

AMENDED IN SENATE MARCH 19, 2014

SENATE BILL

No. 984

Introduced by Senator Walters

February 11, 2014

~~An act to amend Section 22950 of the Education Code, relating to state teachers' retirement. An act relating to the State Teachers' Retirement System, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.~~

LEGISLATIVE COUNSEL'S DIGEST

SB 984, as amended, Walters. ~~State teachers' retirement law. State Teachers' Retirement System: Defined Benefit Program.~~

Existing law creates the Defined Benefit Program of the State Teachers' Retirement System for the purpose of providing pension benefits to members of the system. The Defined Benefit Program is funded by employer and employee contributions as well as investment returns and state appropriations.

This bill would appropriate \$1,000,000,000 from the General Fund for transfer to the Teachers' Retirement Fund to reduce the unfunded liability of the Defined Benefit Program of the State Teachers' Retirement System. The bill would also appropriate another \$1,000,000,000 to the Teachers' Retirement Fund if the Legislative Analyst determines in the May Revision of the 2014–15 Budget that the state has collected more than \$1,000,000,000 in unanticipated General Fund revenue. The bill would require the Governor to form a working group of specified parties to propose long-term funding solutions for the unfunded liability of the Defined Benefit Program of the State Teachers' Retirement System and to report those solutions to the

Legislature by January 1, 2015. The bill would make a statement of legislative findings and declarations.

This bill would declare that it is to take effect immediately as an urgency statute.

~~The Teachers' Retirement Law (TRL) creates the Defined Benefit Program of the State Teachers' Retirement Plan for the provision of benefits to members of the plan, which is administered by the Teachers' Retirement Board. The Defined Benefit Program is funded by employer and employee contributions as well as investment returns and state appropriations. Employee and employer contributions are deposited in the Teachers' Retirement Fund, which is continuously appropriated.~~

~~This bill would make a nonsubstantive change to TRL provisions prescribing employer contributions and their deposit.~~

Vote: ~~majority~~^{2/3}. Appropriation: ~~no~~ yes. Fiscal committee: ~~no~~ yes. State-mandated local program: no.

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

- 1 SECTION 1. *The Legislature finds and declares the following:*
- 2 (a) *The Defined Benefit Program of the California State*
- 3 *Teachers' Retirement System (CalSTRS) currently has an unfunded*
- 4 *liability of seventy-one billion dollars (\$71,000,000,000). CalSTRS*
- 5 *indicates the need for an additional four billion five hundred*
- 6 *million dollars (\$4,500,000,000) annually for the next 30 years to*
- 7 *fund the Defined Benefit Plan.*
- 8 (b) *CalSTRS indicates that without an infusion of money, the*
- 9 *unfunded liability increases at a rate of twenty-two million dollars*
- 10 *(\$22,000,000) per day, which is equivalent to almost one million*
- 11 *dollars (\$1,000,000) per hour or two hundred fifty dollars (\$250)*
- 12 *per second.*
- 13 (c) *The Legislature has held multiple informational hearings*
- 14 *regarding the unfunded liability of the Defined Benefit Program*
- 15 *of CalSTRS, but has yet to implement a solution.*
- 16 (d) *According to CalSTRS, if funding solutions are not provided,*
- 17 *the Defined Benefit Program will be bankrupt by 2043, leaving*
- 18 *every current and prospective teacher without a beneficial part of*
- 19 *their personal retirement plans.*
- 20 (e) *As the unfunded liability grows, the cost of extinguishing it*
- 21 *will severely affect funding for other government programs, such*

1 *as education, public safety, the court system, health care, and the*
2 *social safety net.*

3 *(f) Failing to fund the teacher’s retirement program now places*
4 *an undue burden on California families, school districts, teachers,*
5 *and generations of future Californians.*

6 *(g) The California Teachers Association supports state action:*
7 *“Making sure educators have a secure retirement is critical to*
8 *attracting and keeping quality educators in the profession. The*
9 *state must ensure that the retirement commitments made to our*
10 *hard-working teachers and other education professionals are*
11 *fulfilled.”*

12 *(h) Governor Brown, Assembly Speaker John A. Pérez, Senate*
13 *President pro Tem Darrell Steinberg, Treasurer Bill Lockyer, and*
14 *Controller John Chiang have all publicly expressed concerns about*
15 *finding a funding solution.*

16 *(i) The Governor’s budget stresses a need for action, but delays*
17 *that action until the 2015–16 fiscal year.*

18 *(j) At a time when the state is generating windfall revenues, it*
19 *makes sense to dedicate a portion of that revenue to mitigate the*
20 *ever-growing unfunded liability in the Defined Benefit Program*
21 *of CalSTRS and keep the promises made to teachers.*

22 *(k) Given the severity of the issue and the far-reaching impact*
23 *upon students, teachers, and all state government services,*
24 *addressing the impending bankruptcy of the Defined Benefit*
25 *Program of CalSTRS should be one of the state’s top priorities*
26 *now.*

27 *SEC. 2. The sum of two billion dollars (\$2,000,000,000) is*
28 *hereby appropriated to the Controller for transfer to the Teachers’*
29 *Retirement Fund according to the following schedule:*

30 *(a) An appropriation of one billion dollars (1,000,000,000) is*
31 *hereby made from the General Fund to the Controller for transfer*
32 *to the Teachers’ Retirement Fund to be applied for the purpose of*
33 *reducing the unfunded liability of the Defined Benefit Program of*
34 *the State Teachers’ Retirement System.*

35 *(b) If the Legislative Analyst determines in the May Revision of*
36 *the 2014–15 Budget that the state has collected more than one*
37 *billion dollars (\$1,000,000,000) in unanticipated General Fund*
38 *revenue, an appropriation of one billion dollars (\$1,000,000,000)*
39 *is hereby made from the General Fund to the Controller for*
40 *transfer to the Teachers’ Retirement Fund to be applied for the*

1 *purpose of reducing the unfunded liability of the Defined Benefit*
 2 *Program of the State Teachers' Retirement System.*

3 *SEC. 3. (a) The Governor shall form a working group to*
 4 *propose long-term funding solutions for the unfunded liability of*
 5 *the Defined Benefit Program of the State Teachers' Retirement*
 6 *System and to evaluate specifically the role of the state as a direct*
 7 *contributor to the Teachers' Retirement Fund for the purpose of*
 8 *supporting the Defined Benefit Program. The working group shall*
 9 *include, but not be limited to, representatives from the Governor's*
 10 *office, the Legislature, school districts, teachers, and the California*
 11 *State Teachers' Retirement System.*

12 *(b) The solutions proposed by the working group described in*
 13 *subdivision (a) shall be included in a report to be submitted to the*
 14 *Legislature on or before January 1, 2015, so that the solutions*
 15 *may be included in the proposed 2015–2016 Budget. The report*
 16 *shall be submitted in compliance with Section 9795 of the*
 17 *Government Code.*

18 *SEC. 4. This act is an urgency statute necessary for the*
 19 *immediate preservation of the public peace, health, or safety within*
 20 *the meaning of Article IV of the Constitution and shall go into*
 21 *immediate effect. The facts constituting the necessity are:*

22 *In order that the unfunded liability of the Defined Benefit*
 23 *Program of the California State Teachers' Retirement System may*
 24 *be addressed at the earliest possible time and to avoid the*
 25 *potentially dire consequences to the Defined Benefit Programs as*
 26 *well as other government programs that could be severely affected,*
 27 *it is necessary that this act go into immediate effect.*

28 ~~SECTION 1. Section 22950 of the Education Code is amended~~
 29 ~~to read:~~

30 ~~22950. (a) Employers shall contribute monthly to the system~~
 31 ~~8 percent of the creditable compensation upon which members'~~
 32 ~~contributions under this part are based.~~

33 ~~(b) From the contributions required under subdivision (a), there~~
 34 ~~shall be deposited in the Teachers' Retirement Fund an amount,~~
 35 ~~determined by the board, that is not less than the amount,~~
 36 ~~determined in an actuarial valuation of the Defined Benefit~~
 37 ~~Program pursuant to Section 22311.5, necessary to finance the~~
 38 ~~liabilities associated with the benefits of the Defined Benefit~~
 39 ~~Program over the funding period adopted by the board, after~~

1 accounting for the contributions made pursuant to Sections 22901,
2 22951, and 22955.

3 ~~(e) The amount of contributions required under subdivision (a)~~
4 ~~that is not deposited in the Teachers' Retirement Fund pursuant~~
5 ~~to subdivision (b) shall be deposited directly into the Teachers'~~
6 ~~Health Benefits Fund, as established in Section 25930, and shall~~
7 ~~not be deposited into or transferred from the Teachers' Retirement~~
8 ~~Fund.~~

9 ~~(d) (1) Notwithstanding subdivisions (b) and (e), there may be~~
10 ~~deposited into the Teachers' Retirement Program Development~~
11 ~~Fund, as established in Section 22307.5, from the contributions~~
12 ~~required under subdivision (a), an amount determined by the board,~~
13 ~~not to exceed the limit specified in paragraph (2).~~

14 ~~(2) The balance of deposits into the Teachers' Retirement~~
15 ~~Program Development Fund, minus the subsequent transfer of~~
16 ~~funds, with interest, into the Teachers' Retirement Fund pursuant~~
17 ~~to subdivision (e) of Section 22307.5, shall not exceed 0.01 percent~~
18 ~~of the total of the creditable compensation of the fiscal year ending~~
19 ~~in the immediately preceding calendar year upon which member's~~
20 ~~contributions to the Defined Benefit Program are based.~~

21 ~~(3) The deposits described in this subdivision shall not be~~
22 ~~deposited into, or transferred from, the Teachers' Retirement Fund.~~