

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## BILL ANALYSIS

**Assembly Bill 135**                      **Assembly Member Havice (As amended 5/31/01)**

**Position:**                                      **Support**

**Proponents:**                                **ACSA, ART, CFT, CRTA, CTA, FACCC,  
LA Community College Faculty Guild, UTLA**

**Opponents:**                                **None known**

### **SUMMARY**

Assembly Bill 135 increases the supplemental payments made from the California State Teachers' Retirement System (CalSTRS) Supplemental Benefit Maintenance Account (SBMA) to restore purchasing power of initial allowances to 80 percent of the member's initial monthly allowance, rather than the current 75 percent.

### **HISTORY**

SB 1693 (Ortiz—2000) would have increased quarterly payments made from the SBMA to restore purchasing power of current allowances to 80 percent of the member's initial allowance. SB 1693 was held on the Senate Appropriations Committee Suspense file.

Chapter 1006, Statutes of 1998 (AB 1102—Knox) vests the 2.5 percent General Fund contribution to fund SBMA payments and the purchasing power payments payable from that contribution.

Chapter 939, Statutes of 1997 (SB 1026—Schiff) increases purchasing power protection to up to 75 percent of the benefit recipient's original purchasing power from 68.2 percent. It also authorizes the Teachers' Retirement Board to transfer funds from the Teachers' Retirement Fund, increase employer contributions, and reduce or terminate distributions, if the resources in the SBMA were insufficient to maintain the 75 percent purchasing power payments.

### **SUMMARY OF AMENDMENTS**

The May 31, 2001 amendments removed provisions of the bill that would have based "final compensation" on the highest average compensation earnable for 12 consecutive months, rather than three consecutive years, for all CalSTRS Defined Benefit (DB) Program members. Currently, such a definition of final compensation only applies to members with at least 25 years of credited service.

## **CURRENT PRACTICE**

The current purchasing power guarantee maintains a recipient's allowance at 75 percent of the purchasing power of their initial allowance. Purchasing power is measured by changes in the All-Urban California Consumer Price Index, and reflects changes in the cost-of-living since the benefit first became effective. When the purchasing power of a recipient's current allowance, including the two percent annual adjustment, is less than 75 percent of the original allowance an annual supplemental benefit payment (paid in quarterly installments) is made to raise the annual benefit to the 75 percent level.

Supplemental payments are paid from (1) contributions continuously appropriated from the General Fund to the SBMA in an amount equal to 2.5 percent of the prior calendar year CalSTRS' member payroll, and (2) payments from the sale or use of land granted to the state by the federal government to support schools.

## **DISCUSSION**

This bill raises the purchasing power protection guarantee from 75 percent to 80 percent of a member's initial allowance through quarterly payments distributed from the SBMA.

As of February 2000, approximately 40,000 members and beneficiaries with benefit effective dates of 1981 or earlier receive quarterly supplemental payments. Raising the level of purchasing power protection from 75 percent to 80 percent would increase the number of supplemental benefit recipients by about 16,000 and would include all members and beneficiaries whose benefit effective date was 1985 or earlier.

## **FISCAL IMPACT**

Benefit Program Costs – Increasing the level of purchasing power protection from 75 percent to 80 percent would increase purchasing power payments as follows:

Total benefit payment increase:  
In 2002-03: \$69.4 million  
In 2003-04: \$76.2 million  
In 2004-05: \$82.4 million

Given existing actuarial assumptions, the funds that are available in the SBMA under current law are sufficient to pay the increased cost for at least 30 years.

Administrative Costs – Minor and absorbable costs.

**BOARD POSITION**

Support. Increasing supplemental payments to restore 80 percent of the member's original purchasing power would provide additional protection against inflation in a manner that can be funded within existing resources. These increased payments would assist long-retired members whose retirement allowances have been the most eroded.