

Senate Bill No. 501

CHAPTER 803

An act to amend Sections 22119.2, 22138.6, 22151, 22352, 22664, 22820, 22900, 24001, 24001.5, 24101, 24203.5, 24203.6, 24209, 24211, 24212, 24255, 24260, 24300.5, 24307, 24402, 24404, 24410.6, 25011, 25014, 25015, 25018, 25019, 25021, 25024, 25925, 25930, 25940, 26400, 26401, 26807, 26906, 26911, 27007, and 27008 of, to amend the heading of Chapter 4 (commencing with Section 25940) of Part 13.5 of Division 1 of, to amend and renumber the heading of Article 6 (commencing with Section 25024) of Chapter 38 of Part 13 of Division 1 of, to amend and repeal Section 26402 of, to add Sections 22811, 25921, and 25926 to, to repeal Sections 22136.5 and 25026 of, and to repeal and add Section 27004 of, the Education Code, and to amend Sections 22878.2 and 22878.3 of the Government Code, relating to state teachers' retirement.

[Approved by Governor October 12, 2001. Filed
with Secretary of State October 13, 2001.]

LEGISLATIVE COUNSEL'S DIGEST

SB 501, Committee on Public Employment and Retirement. State teachers' retirement.

(1) The Teachers' Retirement Law defines "creditable compensation," "full-time equivalent," and "overtime" for purposes of calculating benefits under that law.

This bill would make technical changes to those definitions.

(2) The Teachers' Retirement Law provides an optional, alternative method for calculating the final compensation, for purposes of benefits under that law, applicable to a member whose salary was reduced due to a reduction in school funds.

This bill would repeal that provision.

(3) Existing law requires the Teachers' Retirement Board to provide a specified annual report to, among others, the Joint Public Pension Fund Investments Committee.

This bill would delete the reference to that committee.

(4) Existing law prescribes service and disability benefits for members of the Defined Benefit Program of the State Teachers' Retirement Plan, which benefits are calculated, in part, based upon the member's credited service; however, with respect to certain benefit calculations, specified types of credited service, such as credit for unused sick leave, are excluded.



This bill would additionally exclude from those benefit calculations service credited for an unused leave of absence for education, as specified.

(5) The Teachers' Retirement Law prescribes contribution rates, service and disability retirement benefits, survivor benefits, and benefits for former spouses of members, and establishes a replacement benefits program for members of the Defined Benefit Program and the Cash Balance Benefit Program of the State Teachers' Retirement Plan.

This bill would make technical and clarifying changes to those provisions.

(6) Existing law authorizes members of the Defined Benefit Program of the State Teachers' Retirement Plan to elect to receive service credit for various types of nonqualified service, subject to the payment of certain contributions, or to elect to redeposit previously refunded contributions, as specified.

This bill would authorize the member to pay or redeposit those contributions by transferring funds from eligible retirement plans, subject to applicable federal and state laws.

(7) The Teachers' Retirement Law prescribes specified benefit increases applicable to retirement, disability, and other allowances, and to annuities payable under the Defined Benefit Supplement Program.

This bill would make those increases inapplicable to those annuities.

(8) Existing law authorizes members and participants of the Defined Benefit Supplement Program and the Cash Balance Benefit Program of the State Teachers' Retirement Plan to elect from among several forms of annuity payments. Existing law provides that, upon election of an annuity under the Cash Balance Benefit Program, the credits in the participant's employee and employer accounts are transferred to the Annuitant Reserve.

This bill would authorize members of the Defined Benefit Supplement Program to receive a lump-sum payment instead of annuity payments in specified circumstances. The bill would provide, with respect to certain annuity payment options under of the Cash Balance Benefit Program, an increased payment if the participant's designated beneficiary predeceases the member and provide that upon reemployment of a participant receiving a disability annuity, his or her employee and employer's accounts shall be credited, and the Annuitant Reserve reduced, by the actuarial equivalent of the participant's annuity. The bill would also make technical and clarifying changes to those provisions.

(9) Existing law requires the State Teachers' Retirement System to pay the premiums associated with Medicare Part A for members of the Defined Benefit Program who retired prior to January 1, 2001, and meet



specified criteria. Existing law also authorizes the Teachers' Retirement Board to pay those premiums for certain members who retire on or after January 1, 2001, subject to certain findings by the board.

This bill would make technical and clarifying changes to those provisions.

(10) Existing law provides that certain permanent or regular employees of a school or agency shall be subject to the Public Employees' Retirement System, provided they are not members of the State Teachers' Retirement System.

This bill would clarify that those employees shall be subject to the Public Employees' Retirement System if they are neither members nor participants of the State Teachers' Retirement Plan.

(11) This bill would declare that if any other bill affects any code section contained in this bill, the provisions of that other bill shall prevail as to that code section, regardless of the date of enactment.

The people of the State of California do enact as follows:

SECTION 1. Section 22119.2 of the Education Code is amended to read:

22119.2. (a) "Creditable compensation" means salary and other remuneration payable in cash by an employer to a member for creditable service. Creditable compensation shall include:

(1) Money paid in accordance with a salary schedule based on years of training and years of experience for creditable service performed up to and including the full-time equivalent for the position in which the service is performed.

(2) For members not paid according to a salary schedule, money paid for creditable service performed up to and including the full-time equivalent for the position in which the service is performed.

(3) Money paid for the member's absence from performance of creditable service as approved by the employer, except as provided in paragraph (7) of subdivision (b).

(4) Member contributions picked up by an employer pursuant to Section 22903 or 22904.

(5) Amounts deducted by an employer from the member's salary, including deductions for participation in a deferred compensation plan; deductions for the purchase of annuity contracts, tax-deferred retirement plans, or other insurance programs; and deductions for participation in a plan that meets the requirements of Section 125, 401(k), or 403(b) of Title 26 of the United States Code.

(6) Money paid by an employer in addition to salary paid under paragraph (1) or (2) if paid to all employees in a class in the same dollar



amount, the same percentage of salary, or the same percentage of the amount being distributed.

(7) Money paid in accordance with a salary schedule by an employer to an employee for achieving certification from a national board based, in part, on years of training or years of experience in teaching service, if the compensation is paid by the employer to all employees who achieved this certification.

(8) Any other payments the board determines to be “creditable compensation.”

(b) “Creditable compensation” does not mean and shall not include:

(1) Money paid for service performed in excess of the full-time equivalent for the position.

(2) Money paid for overtime or summer school service, or money paid for the aggregate service performed as a member of the Defined Benefit Program in excess of one year of service credit for any one school year.

(3) Money paid for service that is not creditable service pursuant to Section 22119.5.

(4) Money paid by an employer in addition to salary paid under paragraph (1) or (2) of subdivision (a) if not paid to all employees in a class in the same dollar amount, the same percentage of salary, or the same percentage of the amount being distributed, except as provided in paragraph (7) of subdivision (a).

(5) Fringe benefits provided by an employer.

(6) Job-related expenses paid or reimbursed by an employer.

(7) Money paid for unused accumulated leave.

(8) Severance pay or compensatory damages or money paid to a member in excess of salary as a compromise settlement.

(9) Annuity contracts, tax-deferred retirement programs, or other insurance programs, including, but not limited to, plans that meet the requirements of Section 125, 401(k), or 403(b) of Title 26 of the United States Code that are purchased by an employer for the member and are not deducted from the member’s salary.

(10) Any payments determined by the board to have been made by an employer for the principal purpose of enhancing a member’s benefits under the Defined Benefit Program. An increase in the salary of a member who is the only employee in a class pursuant to subdivision (b) of Section 22112.5 that arises out of an employer’s restructuring of compensation during the member’s final compensation period shall be presumed to have been granted for the principal purpose of enhancing benefits under the Defined Benefit Program and shall not be creditable compensation. If the board determines sufficient evidence is provided to



the system to rebut this presumption, the increase in salary shall be deemed creditable compensation.

(11) Any other payments the board determines not to be “creditable compensation.”

(c) Any employer or person who knowingly or willfully reports compensation in a manner inconsistent with subdivision (a) or (b) shall reimburse the plan for any overpayment of benefits that occurs because of that inconsistent reporting and may be subject to prosecution for fraud, theft, or embezzlement in accordance with the Penal Code. The system may establish procedures to ensure that compensation reported by an employer is in compliance with this section.

(d) The definition of “creditable compensation” in this section is designed in accordance with sound funding principles that support the integrity of the retirement fund. These principles include, but are not limited to, consistent treatment of compensation throughout the career of the individual member, consistent treatment of compensation for an entire class of employees, the prevention of adverse selection, and the exclusion of adjustments to, or increases in, compensation for the principal purpose of enhancing benefits.

(e) This section shall be deemed to have become operative on July 1, 1996.

(f) This section shall become inoperative on July 1, 2002, if the revenue limit cost-of-living adjustment computed by the Superintendent of Public Instruction for the 2001–02 fiscal year is equal to or greater than 3.5 percent. Otherwise this section shall become inoperative on July 1, 2003 and as of January 1, 2004, this section is repealed, unless a later enacted statute, that becomes operative on or before January 1, 2004, deletes or extends the dates on which it becomes inoperative and is repealed.

SEC. 2. Section 22136.5 of the Education Code is repealed.

SEC. 3. Section 22138.6 of the Education Code is amended to read:

22138.6. “Full-time equivalent” means the days or hours of creditable service that a person who is employed on a part-time basis would be required to perform in a school year if he or she were employed full time in that part-time position.

SEC. 4. Section 22151 of the Education Code is amended to read:

22151. “Overtime” means the aggregate creditable service in excess of one year (1.000) of creditable service that is performed by a member in a school year.

SEC. 5. Section 22352 of the Education Code is amended to read:

22352. (a) Upon a finding by the board that necessary investment expertise is not available within existing civil service classifications, and with the approval of the State Personnel Board, the board may contract



with qualified investment managers having demonstrated expertise in the management of large and diverse investment portfolios to render service in connection with the investment program of the board.

(b) The board shall report to the Governor, the Legislature, and the Joint Legislative Budget Committee on the nature, duration, and cost of investment contract services used. The report shall first be submitted in April 1987, and annually in April of every year thereafter.

SEC. 6. Section 22664 of the Education Code is amended to read:

22664. The nonmember spouse who is awarded a separate account shall have the right to a service retirement allowance and, if applicable, a retirement benefit under this part.

(a) The nonmember spouse shall be eligible to retire for service under this part if the following conditions are satisfied:

(1) The member had at least five years of credited service during the period of marriage, at least one year of which had been performed subsequent to the most recent refund to the member of accumulated retirement contributions. The credited service may include service credited to the account of the member as of the date of the dissolution or legal separation, previously refunded service, out-of-state service, and permissive service credit that the member is eligible to purchase at the time of the dissolution or legal separation.

(2) The nonmember spouse has at least two and one-half years of credited service in his or her separate account.

(3) The nonmember spouse has attained the age of 55 years or more.

(b) A service retirement allowance of a nonmember spouse under this part shall become effective upon any date designated by the nonmember spouse, provided:

(1) The requirements of subdivision (a) are satisfied.

(2) The nonmember spouse has filed an application for service retirement on a form provided by the system, that is executed no earlier than six months before the effective date of the retirement allowance.

(3) The effective date is no earlier than the first day of the month in which the application is received at the system's office in Sacramento and the effective date is after the date the judgment or court order pursuant to Section 22652 was entered.

(c) (1) Upon service retirement at normal retirement age under this part, the nonmember spouse shall receive a retirement allowance that shall consist of an annual allowance payable in monthly installments equal to 2 percent of final compensation for each year of credited service.

(2) If the nonmember spouse's retirement is effective at less than normal retirement age and between early retirement age under this part and normal retirement age, the retirement allowance shall be reduced by one-half of 1 percent for each full month, or fraction of a month, that will



elapse until the nonmember spouse would have reached normal retirement age.

(3) If the nonmember spouse's service retirement is effective at an age greater than normal retirement age and is effective on or after January 1, 1999, the percentage of final compensation for each year of credited service shall be determined pursuant to the following table:

Age at Retirement	Percentage
60 1/4	2.033
60 1/2	2.067
60 3/4	2.10
61	2.133
61 1/4	2.167
61 1/2	2.20
61 3/4	2.233
62	2.267
62 1/4	2.30
62 1/2	2.333
62 3/4	2.367
63 and over	2.40

(4) In computing the retirement allowance of the nonmember spouse, the age of the nonmember spouse on the last day of the month in which the retirement allowance begins to accrue shall be used.

(5) Final compensation, for purposes of calculating the service retirement allowance of the nonmember spouse under this subdivision, shall be calculated according to the definition of final compensation in Section 22134, 22134.5, 22135, or 22136, whichever is applicable, and shall be based on the member's compensation earnable up to the date the parties separated, as established in the judgment or court order pursuant to Section 22652. The nonmember spouse shall not be entitled to use any other calculation of final compensation.

(d) If the member is or was receiving a disability allowance under this part with an effective date before or on the date the parties separated as established in the judgment or court order pursuant to Section 22652, or at any time applies for and receives a disability allowance with an effective date that is before or coincides with the date the parties separated as established in the judgment or court order pursuant to Section 22652, the nonmember spouse shall not be eligible to retire until after the disability allowance of the member terminates. If the member who is or was receiving a disability allowance returns to employment to perform creditable service subject to coverage under the Defined Benefit



Program or has his or her allowance terminated under Section 24015, the nonmember spouse may not be paid a retirement allowance until at least six months after termination of the disability allowance and the return of the member to employment to perform creditable service subject to coverage under the Defined Benefit Program, or the termination of the disability allowance and the employment or self-employment of the member in any capacity, notwithstanding Section 22132. If at the end of the six-month period, the member has not had a recurrence of the original disability or has not had his or her earnings fall below the amounts described in Section 24015, the nonmember spouse may be paid a retirement allowance if all other eligibility requirements are met.

(1) The retirement allowance of the nonmember spouse under this subdivision shall be calculated as follows: the disability allowance the member was receiving, exclusive of the portion for dependent children, shall be divided between the share of the member and the share of the nonmember spouse. The share of the nonmember spouse shall be the amount obtained by multiplying the disability allowance, exclusive of the portion for dependent children, by the years of service credited to the separate account of the nonmember spouse, including service projected to the date of separation, and dividing by the projected service of the member. The nonmember spouse's retirement allowance shall be the lesser of the share of the nonmember spouse under this subdivision or the retirement allowance under subdivision (c).

(2) The share of the member shall be the total disability allowance reduced by the share of the nonmember spouse. The share of the member shall be considered the disability allowance of the member for purposes of Section 24213.

(e) The nonmember spouse who receives a retirement allowance is not a retired member under this part. However, the allowance of the nonmember spouse shall be increased by application of the improvement factor and shall be eligible for the application of supplemental increases and other benefit maintenance provisions under this part, including, but not limited to, Sections 24411, 24412, and 24415 based on the same criteria used for the application of these benefit maintenance increases to the service retirement allowances of members.

SEC. 7. Section 22811 is added to the Education Code, to read:

22811. Pursuant to terms and conditions established by the board, members may transfer funds from eligible retirement plans into the Teachers' Retirement Fund to purchase service credit or redeposit previously refunded contributions pursuant to this chapter, Chapter 14.2 (commencing with Section 22820), Chapter 14.5 (commencing with Section 22850), and Chapter 19 (commencing with Section 23200), to the extent that the transfer is allowable under, and is completed in a



manner prescribed by, applicable federal and state law and any related regulations.

SEC. 8. Section 22820 of the Education Code is amended to read:

22820. (a) A member, other than a retired member, may elect to purchase out-of-state service credited in a public retirement system for service covering public education in another state or territory of the United States or by the United States for its citizens. In no event shall the member receive credit for this service if the member has credit or is eligible to receive credit for the same service in the Cash Balance Benefit Program under Part 14 (commencing with Section 26000) or another public retirement system, excluding social security.

(b) The amount of out-of-state service for which a member may purchase credit may not exceed the number of years of service credited to the member in the out-of-state retirement system or 10 years, whichever is less.

(c) Out-of-state service credit may be purchased under this section by means of any of the following actions:

(1) Paying an amount equal to the amount refunded from the other public retirement system and receiving service credit under the Defined Benefit Program pursuant to subdivision (a) of Section 22823.

(2) Paying the contributions required under the Defined Benefit Program pursuant to subdivision (a) of Section 22823 for the service credited in the other public retirement system.

(3) Paying an amount equal to the amount refunded from the other public retirement system and an additional amount in accordance with subdivision (a) of Section 22823 for the service credited in the other public retirement system.

(d) Compensation for out-of-state service shall not be used in determining the highest average annual compensation earnable when calculating final compensation.

(e) The service credit purchased under this section shall not be used to meet the eligibility requirements for benefits provided under Sections 24001 and 24101.

SEC. 9. Section 22900 of the Education Code is amended to read:

22900. By accepting employment to perform creditable service, a person consents to make contributions pursuant to Section 22901 for service and compensation credited under this part.

SEC. 10. Section 24001 of the Education Code is amended to read:

24001. (a) A member may apply for a disability allowance under the Defined Benefit Program if the member has five or more years of credited service and if all of the following requirements are met:

(1) At least four years were credited for actual performance of service subject to coverage under the Defined Benefit Program. Credit received



because of workers' compensation payments shall be counted toward the four-year requirement in accordance with Section 22710.

(2) The last five years of credited service were performed in this state.

(3) At least one year was credited for service performed subsequent to the date on which the member terminated the service retirement allowance under Section 24208.

(4) At least one year was credited for service performed subsequent to the most recent refund of accumulated retirement contributions.

(5) The member has neither attained normal retirement age, nor possesses sufficient unused sick leave days to receive creditable compensation on account of sick leave to normal retirement age.

(6) The member is not applying for a disability allowance because of a physical or mental condition known to exist at the time the most recent membership in the Defined Benefit Program commenced and remains substantially unchanged at the time of application.

(b) Nothing in subdivision (a) shall affect the right of a member to a disability allowance under this part if the reason that the member is credited with less than four years of actual service performed subject to coverage under the Defined Benefit Program is due to an on-the-job injury or a disease that occurred while the member was employed and the four-year requirement can be satisfied by credit obtained under Chapter 14 (commencing with Section 22800) or Chapter 14.5 (commencing with Section 22850) in addition to any credit received from workers' compensation payments.

(c) Nothing in subdivision (a) shall affect the right of a member under this part who has less than five years of credited service to a disability allowance providing the member has at least one year of credited California service and if the reason for the disability is due to an unlawful act of bodily harm committed by another human being on the person of the member while the member was performing his or her official duties in a position subject to coverage under the Defined Benefit Program.

SEC. 11. Section 24001.5 of the Education Code is amended to read:

24001.5. A member shall not be eligible for a disability allowance under the Defined Benefit Program while on a leave of absence to serve as a full-time elected officer of an employee organization, even if the member receives service credit under Section 22711.

SEC. 12. Section 24101 of the Education Code is amended to read:

24101. (a) A member may apply for a disability retirement under this part if the member has five or more years of credited service and if all of the following requirements are met:

(1) At least four years were credited for actual service performed subject to coverage under the Defined Benefit Program. Credit received



because of workers' compensation payments shall be counted toward the four-year requirement in accordance with Section 22710.

(2) The last five years of credited service were performed in this state.

(3) At least one year (1.000) of credited service was earned subsequent to the date on which the member terminated the service retirement allowance under Section 24208.

(4) At least one year (1.000) of credited service was earned subsequent to the date on which the member's disability allowance was terminated.

(5) At least one year (1.000) of credited service was earned subsequent to the most recent refund of accumulated retirement contributions.

(6) The member is not applying for a disability retirement because of a physical or mental condition known to exist at the time the most recent membership in the Defined Benefit Program commenced and that remains substantially unchanged at the time of application.

(b) Nothing in subdivision (a) shall affect the right of a member to a disability retirement if the reason that the member has performed less than four years of actual service is due to an on-the-job injury or a disease while in employment subject to coverage by the Defined Benefit Program and the four-year requirement can be satisfied by credit obtained under Chapter 14 (commencing with Section 22800) or Chapter 14.5 (commencing with Section 22850) in addition to any credit received from workers' compensation payments.

(c) Nothing in subdivision (a) shall affect the right of a member who has less than five years of credited service to a disability retirement allowance providing the member has at least one year of credited California service and if the reason for the disability is due to an unlawful act of bodily harm committed by another human being on the person of the member while the member was performing his or her official duties in a position subject to coverage under the Defined Benefit Program.

SEC. 13. Section 24203.5 of the Education Code is amended to read:

24203.5. (a) The percentage of final compensation used to compute the allowance pursuant to Section 24202.5, 24203, or 24205 of a member retiring on or after January 1, 1999, who has 30 or more years of credited service, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22717.5, shall be increased by two-tenths of 1 percentage point, provided that the sum of the percentage of final compensation used to compute the allowance in Section 24202.5, 24203, or 24205, including any adjustments for retiring before the normal retirement age, and the additional percentage provided by this section does not exceed 2.40 percent. For purposes of establishing



eligibility for the increased allowance pursuant to this section only, credited service shall include credited service that a court has ordered be awarded to a nonmember spouse pursuant to Section 22652. A nonmember spouse shall also be eligible for the increased allowance pursuant to this section if the member had 30 or more years of credited service on the date the parties separated, as established in the judgment or court order pursuant to Section 22652.

(b) Nonqualified service credit for which contributions pursuant to Section 22826 were made in a lump sum on or after January 1, 2000, or for which the first installment was made on or after January 1, 2000, shall not be included in determining the eligibility for an increased allowance pursuant to this section.

(c) The amendments made to subdivision (a) in the first year of the 1999–2000 Regular Session are declaratory of existing law.

SEC. 14. Section 24203.6 of the Education Code is amended to read:

24203.6. (a) In addition to the amount otherwise payable pursuant to Sections 24202.5, 24203, 24203.5, 24205, 24209.5, 24210, 24211, and 24212, a member who (1) retires for service on or after January 1, 2001, (2) has, prior to January 1, 2011, 30 or more years of credited service, excluding service credited pursuant to Sections 22714, 22715, 22717, 22717.5, and 22826 but including any credited service that a court has ordered be awarded to a nonmember spouse pursuant to Section 22652, and (3) is receiving an allowance subject to Section 24203.5, shall receive a monthly increase in the allowance, prior to any modification pursuant to Sections 24300 and 24309, in the amount identified in the following schedule for the number of years of the member’s credited service at the time of retirement, excluding service credited pursuant to Sections 22714, 22715, 22717, 22717.5, and 22826 but including any credited service that a court has ordered be awarded to a nonmember spouse pursuant to Section 22652:

30 years of credited service	\$200
31 years of credited service	\$300
32 or more years of credited service	\$400

(b) This section also shall apply to a nonmember spouse, if the member is eligible for the allowance increase pursuant to subdivision (a) upon his or her retirement for service and had at least 30 years of credited service, excluding service credited pursuant to Sections 22714, 22715, 22717, 22717.5, and 22826, on the date the parties separated, as established in the judgment or court order pursuant to Section 22652 and the service credit of the member was divided into separate accounts in



the name of the member and the nonmember spouse by a court pursuant to Section 22652. The amount identified in the schedule in subdivision (a) and payable pursuant to this section, that is based on the service credited during the marriage, shall be divided and paid to the member and the nonmember spouse proportionately according to the respective percentages of the member's service credit that were allocated to the member and the nonmember spouse in the court's order.

(c) The allowance increase provided under this section shall not be subject to Sections 24415 and 24417, but shall be subject to Section 22140.

SEC. 15. Section 24209 of the Education Code is amended to read:

24209. (a) Upon retirement for service following reinstatement, the member shall receive a service retirement allowance equal to the sum of both of the following:

(1) An amount equal to the monthly allowance the member was receiving immediately preceding reinstatement, exclusive of any amounts payable pursuant to Section 22714 or 22715, increased by the improvement factor that would have been applied to the allowance if the member had not reinstated.

(2) An amount calculated pursuant to Section 24202, 24202.5, 24203, 24203.5, or 24206 on service credited subsequent to the most recent reinstatement, the member's age at retirement, and final compensation.

(b) If the total amount of credited service, other than that accrued pursuant to Sections 22714, 22715, 22717, 22717.5, and 22826, is equal to or greater than 30 years, the amounts identified in paragraphs (1), for members who initially retired on or after January 1, 1999, and (2) of subdivision (a) shall be calculated pursuant to Section 24203.5.

(c) If the total amount of credited service, other than that accrued pursuant to Sections 22714, 22715, 22717, 22717.5, and 22826, is equal to or greater than 30 years, upon retirement for service following reinstatement, a member who retired pursuant to Section 24213, and received the terminated disability allowance for the prior retirement, shall receive a service retirement allowance equal to the sum of the following:

(1) An amount based on the service credit accrued prior to the effective date of the disability allowance, the member's age at the prior retirement increased by the factor provided in Section 24203.5, and projected final compensation.

(2) An amount calculated pursuant to Section 24202, 24202.5, 24203.5, or 24206 on service credited subsequent to the reinstatement, the member's age at retirement, and final compensation.

SEC. 16. Section 24211 of the Education Code is amended to read:



24211. When a member who has been granted a disability allowance under this part after June 30, 1972, returns to employment subject to coverage under the Defined Benefit Program and performs:

(a) Less than three years of creditable service after termination of the disability allowance, the member shall receive a retirement allowance which is the sum of the allowance calculated on service credit accrued after the termination date of the disability allowance, the age of the member on the last day of the month in which the retirement allowance begins to accrue, and final compensation using compensation earnable and projected final compensation, plus the greater of either of the following:

(1) A service retirement allowance calculated on service credit accrued as of the effective date of the disability allowance, the age of the member on the last day of the month in which the retirement allowance begins to accrue, and projected final compensation excluding service credited pursuant to Sections 22717 and 22717.5 or Chapter 14 (commencing with Section 22800) or Chapter 14.2 (commencing with Section 22820), to the termination date of the disability allowance.

(2) The disability allowance the member was receiving immediately prior to termination of that allowance, excluding children's portions.

(b) Three or more years of creditable service after termination of the disability allowance, the member shall receive a retirement allowance that is the greater of the following:

(1) A service retirement allowance calculated on all actual and projected service excluding service credited pursuant to Sections 22717 and 22717.5 or Chapter 14 (commencing with Section 22800) or Chapter 14.2 (commencing with Section 22820), the age of the member on the last day of the month in which the retirement allowance begins to accrue, and final compensation using compensation earnable, or projected final compensation, or a combination of both.

(2) The disability allowance the member was receiving immediately prior to termination of that allowance, excluding children's portions.

(c) The allowance shall be increased by an amount based on any service credited pursuant to Sections 22714, 22715, 22717, and 22717.5 or Chapter 14 (commencing with Section 22800) or Chapter 14.2 (commencing with Section 22820) and final compensation using compensation earnable, or projected final compensation, or a combination of both.

(d) If the total amount of credited service, other than projected service or service that accrued pursuant to Sections 22714, 22715, 22717, 22717.5, and 22826, is equal to or greater than 30 years, the amounts identified in subdivisions (a) and (b) shall be calculated pursuant to Sections 24203.5 and 24203.6.



SEC. 17. Section 24212 of the Education Code is amended to read:

24212. (a) If a disability allowance granted under this part after June 30, 1972, is terminated for reasons other than those specified in Section 24213 and the member does not return to employment subject to coverage under the Defined Benefit Program, the member's service retirement allowance, when payable, shall be based on projected service, excluding service credited pursuant to Sections 22717 and 22717.5 or Chapter 14 (commencing with Section 22800) or Chapter 14.2 (commencing with Section 22820), projected final compensation, and the age of the member on the last day of the month in which the retirement allowance begins to accrue. The allowance payable under this section, excluding annuities payable from accumulated annuity deposit contributions, shall not be greater than the terminated disability allowance excluding children's portions.

(b) The allowance shall be increased by an amount based on any service credited pursuant to Sections 22714, 22715, 22717, and 22717.5 or Chapter 14 (commencing with Section 22800) or Chapter 14.2 (commencing with Section 22820) and final compensation using compensation earnable, or projected final compensation, or a combination of both.

SEC. 18. Section 24255 of the Education Code is amended to read:

24255. (a) There is in the State Treasury a trust fund to be known as the Teachers' Replacement Benefits Program Fund. There shall be deposited directly in that fund, and not transferred from the Teachers' Retirement Fund, that portion of employer contributions determined by the board as necessary to fund the replacement benefits program.

(b) Notwithstanding Section 13340 of the Government Code, moneys in the Teachers' Replacement Benefits Program Fund are continuously appropriated without regard to fiscal years to pay benefits to members and beneficiaries of the Defined Benefit Program, and to pay related administrative expenses.

(c) The board may authorize the transfer and disbursement of funds from the Teachers' Replacement Benefits Program Fund for the purpose of carrying into effect this chapter upon the signature of either or both of its chairperson and vice chairperson or the chief executive officer or any employee of the system designated by the chief executive officer.

(d) Disbursements of money from the Teachers' Replacement Benefits Program Fund of whatever nature shall be made upon claims duly audited in the manner prescribed for the disbursement of other public funds except that, notwithstanding the foregoing, disbursements may be made to return funds deposited in the fund in error.

SEC. 19. Section 24260 of the Education Code is amended to read:



24260. (a) A replacement benefits program is hereby established under this chapter for the exclusive purpose of providing to members or their beneficiaries in accordance with subdivisions (c) and (d) that portion of the annual benefit of the member or the member's beneficiaries otherwise payable under the provisions of this part that exceeds the limitations on the dollar amount of annual benefit under Section 415 of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 415) as applicable to a governmental plan, as defined in subdivision (d) of Section 414.

(b) The replacement benefits program established by this chapter is intended to comply with the provisions of Section 415(m) of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 415(m)).

(c) In any case in which (1) the annual benefit of the member or the member's beneficiaries for the calendar year otherwise payable under the terms of this part, as measured under the provisions of Section 415(b)(2) of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 415(b)(2)) and adjusted to exclude the portion of the annual benefit attributable to employee contributions that are not "picked up" under Section 414(h)(2) of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 414(h)(2)) or attributable to rollover contributions described in Section 415(b)(2) of the Internal Revenue Code of 1986, exceeds (2) the limitation on the dollar amount of an annual benefit applicable for the calendar year under Section 415(b)(1)(A) or subdivision (e) as applicable to a governmental plan, as defined in Section 414(d) of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 414(d)), the amount of the portion of the annual benefit shall be paid to the member or the member's beneficiaries under the replacement benefit program in the manner described in subdivision (d). In no event shall the portion of the annual benefit from the replacement benefits program be payable from the assets of the Teachers' Retirement Fund. In no event shall the replacement benefits program provide to the member or the member's beneficiaries, directly or indirectly, any election to defer compensation.

(d) Any portion of the annual benefit of a member or the member's beneficiaries for the year described in subdivision (c) shall be payable, at the same time and in the same form as the remainder of the annual benefit and subject to the terms and conditions of this part except as otherwise provided under this section, from the proceeds of the employer contributions due under Section 22950, and, notwithstanding Section 22956, prior to the deposit of those employer contributions in the State Treasury to the Teachers' Retirement Fund. Upon receipt of the warrants for the employer contributions as described in Section 23001, the board shall retain and place in the Teachers' Replacement Benefits Program Fund only the amounts of employer contributions as are



necessary for the exclusive purpose of paying currently the monthly installment next due of the portion of the annual benefit payable from the replacement benefits program to the member or the member's beneficiaries as well as any administrative expenses associated with the replacement benefits program. Amounts shall not be accumulated in the Teachers' Replacement Benefits Program Fund for the payment of future benefits, and a member or the member's beneficiaries who are to receive the portion of his or her annual benefit under the replacement benefits program shall have no entitlement to amounts in the Teachers' Replacement Benefits Program Fund until distributed to him or her as a benefit.

(e) The portion of the annual benefit payable under the replacement benefits program shall be subject to withholding for any applicable income or employment taxes.

(f) The administrative expenses of the replacement benefits program may include the employer portion of the Medicare payroll tax on the replacement benefits program payments of a retired member who is required to contribute to Medicare. The employee portion of the Medicare payroll tax on the replacement benefits program payments to retired members in this program who are required to contribute to Medicare shall be withheld from the replacement benefits program payments to the retired member.

(g) The board may by plan amendment amend the terms of the replacement benefits program established under this section as appropriate to comply with applicable federal or state law.

(h) All references to sections of the Internal Revenue Code of 1986 are to those sections as are amended from time to time or their successor sections.

SEC. 20. Section 24300.5 of the Education Code is amended to read:

24300.5. An option beneficiary who is receiving an allowance pursuant to the option elected by the member may designate a beneficiary to receive any allowance that has accrued and is unpaid, and any remaining balance of the retired member's accumulated retirement contributions payable pursuant to Section 23881, upon the death of the option beneficiary.

SEC. 21. Section 24307 of the Education Code is amended to read:

24307. (a) A member who qualifies to apply for retirement under Section 24201 or 24203 may make a preretirement election of an option, as provided in Section 24300 without right of revocation or change after the effective date of retirement, except as provided in this part. The preretirement election of an option shall become effective on the date a properly executed form prescribed by the system is signed, providing the



election is received in the system's office in Sacramento within 30 days after the date of signature.

(b) A member who makes a preretirement election of an Option 2, Option 3, Option 4, Option 5, Option 6, or Option 7 may subsequently make a preretirement election of Option 8. The member may retain the same option and the same option beneficiary as named in the prior preretirement election, as an option under Option 8.

(c) Upon the member's death prior to the effective date of retirement, the beneficiary who was designated under the option elected and who survives shall receive an allowance calculated under the option, under the assumption that the member retired for service pursuant to Chapter 27 (commencing with Section 24201) on the date of death. The payment of the allowance to the option beneficiary shall be in lieu of the family allowance provided in Section 23804, the payment provided in paragraph (1) of subdivision (a) of Section 23802, the survivor benefit allowance provided in Section 23854, and the payment provided in subdivisions (a) and (b) of Section 23852, except that if the beneficiary dies before all of the member's accumulated retirement contributions are paid, the balance, if any, shall be paid to the estate of the person last receiving or entitled to receive the allowance. The accumulated annuity deposit contributions and the death payment provided in Sections 23801 and 23851 shall be paid to the beneficiary in a lump sum.

(d) If the member subsequently retires for service, and the elected option has not been canceled pursuant to Section 24309, a modified service retirement allowance computed under Section 24300 and the option elected shall be paid.

(e) The amount of the service retirement allowance prior to applying the option factor shall be calculated as of the earlier of the member's age at death before retirement or age on the last day of the month in which the member requested service retirement be effective. The modification of the service retirement allowance under the option elected shall be based on the ages of the member and the beneficiary designated under the option, as of the date the election was signed.

(f) A member who terminates the service retirement allowance pursuant to Section 24208 shall not be eligible to file a preretirement election of an option until one calendar year elapses from the date the allowance is terminated.

(g) The system shall inform members who are qualified to make a preretirement election of an option, through the annual statements of account, that the election of an option can be made.

(h) This section shall become operative on January 1, 2000.

SEC. 22. Section 24402 of the Education Code is amended to read:



24402. (a) Service retirement allowances, disability allowances, disability retirement allowances, family allowances, and survivor benefit allowances payable pursuant to this part shall be increased by application of the benefit improvement factor.

(b) Allowances payable to beneficiaries on account of options elected under Section 24300, 24301, or 24307 shall be increased by application of the improvement factor. This factor shall be applicable on the same date when it would have been applied to the allowance of the deceased person.

(c) The benefit improvement factor shall not be applied to an annuity that is the actuarial equivalent of the accumulated annuity deposit contributions standing to the credit of the member's account on the effective date of a service or disability retirement.

SEC. 23. Section 24404 of the Education Code is amended to read:

24404. (a) Effective July 1, 1973, the benefits of persons eligible for survivor benefits pursuant to former Section 14186 as it read on June 30, 1972, shall be increased as follows:

(1) Those eligible for ninety dollars (\$90) per month shall be increased to one hundred five dollars (\$105) per month.

(2) Those eligible for one hundred eighty dollars (\$180) per month shall be increased to two hundred ten dollars (\$210) per month.

(3) Those eligible for two hundred fifty dollars (\$250) per month shall be increased to two hundred ninety-five dollars (\$295) per month.

(b) These benefits shall be subject to the provisions of Sections 22140 and 24403 with the first annual improvement to occur on September 1, 1974, and annually thereafter.

SEC. 24. Section 24410.6 of the Education Code is amended to read:

24410.6. (a) Notwithstanding any provision of this part, including, but not limited to, subdivision (e) of Section 22664, and except as provided in subdivisions (b) and (c), the annual allowance payable on the effective date of this section to a retired member, an option beneficiary, or a surviving spouse receiving an allowance pursuant to either Section 23805 or 23855 shall not be less than the amount identified in the following schedule for the number of years of the member's credited service under the Defined Benefit Program at the time of the member's retirement, disability, or death, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22826, after the application of all allowances and allowance increases authorized by this part, including those specified in Sections 24412 and 24415, as those sections read on December 31, 2000, and excluding increases authorized by Section 24410.7 and annuities payable from the accumulated annuity deposit contributions or the accumulated tax-sheltered annuity contributions:



20 years of credited service	\$15,000
21 years of credited service	\$15,500
22 years of credited service	\$16,000
23 years of credited service	\$16,500
24 years of credited service	\$17,000
25 years of credited service	\$17,500
26 years of credited service	\$18,000
27 years of credited service	\$18,500
28 years of credited service	\$19,000
29 years of credited service	\$19,500
30 years or more of credited service	\$20,000

(b) Notwithstanding subdivision (a), the amount identified in the schedule in subdivision (a) shall be reduced:

- (1) By 50 percent for a beneficiary receiving an allowance under Option 3 or Option 7.
- (2) By one-third for an option beneficiary receiving an allowance under Option 4 after the death of the member or for a member receiving an allowance under Option 4 after the death of the option beneficiary.
- (3) By 50 percent for an option beneficiary receiving an allowance under Option 5 after the death of the member or for a member receiving an allowance under Option 5 after the death of the option beneficiary.
- (4) By a percentage equal to 100 percent minus the percentage of the member's modified allowance received by the option beneficiary for each option beneficiary receiving an allowance under Option 8.
- (5) By 60 percent for a surviving spouse receiving an allowance pursuant to subdivision (a) of Section 23805.
- (6) By 50 percent for a surviving spouse receiving an allowance pursuant to subdivision (c) of Section 23805 or Section 23855.

(c) A benefit shall be paid pursuant to this section if both of the following apply:

- (1) The retired member, the option beneficiary, or the surviving spouse had an allowance payable on January 1, 2000, and was not eligible to receive a benefit pursuant to Section 24410.5.
- (2) The retired member or the member whose service was the basis of the allowance payable to the option beneficiary or surviving spouse was one of the following:
 - (A) A member who retired prior to the age of 55 years, provided the minimum allowance specified in subdivision (a) shall be reduced to an amount equal to that minimum allowance multiplied by the ratio of the percentage of final compensation per year of credited service on which the member's initial allowance was based to 1.4.



(B) A member who was paid a retirement allowance pursuant to Section 24213, if the member's credited service, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22826, was less than 20 years but whose projected service to normal retirement age, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22826, was equal to or greater than 20 years, provided that the minimum allowance payable shall be based on 20 years of credited service.

(C) A member who retired as an inactive member.

(D) A member who retired prior to March 21, 1974, with 19.5 years or more of credited service, provided that the minimum allowance payable shall be based on 20 years of credited service.

(E) A member who retired on or after March 21, 1974, and prior to January 1, 2000, and whose credited service, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22826, was less than 20 years, but whose credited service, excluding service credited pursuant to Sections 22714, 22715, and 22826, but including service credited pursuant to Section 22717, was equal to or greater than 20 years, provided that the minimum allowance payable shall be based on 20 years of credited service.

(F) A member whose credited service, excluding service credited pursuant to Sections 22714, 22715, and 22826, but including credited service that a court has ordered be awarded to the member's nonmember spouse pursuant to Section 22652, equaled at least 20 years, provided that the amount payable to the member pursuant to this section shall be based on the amount of service credited to the member, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22826, and the amount awarded to the nonmember spouse, and further provided that the minimum allowance specified in subdivision (a) shall be reduced to an amount equal to that minimum allowance multiplied by the ratio of (i) the amount of service credited to the member, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22826, to (ii) the sum of the amount of service credited to the member, excluding service credited pursuant to Sections 22714, 22715, 22717, and 22826, and the amount awarded to the nonmember spouse.

(d) A benefit shall be paid pursuant to this section to a retired member receiving a benefit pursuant to Section 24410.5 if (1) the member meets the criteria of subparagraph (F) of paragraph (2) of subdivision (c), and (2) the allowance payable under that subparagraph, after the application of all allowances and allowance increases authorized by this part, including those specified in Sections 24412 and 24415, is greater than the allowance payable under Section 24410.5, after the application of all



allowances and allowance increases authorized by this part, including those specified in Sections 24412 and 24415.

(e) A retired member, option beneficiary, or surviving spouse subject to this section shall receive the annual minimum allowance pursuant to this section unless the system receives in writing, on a form prescribed by the system, notification from the member, option beneficiary, or surviving spouse of his or her election not to receive the increase provided under this section.

(f) Benefits payable under this section shall be initially paid by the system on or before September 1, 2001.

SEC. 25. Section 25011 of the Education Code is amended to read:

25011. (a) A member may elect to receive the retirement benefit as an annuity payable in monthly installments, provided the balance of credits in the member's Defined Benefit Supplement account on the date the retirement benefit becomes payable equals at least three thousand five hundred dollars (\$3,500) after any lump-sum payments have been made from the account.

(b) If the member elects to receive the retirement benefit as an annuity, the member shall elect one of the following forms of payment:

(1) A single life annuity without a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the member if the member elected to receive the retirement benefit in a lump-sum payment. Upon the death of the member, no other benefit shall be payable to the member's beneficiary under the Defined Benefit Supplement Program.

(2) A single life annuity with a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the member if the member elected to receive the retirement benefit in a lump-sum payment. Upon the death of the member, an amount equal to the remaining balance, if any, of credits transferred from the member's Defined Benefit Supplement account to the Annuitant Reserve shall be returned in a lump-sum payment to the member's beneficiary.

(3) A 100-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the lump-sum payment modified to be payable over the combined lives of the member and the member's annuity beneficiary. Upon the death of the member, the same monthly amount that was payable to the member shall be paid monthly to the member's surviving annuity beneficiary. If the annuity beneficiary predeceases the member, the annuity payable to the member shall be the single life annuity with a cash refund feature that would have been payable had the member selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day following the date of the annuity beneficiary's



death upon receipt by the system of proof of the annuity beneficiary's death.

(4) A 50-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the lump-sum payment modified to be payable over the combined lives of the member and the member's annuity beneficiary. Upon the death of the member, one-half of the monthly amount that was payable to the member shall be paid monthly to the member's surviving annuity beneficiary. If the annuity beneficiary predeceases the member, the annuity payable to the member shall be the single life annuity with a cash refund feature that would have been payable had the member selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day following the date of the annuity beneficiary's death upon receipt by the system of proof of the annuity beneficiary's death.

(5) A period certain annuity. This form of payment is an annuity equal to the actuarial equivalent of the balance of credits in the member's Defined Benefit Supplement account on the date the retirement benefit becomes payable. The annuity shall be payable in whole year increments over a period of years specified by the member, from a minimum of three years to a maximum of 10 years. However, the annuity period shall not exceed the life expectancy of the member, or the life expectancy of the member and the member's annuity beneficiary. If the member's death occurs prior to the end of the period certain, the remaining balance of payments shall be paid to the member's annuity beneficiary pursuant to Section 25022.

SEC. 26. Section 25014 of the Education Code is amended to read:

25014. (a) If a member reinstates from service retirement under this part, payment of a retirement annuity based on the balance of credits that was transferred from the member's Defined Benefit Supplement account to the Annuitant Reserve shall terminate. The member's Defined Benefit Supplement account shall be credited with the actuarial equivalent of the member's annuity as of the date the annuity is terminated and the Annuitant Reserve shall be reduced by the amount credited to the member's account.

(b) If the member subsequently retires again, an annuity or lump-sum payment based on the remaining balance of credits in the member's Defined Benefit Supplement account at the time of the subsequent retirement shall become payable pursuant to Section 24202.5 and the balance of credits in the member's Defined Benefit Supplement account shall be transferred to the Annuitant Reserve or paid to the member in the form of a lump-sum payment.

SEC. 27. Section 25015 of the Education Code is amended to read:



25015. (a) If a member elects to receive a benefit payable under the Defined Benefit Supplement Program as a joint and survivor annuity, the designation of the beneficiary made pursuant to Section 24300 or 24301 shall apply to the benefit payable under this chapter. The annuity beneficiary designation shall not be changed after the date the benefit becomes payable to the member, except as provided in Chapter 12 (commencing with Section 22650).

(b) If the member designates multiple annuity beneficiaries in the designation of beneficiary made pursuant to Section 24300 or 24301, the percentage of the annuity payable to each annuity beneficiary upon the death of the member specified in that designation shall apply to the benefit payable under this chapter. The annuity amount payable to the member during his or her lifetime shall be modified to be payable over the combined lives of the member and the annuity beneficiary or beneficiaries.

(c) If the member predeceases an annuity beneficiary, the annuity beneficiary may designate a payee to receive an amount that may be payable in a lump-sum pursuant to Section 25023 upon the death of the annuity beneficiary.

SEC. 28. Section 25018 of the Education Code is amended to read:

25018. (a) A member may elect to receive the disability benefit as an annuity, payable in monthly installments, provided the balance of credits in the member's Defined Benefit Supplement account on the date the disability benefit becomes payable equals at least three thousand five hundred dollars (\$3,500) after any lump-sum payment has been made from this account.

(b) If the member elects to receive the disability benefit as an annuity, the member shall elect one of the following forms of payment:

(1) A single life annuity without a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the member if the member elected to receive the disability benefit in a lump-sum payment. Upon the death of the member, no other benefit shall be payable to the member's beneficiary under the Defined Benefit Supplement Program.

(2) A single life annuity with a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the member if the member elected to receive the disability benefit in a lump-sum payment. Upon the death of the member, an amount equal to the remaining balance of credits, if any, transferred from the member's Defined Benefit Supplement account to the Annuitant Reserve shall be returned in a lump-sum payment to the member's beneficiary.

(3) A 100-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the



lump-sum payment modified to be payable over the combined lives of the member and the member's annuity beneficiary. Upon the death of the member, the same monthly amount that was payable to the member shall be paid monthly to the member's surviving annuity beneficiary. If the annuity beneficiary predeceases the member, the annuity payable to the member shall be the single life annuity with a cash refund feature that would have been payable had the member selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day following the date of the annuity beneficiary's death upon receipt by the system of proof of the annuity beneficiary's death.

(4) A 50-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the lump-sum payment modified to be payable over the combined lives of the member and the member's annuity beneficiary. Upon the death of the member, one-half of the monthly amount that was payable to the member shall be paid monthly to the member's surviving annuity beneficiary. If the annuity beneficiary predeceases the member, the annuity payable to the member shall be the single life annuity with a cash refund feature that would have been payable had the member selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day following the date of the annuity beneficiary's death upon receipt by the system of proof of the annuity beneficiary's death.

(5) A period certain annuity. This form of payment is an annuity equal to the actuarial equivalent of the balance of credits in the member's Defined Benefit Supplement account on the date the disability benefit becomes payable. The annuity shall be payable in whole year increments over a period of years specified by the member, from a minimum of three years to a maximum of 10 years. However, the annuity period shall not exceed the life expectancy of the member, or the life expectancy of the member and the member's annuity beneficiary. If the member's death occurs prior to the end of the period certain, the remaining balance of payments shall be paid to the member's annuity beneficiary pursuant to Section 25022.

SEC. 29. Section 25019 of the Education Code is amended to read:

25019. (a) If a member's disability allowance or disability retirement allowance under this part is terminated, payment of a disability annuity based on the balance of credits transferred from the member's Defined Benefit Supplement account to the Annuitant Reserve also shall terminate. The member's Defined Benefit Supplement account shall be credited with the actuarial equivalent of the member's annuity as of the date the annuity is terminated and the



Annuitant Reserve shall be reduced by the amount credited to the member's account.

(b) If a disability allowance or a service or disability retirement allowance subsequently becomes payable again, an annuity or lump-sum payment based on the remaining balance of credits in the member's Defined Benefit Supplement account at the time of the subsequent disability or service or disability retirement becomes payable and the balance of credits in the member's Defined Benefit Supplement account shall be transferred to the Annuitant Reserve or paid to the member in the form of a lump-sum payment.

SEC. 30. Section 25021 of the Education Code is amended to read:

25021. (a) A beneficiary, other than an entity, may elect to receive the final benefit payable under the Defined Benefit Supplement Program as an annuity payable in monthly installments provided the balance of credits in the member's Defined Benefit Supplement account equals at least three thousand five hundred dollars (\$3,500).

(b) A beneficiary who elects to receive an annuity shall elect one of the following forms of payment:

(1) A single life annuity without a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the beneficiary if the beneficiary elected to receive the final benefit in a lump-sum payment. The annuity shall cease to be payable upon the death of the beneficiary, and no other benefit shall be payable under the Defined Benefit Supplement Program on account of the death of the member or the member's beneficiary.

(2) A period certain annuity. This form of payment is an annuity equal to the actuarial equivalent of the balance of credits in the member's Defined Benefit Supplement account on the date of the member's death. The annuity shall be payable in whole year increments over a period of years specified by the beneficiary, from a minimum of three years to a maximum of 10 years, but not to exceed the life expectancy of the beneficiary. The beneficiary may designate a payee to receive the remaining balance of payments if the beneficiary's death occurs prior to the end of the period certain.

SEC. 31. The heading of Article 6 (commencing with Section 25024) of Chapter 38 of Part 13 of Division 1 of the Education Code is amended and renumbered to read:

Article 7. Termination Benefits

SEC. 32. Section 25024 of the Education Code is amended to read:

25024. (a) Upon the termination of all employment to perform creditable service subject to coverage under the plan for a reason other



than retirement, disability, or death, a member shall be eligible for a termination benefit under the Defined Benefit Supplement Program. The member's employer, or employers if the member has multiple employers, shall certify on a form prescribed by the system that the member's employment has been terminated.

(b) A member shall submit an application for a termination benefit on a form prescribed by the system. If a member submits an application for a refund of contributions under the Defined Benefit Program, pursuant to Section 23103, that application shall also be deemed an application for a termination benefit. If a member cancels the application for a refund of contributions under the Defined Benefit Program, the application for the termination benefit shall also be deemed to have been cancelled.

(c) The termination benefit shall be a lump-sum payment that is equal to the balance of credits in the member's Defined Benefit Supplement account.

(d) Upon distribution of the termination benefit, no further benefit shall be payable to the member or the member's beneficiary under the Defined Benefit Supplement Program.

(e) A partial distribution of the balance of credits in a member's Defined Benefit Supplement account shall not be made, except as provided in Section 25009, 25015, 25016, or 25022.

SEC. 33. Section 25026 of the Education Code is repealed.

SEC. 34. Section 25921 is added to the Education Code, to read:

25921. "Employer" means the state or any agency or political subdivision thereof for which creditable service subject to coverage by the plan, as defined in Section 22155.5, is performed.

SEC. 35. Section 25925 of the Education Code is amended to read:

25925. "Member" means a current or retired employee of an employer, as defined in Section 25921.

SEC. 36. Section 25926 is added to the Education Code, to read:

25926. "School year" means the fiscal year or the academic year.

SEC. 37. Section 25930 of the Education Code is amended to read:

25930. There is in the State Treasury a special trust fund to be known as the Teachers' Health Benefits Fund. There shall be deposited in the fund the employer contributions required under subdivision (c) of Section 22950, income on investments, other interest income, income from fees and penalties, premiums paid by members, donations, legacies, bequests made to the fund and accepted by the board, and any other amounts provided by this part. Notwithstanding Section 13340 of the Government Code, the proceeds of the fund are hereby continuously appropriated without regard to fiscal year for purposes of this part. The design and administration of the fund and any program financed from the fund shall comply with Section 115 of Title 26 of the United States Code.



SEC. 38. The heading of Chapter 4 (commencing with Section 25940) of Part 13.5 of Division 1 of the Education Code is amended to read:

CHAPTER 4. MEDICARE PREMIUM PAYMENT PROGRAM

SEC. 39. Section 25940 of the Education Code is amended to read: 25940. (a) Effective July 1, 2001, the system shall pay to the federal Health Care Financing Administration the premiums associated with Medicare Part A for retired members described in this section.

(b) This section shall apply only to a retired member of the Defined Benefit Program who: (1) retired prior to January 1, 2001, (2) is not eligible for Medicare Part A without payment of a premium, (3) is at least 65 years of age, and (4) enrolled in Medicare Parts A and B.

(c) The board may extend eligibility for the payments described in this section to members of the Defined Benefit Program who meet the requirements of subdivision (d) and who retire on or after January 1, 2001, within a school year specified by the board, if the board finds that the cost of the payments for members retiring during the specified school year may be paid within the anticipated resources available in the fund, as determined by the actuarial valuation of the program established by this chapter. Any extension of eligibility to members who retire on or after January 1, 2001, shall be provided equally to any member who meets the requirements of subdivision (d) and retires during the school year specified by the board.

(d) (1) Eligibility for the payments described in this section pursuant to subdivision (c) shall be limited to members of the Defined Benefit Program who retire from an employer that either: (A) completed a division pursuant to Section 22156 of the Government Code prior to January 1, 2001; or (B) completed or is conducting a division pursuant to that section on or after January 1, 2001, and, if the member was less than 58 years of age at the time of the division, the member elected to be covered by Medicare.

(2) For purposes of paragraph (1), a division occurs during the 10-day period during which the member has the opportunity to elect to be covered by Medicare pursuant to Section 22156 of the Government Code.

(3) This subdivision shall not apply to a member who retires from a district that either (A) as of January 1, 2001, had no members who were less than 58 years of age and who were hired prior to April 1, 1986, or (B) was created pursuant to a formation or a reorganization on or after April 1, 1986, and prior to January 1, 2001.



(e) The amount paid to the federal Health Care Financing Administration pursuant to this section shall include any surcharges applicable to enrollment in Medicare Part A or Part B by members who retired prior to January 1, 2001, and who enrolled in Medicare Parts A and B after the age of 65 years and prior to July 1, 2001. If the system pays the Part A premium and Part B surcharges on behalf of a member and that member later becomes eligible for Part A coverage without payment of a premium, the system shall continue to pay any applicable Part B surcharges on behalf of that member. The board may require a member on whose behalf a surcharge would be paid pursuant to this subdivision to authorize the system to deduct the Part B premium from the member's retirement allowance as a condition of having the system pay the Part A premium pursuant to this section.

SEC. 40. Section 26400 of the Education Code is amended to read:

26400. (a) A person employed to perform creditable service for less than 50 percent of the full-time equivalent for the position shall become a participant on the later of the first day on which creditable service is performed for an employer that provides the Cash Balance Benefit Program or the effective date of the employer's governing board's action to provide the Cash Balance Benefit Program, provided the person is not subject to mandatory membership in the Defined Benefit Program.

(b) If the employer's governing board's action to provide the Cash Balance Benefit Program gives employees the right to elect coverage under social security or an alternative retirement plan offered by the employer in addition to the Cash Balance Benefit Program, the employee may elect within 60 calendar days of the later of the first day on which creditable service is performed, the date of the employer's governing board's action to provide the Cash Balance Benefit Program, or the effective date of the employer's governing board's action to provide the Cash Balance Benefit Program to be covered by social security or to participate in the alternative retirement plan in lieu of participating in the Cash Balance Benefit Program. Any election shall not preclude an employee from participating in the Cash Balance Benefit Program at a later date so long as the Cash Balance Benefit Program is provided by the employer and the employee is eligible to participate in the Cash Balance Benefit Program.

(c) If subdivision (b) is applicable, the employer shall inform employees pursuant to subdivision (c) of Section 26300 of their right to make an election and the election shall be made on a form prescribed by the system and filed with the employer. The election shall become effective on the later of the first day on which creditable service is performed or the effective date of the employer's governing board's action to provide the Cash Balance Benefit Program.



(d) If the participant's basis of employment with an employer that provides the Cash Balance Benefit Program changes to employment to perform creditable service for 50 percent or more of the full-time equivalent for the position, contributions to the Cash Balance Benefit Program on behalf of the participant shall no longer be made and creditable service performed for that employer and all other employers shall be subject to coverage by the Defined Benefit Program as of the first day of the pay period in which the change in the participant's basis of employment occurred.

SEC. 41. Section 26401 of the Education Code is amended to read:

26401. (a) A member of the Defined Benefit Program who is employed to perform creditable service for less than 50 percent of the full-time equivalent for the position for an employer that provides the Cash Balance Benefit Program may elect to become a participant for creditable service subject to coverage under the Cash Balance Benefit Program for that employer provided that the creditable service is not performed for the same employer with whom the member is also subject to mandatory membership in the Defined Benefit Program.

(b) The election shall be made on a form prescribed by the system and shall be filed with the employer within 60 calendar days of the later of the first day of employment with an employer that provides the Cash Balance Benefit Program, the date of the employer's governing board's action to provide the Cash Balance Benefit Program, or the effective date of the employer's governing board's action to provide the Cash Balance Benefit Program.

(c) Employers shall make available to employees specified in subdivision (a) information and forms provided by the system for making an election regarding participation, and shall maintain the written election by the employee in employer files. The election shall become effective on the first day of the pay period following the pay period in which the election is made.

(d) If an election is made pursuant to subdivision (a) and the participant's basis of employment with that employer changes to employment to perform creditable service for 50 percent or more of the full-time equivalent for the position, contributions to the Cash Balance Benefit Program on behalf of the participant shall no longer be made and creditable service performed for that employer shall be subject to coverage under the Defined Benefit Program as of the first day of the pay period in which the change in the participant's basis of employment occurred.

SEC. 42. Section 26402 of the Education Code is amended to read:

26402. (a) A member of the Defined Benefit Program who is employed by an employer on a full-time basis to perform creditable



service subject to coverage under the Defined Benefit Program, may participate in the Cash Balance Benefit Program for creditable service performed for a different employer if the different employer provides the Cash Balance Benefit Program and would otherwise contribute to social security or an alternative retirement plan on behalf of the member for that service.

(b) This section shall become inoperative on July 1, 2002, and, as of January 1, 2003, is repealed, unless a later enacted statute, that becomes operative on or before January 1, 2003, deletes or extends the dates on which it becomes inoperative and is repealed.

SEC. 43. Section 26807 of the Education Code is amended to read:

26807. (a) Upon application for a retirement benefit under this part, the participant may elect to receive the retirement benefit in the form of an annuity, provided the sum of the employee account and employer account equals or exceeds three thousand five hundred dollars (\$3,500).

(b) If the participant elects to receive the retirement benefit as an annuity, the participant shall elect one of the following forms of payment:

(1) A single life annuity without a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the participant if the participant elected to receive the retirement benefit in a lump-sum payment. This benefit shall be payable for the life of the participant. Upon the death of the participant, no other benefit shall be payable to any beneficiary under this part.

(2) A single life annuity with a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the participant if the participant elected to receive the retirement benefit in a lump-sum payment. This benefit shall be payable for the life of the participant and any balance remaining upon the death of the participant shall be payable in a lump sum to the participant's beneficiary.

(3) A 100-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the amount that would be payable to the participant if the participant elected to receive the retirement benefit in a lump-sum payment, modified to be payable over the combined lives of the participant and the participant's annuity beneficiary. Upon the death of the participant, the monthly amount that was payable to the participant shall be paid monthly to the participant's annuity beneficiary. If the annuity beneficiary predeceases the participant, the annuity payable to the participant shall be the single life annuity with a cash refund feature that would have been payable had the participant selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day



following the date of the annuity beneficiary's death upon receipt by the system of proof of the annuity beneficiary's death.

(4) A 50-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the amount that would be payable to the participant if the participant elected to receive the retirement benefit in a lump-sum payment, modified to be payable over the combined lives of the participant and the participant's annuity beneficiary. Upon the death of the participant, one-half of the monthly amount that was payable to the participant shall be paid monthly to the participant's annuity beneficiary. If the annuity beneficiary predeceases the participant, the annuity payable to the participant shall be the single life annuity with a cash refund feature that would have been payable had the participant selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day following the date of the annuity beneficiary's death upon receipt by the system of proof of the annuity beneficiary's death.

(5) A period certain annuity. This form of payment is an annuity equal to the actuarial equivalent of the sum of the balance of the employee account and the employer account on the date the retirement benefit becomes payable. The annuity shall be payable in whole year increments over a period of years specified by the participant, from a minimum of three years to a maximum of 10 years. However, the annuity period shall not exceed the life expectancy of the participant or of the participant and the participant's annuity beneficiary. If the participant's death occurs prior to the end of the period certain, the remaining balance of payments shall be paid to the participant's annuity beneficiary pursuant to Section 27007.

SEC. 44. Section 26906 of the Education Code is amended to read:

26906. (a) Upon application for a disability benefit under this part, the participant may elect to receive the disability benefit in the form of an annuity provided the sum of the employee account and employer account equals or exceeds three thousand five hundred dollars (\$3,500).

(b) If the participant elects to receive the disability benefit as an annuity, the participant shall elect one of the following forms of payment:

(1) A single life annuity without a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the participant if the participant elected to receive the disability benefit in a lump-sum payment. This benefit shall be payable for the life of the participant. Upon the death of the participant, no other benefit shall be payable to any beneficiary under this part.

(2) A single life annuity with a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable



to the participant if the participant elected to receive the disability benefit in a lump-sum payment. This benefit shall be payable for the life of the participant and any balance remaining upon the death of the participant shall be payable in a lump sum to the participant's beneficiary.

(3) A 100-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the amount that would be payable to the participant if the participant elected to receive the disability benefit in a lump-sum payment, modified to be payable over the combined lives of the participant and the participant's annuity beneficiary. Upon the death of the participant, the monthly amount that was payable to the participant shall be paid monthly to the participant's annuity beneficiary. If the annuity beneficiary predeceases the participant, the annuity payable to the participant shall be the single life annuity with a cash refund feature that would have been payable had the participant selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day following the date of the annuity beneficiary's death upon receipt by the system of proof of the annuity beneficiary's death.

(4) A 50-percent joint and survivor annuity with a "pop-up" feature. This form of payment is the actuarial equivalent of the amount that would be payable to the participant if the participant elected to receive the disability benefit in a lump-sum payment, modified to be payable over the combined lives of the participant and the participant's annuity beneficiary. Upon the death of the participant, one-half of the monthly amount that was payable to the participant shall be paid monthly to the participant's annuity beneficiary. If the annuity beneficiary predeceases the participant, the annuity payable to the participant shall be the single life annuity with a cash refund feature that would have been payable had the participant selected that form of payment at the commencement of the benefit. That single life annuity shall be payable as of the day following the date of the annuity beneficiary's death upon receipt by the system of proof of the annuity beneficiary's death.

(5) A period certain annuity. This form of payment is an annuity equal to the actuarial equivalent of the sum of balance of the employee account and the employer account on the date the disability benefit becomes payable. The annuity shall be payable in whole year increments over a period of years specified by the participant, from a minimum of three years to a maximum of 10 years. However, the annuity period shall not exceed the life expectancy of the participant or of the participant and the participant's annuity beneficiary. If the participant's death occurs prior to the end of the period certain, the remaining balance of payments shall be paid to the participant's annuity beneficiary pursuant to Section 27007.



SEC. 45. Section 26911 of the Education Code is amended to read:
26911. If a participant who is receiving a disability annuity under this part becomes reemployed prior to 60 years of age to perform creditable service subject to coverage by the Cash Balance Benefit Program or the Defined Benefit Program, the disability annuity shall be terminated. The participant's employee account and employer account shall be credited with the actuarial equivalent of the participant's annuity as of the date of reemployment and the Annuitant Reserve shall be reduced by the amount credited to those accounts.

SEC. 46. Section 27004 of the Education Code is repealed.

SEC. 47. Section 27004 is added to the Education Code, to read:

27004. (a) A beneficiary, other than an entity, may elect to receive the final benefit payable under the Cash Balance Benefit Program as an annuity payable in monthly installments provided that sum of the employee account and the employer account equals at least three thousand five hundred dollars (\$3,500).

(b) A beneficiary who elects to receive an annuity pursuant to this section shall elect one of the following forms of payment:

(1) A single life annuity without a cash refund feature. This form of payment is the actuarial equivalent of the amount that would be payable to the beneficiary if the beneficiary elected to receive the final benefit in a lump-sum payment. This benefit shall be payable for the life of the beneficiary. Upon the death of the beneficiary, no other benefit shall be payable under this part on account of the death of the participant or the beneficiary.

(2) A period certain annuity. This form of payment is an annuity equal to the actuarial equivalent of the sum of the balance of the employee account and the employer account on the date of the participant's death. The annuity shall be payable in whole year increments over a period of years specified by the beneficiary, from a minimum of three years to a maximum of 10 years. However, the annuity period shall not exceed the life expectancy of the beneficiary. The beneficiary may designate a payee to receive the remaining balance of payments if the beneficiary dies prior to the end of the period certain.

SEC. 48. Section 27007 of the Education Code is amended to read:

27007. (a) If the participant died while receiving an annuity under this part, the death benefit shall be payable in accordance with the terms of the annuity elected by the participant.

(b) Upon the death of a participant who elected a single life annuity with a cash refund feature under this part, any balance remaining in the participant's employee account and employer account shall be payable in a lump sum to the beneficiary.



(c) Upon the death of a participant who elected a single life annuity without a cash refund feature under this part, no death benefit shall be payable.

(d) Upon the death of a participant who elected a joint and survivor annuity under this part, the annuity shall continue for life to the surviving beneficiary under the joint and survivor option. If the beneficiary under the joint and survivor option has predeceased the participant, no death benefit shall be payable.

(e) Upon the death of a participant who elected a period certain annuity under this part prior to the completion of annuity payments due the participant, the remaining balance of payments shall be paid to the beneficiary designated by the participant.

SEC. 49. Section 27008 of the Education Code is amended to read: 27008. Upon the death of a beneficiary who was receiving an annuity under this part due to the death of a participant, payment shall be made as follows:

(a) Upon the death of a beneficiary under a joint and survivor option, no amount shall be payable.

(b) Upon the death of a beneficiary who elected a single life annuity without a cash refund feature, no amount shall be payable.

(c) Upon the death of a beneficiary who was receiving a period certain annuity, the actuarial equivalent of the remaining balance of payments shall be paid in a lump sum to the estate of the beneficiary unless the beneficiary designated a payee to receive the remaining balance of payments as provided in Section 27004.

SEC. 50. Section 22878.2 of the Government Code is amended to read:

22878.2. (a) A school or agency may by resolution filed with the board deem all permanent or regular employees, except members or participants of the State Teachers' Retirement Plan, who have an appointment of six months or longer but who are employed on a less than half-time basis, to be employees subject to this part.

(b) An agency or school with employees who are members or participants of the State Teachers' Retirement Plan may by resolution filed with the board deem any of the following to be employees subject to this part:

(1) Regular, permanent, probationary, or temporary employees or substitutes who have an appointment for a semester, or for six months, or for half of the school year or longer, but are employed on a less than half-time basis.

(2) Substitutes who have an appointment for 100 days or more in the school year.



SEC. 51. Section 22878.3 of the Government Code is amended to read:

22878.3. As used in this part, the term “annuitant” shall include:

(a) A family member of a deceased retired member or participant of the State Teachers’ Retirement Plan who retired within 120 days of separation from employment, and who at the time of his or her death, was receiving a retirement allowance that did not provide for a survivor allowance to family members and who elects coverage as an annuitant prior to January 1, 2003. This subdivision shall not apply to any family member of a retired member or participant of the State Teachers’ Retirement Plan who retired on or after January 1, 2003, from a school contracting under this part prior to January 1, 2001.

(b) A family member of a deceased retired member or participant of the State Teachers’ Retirement Plan who retired within 120 days of separation from employment, who retired before the member’s or participant’s school elected to contract for health benefit coverage under this part, and who, at the time of his or her death, was receiving a retirement allowance that did not provide for a survivor allowance to family members and who elects coverage as an annuitant within one calendar year from the date that the member’s or participant’s school elected to contract for health benefit coverage under this part.

SEC. 52. Any section of any act enacted by the Legislature during the 2001 calendar year that takes effect on or before January 1, 2002, and that amends, amends and renumbers, adds, repeals and adds, or repeals a section that is amended, amended and renumbered, added, repealed and added, or repealed by this act, shall prevail over this act, whether that act is enacted prior to, or subsequent to, the enactment of this act.

