following year and roll any changes found necessary after April 15 into the next fiscal year's contribution to the DB program and SBMA. This bill would provide CalSTRS with no firm subsequent deadline. At any time after October 1 (even multiple years later), under the bill, CalSTRS would be able to update the prior-year payroll calculation, and "the revisions shall adjust subsequent appropriations." This could conceivably lead to the requirement of later year's state payments to CalSTRS containing "settle-up" payments for multiple prior fiscal years, akin to the funding practice for Proposition 98. The proposed amendment to Section 22955.5 of the Education Code could result in unknown, but potentially significant, additional General Fund costs. In general, CalSTRS compliance and auditing officials would be able to attempt to identify additional, unreported teacher payroll from districts on an ongoing basis, with every additional dollar of teacher payroll reported after October 1 of each year resulting in increased state expenditures.

The Budget Conference Committee approved a package of proposals that reduces General Fund contributions to CalSTRS on an ongoing basis by at least \$66 million per year in exchange for several benefits to CalSTRS members, including (1) a lifting of an existing cap on purchasing power benefits consistent with recent actuarial studies concerning the available funds in CalSTRS' SBMA account and (2) an over six-month extension of the existing October 1 reporting date to April 15. The Conference Committee's action also specifies legislative intent to appropriate funds (up to \$3 million) in the 2009-10 (Continued)

COMMENTS (continued)

budget for all instances reported to date when CalSTRS has identified additional teacher payroll after the existing October 1 reporting deadline. Under Section 15 of SB 1376, the anticipated trailer bill implementing the conference committee's action would take precedence over SB 1376's provisions related to the October 1 reporting date.

Analyst/Principal Date Program Budget Manager Date
(0930) K. Martone Diana Ducay

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

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SB 1376

CalSTRS currently provides survivor benefits to the beneficiaries of members who die before retiring under Coverage B if the member joined CalSTRS after October 15, 1992, or elected coverage during the subsequent election period. Under Coverage B, an active member's surviving spouse or children may qualify to receive a monthly benefit in addition to the one-time death benefit (if named as the beneficiary). This bill would clarify that the balance of a deceased member's account may be paid to the member's designated beneficiary upon termination of all children's allowances. This action parallels the action taken under Coverage A; which provides that upon termination of family allowance prior to the payment of allowance equal to the member's accumulated contributions, the balance shall be paid to the member's beneficiary.

CalSTRS' reduced workload program requires that a member be employed to perform creditable service for at least 10 years full-time and at least 5 of those years immediately preceding the reduction in workload. SB 1376 would clarify that 5 of the 10 years be full-time immediately prior to the reduction in workload.

A service retirement benefit payment is clarified to be effective at the same time as the disability benefit. It is also clarified that if a member dies while awaiting a disability determination, who has also applied for a service retirement, the member will be considered retired for service at the time of death if the member dies prior to the determination of the disability application. Also, a member who dies after the CalSTRS Board has determined the member is disabled will be considered disabled at the time of death, even if the member dies prior to receiving notification from CalSTRS on this determination.

Current law requires that an employer must provide documentation that a retired member is working under an exemption to the post-retirement earning limit. This bill would establish a timeframe for the employer to provide CalSTRS with the appropriate documentation, which would be by the end of the school year for which the exemption applied.

This bill would change the Defined Benefit Supplement (DBS) additional annuity credit to mirror the Cash Balance program and provide that the additional annuity credit paid to a member would be based on the current value of the member's annuity, not the initial value of the member's annuity. This would correct the current oversight and mirror the Cash Balance Benefit Program as was intended. Also, when an individual retires from the Defined Benefit Program, they should also retire from the DBS Program. Because there are two separate applications for retirement from both programs, some retirees have not received DBS funds. This bill would clarify the requirement that a member must submit a completed benefit application, which includes the DBS form, in order to receive any retirement or disability benefit. In addition, to address outstanding accounts of members not yet receiving DBS funds, this bill would distribute the balance of the DBS accounts to each applicable member or beneficiary in a lump-sum by March 31, 2009.

In conclusion, this bill states that if the Legislature takes an act that would change or amend any of these sections on or before January 1, 2009 during the 2008 calendar year, the other act would take precedence to this bill regardless of when either one is chaptered. We would point out that a comprehensive agreement for a change to the SBMA is currently being proposed for the 2008 Budget Act. This comprehensive package also includes a change to the reporting requirements similar to that of this bill.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year)				Fund Code
				(Dollars in Thousands)				
				2008-2009	FC	2009-2010	FC	2010-2011
6300/Teach Retire	SO	No		-----	See Fiscal Summary	-----		0001
1920/STRS	SO	No		-----	No/Minor Fiscal Impact	-----		0835
<u>Fund Code</u>	<u>Title</u>							
0001	General Fund							
0835	Teachers' Retirement Fund							