

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 1505

Senator Burton (As amended 8/25/00)

Proponents:

CRTA (sponsor), ACSA, CTA, UTLA

Opponents:

None known

SUMMARY

This bill extends eligibility for the minimum guaranteed monthly allowance (MGMA) enacted in Chapter 632, Statutes of 1999 (SB 713—Burton) that is paid to retired members of California State Teachers' Retirement System (CalSTRS), their option beneficiaries and surviving spouses, in varied amounts according to the member's years of credited service. Under the bill, members who were disabled or inactive at the time of retirement, among other members, could receive the MGMA.

HISTORY

Chapter 1286, Statutes of 1980 (AB 1557—Sieroty) and Chapter 1089, Statutes of 1981 (SB 744—Sieroty) established minimum ad hoc allowance increases for CalSTRS members.

Chapter 939, Statutes of 1997 (SB 1026—Schiff) provided for purchasing power protection of up to 75 percent of the benefit recipient's original purchasing power from the 2.5 percent annual General Fund contribution.

Chapter 632, Statutes of 1999 (SB 713—Burton) provides an MGMA payable to specified retired CalSTRS members, their option beneficiaries, and surviving spouses, in varied amounts according to the member's years of credited service. The annual minimum allowance ranged from \$15,000 to \$20,000, depending on the years of credited service, 20–30 years. Eligibility was limited to members who retired on or after age 55 and as active members.

CURRENT PRACTICE

Chapter 632 established an MGMA of \$15,000 to \$20,000 payable to specified retired CalSTRS members, their option beneficiaries, and surviving spouses for whom benefits were payable on January 1, 2000, in varying amounts according to the member's years of credited service. The minimum allowance is \$15,000 for members with 20 years of service and increases by \$500 per year for each additional year of service. The minimum allowance is \$20,000 with 30 or more years of service. The increased amount to be paid to an eligible member or beneficiary under Chapter 632 is equal to the minimum amount, minus the amount paid from all other CalSTRS benefits, including the quarterly

supplemental payments that are made to restore the value of current benefits to 75 percent of the purchasing power of the initial monthly benefit. In order to be eligible for the minimum allowance, the member had to be (1) at least age 55 at retirement, and (2) an active member at retirement. The current minimum annual allowance benefited about 17,000 members and beneficiaries who initially received allowances many years ago when lower salaries kept benefit levels low.

DISCUSSION

SB 1505 extends the eligibility of the benefits provided under Chapter 632 to include retired members who retired before January 1, 2000, and their beneficiaries, and who were excluded under Chapter 632 because the member:

- (1) retired before age 55
- (2) retired as an inactive member and had 20 years of creditable service
- (3) retired by March 21, 1974 and had 19.5 years of service
- (4) retired on or after March 21, 1974 and had sufficient unused sick leave to have a total of 20 years
- (5) were disabled prior to retirement, but would have had at least 20 years had they worked to age 60
- (6) had at least 20 years of credited service, including service credit awarded to an ex-spouse in a community property settlement

These are members who taught the requisite number of years to qualify for the benefit under Chapter 632, but did not qualify for other reasons. Staff estimates about 3,000 to 4,000 people would receive the MGMA under the bill.

FISCAL IMPACT

Extending the minimum guaranteed allowances proposed in this bill will have the following actuarial effect:

Normal cost increase of future service:

- Present value cost: None
- Percent of pay to fund: None

Actuarial obligation for prior service:

- Present value cost: \$89 million
- Percent of pay to fund: 0.044% (over 15 years)

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Total benefit payments increase:

- 2001-02: \$11.9 million
- 2002-03: \$11.7 million
- 2003-04: \$11.4 million

Annual increase in contributions needed to fund benefit:

- 2001-02: \$8.6 million
- 2002-03: \$8.9 million
- 2003-04: \$9.3 million

Based on the experience in implementing Chapter 632, implementation costs of this bill would range between \$150,000 and \$350,000.