

AMENDED IN SENATE AUGUST 14, 2000

AMENDED IN ASSEMBLY MAY 20, 1999

AMENDED IN ASSEMBLY APRIL 29, 1999

CALIFORNIA LEGISLATURE—1999–2000 REGULAR SESSION

**ASSEMBLY BILL**

**No. 429**

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**Introduced by Assembly Member Correa**

February 12, 1999

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An act to ~~add Section 22404 to~~ amend Sections 22141, 24415, and 24417 of, and to add Sections 24410.6 and 24410.7 to, the Education Code, relating to the State Teachers' Retirement System.

LEGISLATIVE COUNSEL'S DIGEST

AB 429, as amended, Correa. State Teachers' Retirement System: ~~gain sharing revenue~~ supplemental benefits.

*Under the State Teachers' Retirement Law, retired members and nonmember spouses, disabled members, and beneficiaries of the Defined Benefit Program, as defined, receive monthly allowances that are subject to supplementary increases to preserve their purchasing power.*

*This bill would increase the monthly allowance amounts payable to retired members and nonmember spouses, disabled members, and beneficiaries according to a specified schedule, payable commencing on or before July 1, 2001, and provide for a cost-of-living adjustment, as specified, and additional supplemental increases to those benefits to preserve their purchasing power, as specified.*

~~Under the Teachers' Retirement Law, interest earned on assets of the retirement fund that is not credited to accounts maintained pursuant to the Defined Benefit Program, as defined, and other income with respect to the program, is allocated to provide benefits under the program. Existing law requires that an actuarial valuation of the assets and liabilities of the State Teachers' Retirement Plan be performed at least once every 6 years.~~

~~This bill would provide that gain sharing revenue, defined as the annual actuarial value of investment returns, interest, and other income with respect to the Defined Benefit Program that exceeds the expected return for that period provided in the most recent actuarial valuation of assets, shall be allocated first to eliminate unfunded accrued actuarial liabilities, as specified; then to specified reserves; and then to provide increased benefits or credits against contributions for active and retired members pursuant to future legislation, as specified.~~

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

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

1 ~~SECTION 1.—Section 22404 is added to the Education~~  
2 ~~SECTION 1. Section 22141 of the Education Code is~~  
3 ~~amended to read:~~  
4 ~~22141. Notwithstanding Section 22140,~~  
5 ~~“improvement factor” means an increase of 2 percent in~~  
6 ~~benefits provided under Sections 24408 and 24409 for~~  
7 ~~each year commencing on September 1, 1981, and under~~  
8 ~~Section 24410.5 for each year commencing September 1,~~  
9 ~~2001, and under Sections 24410.6 and 24110.7 for each year~~  
10 ~~commencing September 1, 2002. The factor shall not be~~  
11 ~~compounded nor shall it be applicable to annuities~~  
12 ~~payable from the accumulated annuity deposit~~  
13 ~~contributions or the accumulated tax-sheltered annuity~~  
14 ~~contributions. The Legislature reserves the right to adjust~~  
15 ~~the amount of the improvement factor up or down as the~~  
16 ~~economic conditions dictate. No adjustments of the~~  
17 ~~improvement factor shall reduce the monthly retirement~~



1 allowance or benefit below that which would be payable  
2 to the recipient under this part had this section not been  
3 enacted.

4 *SEC. 2. Section 24410.6 is added to the Education*  
5 *Code, to read:*

6 *24410.6. (a) Any increase provided pursuant to*  
7 *Section 24410.5 to a retired member, an option*  
8 *beneficiary, or a surviving spouse who is also receiving an*  
9 *increased allowance pursuant to Section 24410.7 is,*  
10 *effective September 1, 2001, subject to the 2 percent*  
11 *cost-of-living adjustment described in Section 22140 or*  
12 *22141. Any increase provided pursuant to Section 24410.5*  
13 *to a retired member, an option beneficiary, or a surviving*  
14 *spouse who is also receiving the increase provided in*  
15 *Section 24410.7 is, effective September 1, 2002, subject to*  
16 *the 2 percent cost-of-living adjustment described in*  
17 *Section 22140 or 22141.*

18 *(b) Any increase provided pursuant to Section 24410.5*  
19 *and Section 24410.7 is in addition to any payments*  
20 *received under Section 24415.*

21 *SEC. 3. Section 24410.7 is added to the Education*  
22 *Code, to read:*

23 *24410.7. (a) The monthly allowance payable on the*  
24 *effective date of this section, excluding annuities payable*  
25 *from accumulated annuity deposit contributions and*  
26 *tax-sheltered annuity contributions and benefits payable*  
27 *pursuant to Sections 24410.5 and 24410.6, to retired*  
28 *members and nonmember spouses, disabled members,*  
29 *and beneficiaries, including option beneficiaries, shall be*  
30 *increased by the percentage set forth opposite the*  
31 *applicable period during which retirement, disability, or*  
32 *death occurred set forth in the following schedule:*

<i>Period during which retirement, disability, or death occurred:</i>	<i>Percentage:</i>
<i>36 months ending Dec. 31, 2000</i>	<i>0.0%</i>
<i>12 months ending Dec. 31, 1997</i>	<i>1.0%</i>
<i>24 months ending Dec. 31, 1996</i>	<i>2.0%</i>
<i>60 months ending Dec. 31, 1994</i>	<i>3.0%</i>
<i>60 months ending Dec. 31, 1989</i>	<i>4.0%</i>



1	<i>120 months ending Dec. 31, 1984</i>	5.0%
2	<i>Dec. 31, 1974 or earlier</i>	6.0%

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4 *(b) The increase provided pursuant to this section is in*  
5 *addition to any payments received by a retired member*  
6 *or nonmember spouse, disabled member, or beneficiary,*  
7 *including an option beneficiary, under Section 24415.*

8 *(c) Benefits payable under this section shall be initially*  
9 *payable by the system on or before July 1, 2001.*

10 *SEC. 4. Section 24415 of the Education Code is*  
11 *amended to read:*

12 24415. (a) The proceeds of the Supplemental Benefit  
13 Maintenance Account shall be distributed annually in  
14 quarterly supplemental payments commencing on  
15 September 1, 1990, to retired members, disabled  
16 members, and beneficiaries, *as defined in subdivision (a)*  
17 *of Section 22107.* The amount available for distribution in  
18 any fiscal year shall not exceed the amount necessary to  
19 restore purchasing power up to 75 percent of the  
20 purchasing power of the initial monthly allowance after  
21 the application of all allowance increases authorized by  
22 this part, including those specified in Section 24412, *and*  
23 *excluding those provided pursuant to Sections 24410.5,*  
24 *24410.6, and 24410.7.*

25 (b) The net revenues to be distributed shall be  
26 allocated among those retired members, disabled  
27 members, and beneficiaries, *as defined in subdivision (a)*  
28 *of Section 22107,* whose allowances, after sequentially  
29 applying the annual improvement factor as defined in  
30 Sections 22140 and 22141, and the annual supplemental  
31 payment ~~as defined~~ *specified* in Section 24412, have the  
32 lowest purchasing power percentage. The purchasing  
33 power calculation for each individual shall be based on  
34 the change in the All Urban California Consumer Price  
35 Index between June of the calendar year of retirement  
36 and June of the fiscal year preceding the fiscal year of  
37 distribution. In any year in which the purchasing power  
38 of the allowances of all retired members, disabled  
39 members, and beneficiaries, *as defined in subdivision (a)*  
40 *of Section 22107,* equals not less than 75 percent and



1 additional funds remain from the allocation authorized  
2 by this section, those funds shall remain in the  
3 Supplemental Benefit Maintenance Account for  
4 allocation in future years.

5 (c) The allowance increase shall not be applicable to  
6 annuities payable from the accumulated annuity deposit  
7 contributions or the accumulated tax-sheltered annuity  
8 contributions.

9 (d) The ~~benefits~~ *increases* provided by subdivision (b)  
10 are not cumulative, not part of the base allowance, and  
11 will be payable only to the extent that funds are available  
12 from the Supplemental Benefit Maintenance Account.  
13 The board shall inform each recipient of the contents of  
14 this subdivision.

15 (e) The adjustments authorized by this section are  
16 vested only up to the amount payable as a result of the  
17 annual appropriation made pursuant to Section 22954 and  
18 shall not be included in the base allowance for purposes  
19 of calculating the annual improvement defined by  
20 Sections 22140 and 22141.

21 (f) *Notwithstanding subdivision (b), for purposes of*  
22 *restoring the purchasing power of benefits provided*  
23 *pursuant to Section 24410.5 for members and*  
24 *beneficiaries receiving benefits pursuant to subdivision*  
25 *(b), the purchasing power calculation shall be based on*  
26 *75 percent of the change in the All Urban California*  
27 *Consumer Price Index between January 2000 and June of*  
28 *the fiscal year preceding the fiscal year of distribution,*  
29 *after the application of increases authorized by Section*  
30 *24412 that are made to the allowances provided pursuant*  
31 *to Section 24410.5.*

32 (g) *Notwithstanding subdivision (b), for purposes of*  
33 *restoring the purchasing power of benefits provided*  
34 *pursuant to Sections 24410.6 and 24410.7 for members and*  
35 *beneficiaries receiving benefits pursuant to subdivision*  
36 *(b), the purchasing power calculation shall be based on*  
37 *75 percent of the change in the All Urban California*  
38 *Consumer Price Index between January 2001 and June of*  
39 *the fiscal year preceding the fiscal year of distribution,*  
40 *after the application of increases authorized by Section*



1 24412 that are made to the allowances provided pursuant  
2 to Sections 24410.6 and 24410.7.

3 SEC. 5. Section 24417 of the Education Code is  
4 amended to read:

5 24417. (a) The proceeds of an auxiliary  
6 Supplemental Benefit Maintenance Account shall be  
7 distributed annually in quarterly supplemental  
8 payments, commencing when funds in the Supplemental  
9 Benefit Maintenance Account are insufficient to support  
10 75 percent, to retired members, disabled members, and  
11 beneficiaries, *as defined in subdivision (a) of Section*  
12 *22107*. The amount available for distribution in any fiscal  
13 year shall not exceed the amount necessary to restore  
14 purchasing power up to 75 percent of the purchasing  
15 power of the initial monthly allowance after the  
16 application of all allowance increases authorized by this  
17 part, including those specified in ~~Section~~ Sections 24412  
18 and ~~Section~~ 24415, and excluding those provided  
19 pursuant to Sections 24410.5, 24410.6, and 24410.7.

20 (b) The net revenues to be distributed shall be  
21 allocated among those retired members, disabled  
22 members, and beneficiaries, *as defined in subdivision (a)*  
23 *of Section 22107*, whose allowances, after sequentially  
24 applying the annual improvement factor as defined in  
25 Sections 22140 and 22141, and the annual supplemental  
26 payment as ~~defined~~ *specified in Section* Sections 24412  
27 and ~~Section~~ 24415, have the lowest purchasing power  
28 percentage. The purchasing power calculation for each  
29 individual shall be based on the change in the All Urban  
30 California Consumer Price Index between June of the  
31 calendar year of *the* benefit effective date and June of the  
32 fiscal year preceding the fiscal year of distribution.

33 (c) The allowance increase shall not be applicable to  
34 annuities payable from the accumulated annuity deposit  
35 contributions or the accumulated tax-sheltered annuity  
36 contributions.

37 (d) The ~~benefits~~ *increases* provided by subdivision (b)  
38 are not cumulative, nor part of the base allowance, and  
39 will be payable only to the extent that funds are available  
40 from the Supplemental Benefit Maintenance Account



1 and the auxiliary Supplemental Benefit Maintenance  
2 Account. The board shall inform each recipient of the  
3 contents of this subdivision.

4 (e) The distributions authorized by this section are  
5 vested only up to the amount payable as a result of the  
6 annual appropriation made pursuant to Section 22954 and  
7 shall not be included in the base allowance for purposes  
8 of calculating the annual improvement defined by  
9 ~~Section~~ Sections 22140 and 22141.

10 (f) *Notwithstanding subdivision (b), for purposes of*  
11 *restoring the purchasing power of benefits provided*  
12 *pursuant to Section 24410.5 for members and*  
13 *beneficiaries receiving benefits pursuant to subdivision*  
14 *(b), the purchasing power calculation shall be based on*  
15 *75 percent of the change in the All Urban California*  
16 *Consumer Price Index between January 2000 and June of*  
17 *the fiscal year preceding the fiscal year of distribution,*  
18 *after the application of increases authorized by Section*  
19 *24412 that are made to the allowances provided pursuant*  
20 *to Section 24410.5.*

21 (g) *Notwithstanding subdivision (b), for purposes of*  
22 *restoring the purchasing power of benefits provided*  
23 *pursuant to Sections 24410.6 and 24410.7 for members and*  
24 *beneficiaries receiving benefits pursuant to subdivision*  
25 *(b), the purchasing power calculation shall be based on*  
26 *75 percent of the change in the All Urban California*  
27 *Consumer Price Index between January 2001 and June of*  
28 *the fiscal year preceding the fiscal year of distribution,*  
29 *after the application of increases authorized by Section*  
30 *24412 that are made to the allowances provided pursuant*  
31 *to Sections 24410.6 and 24410.7.*

32 ~~Code, to read:~~

33 ~~22404. (a) As used in this section:~~

34 ~~(1) "Expected earnings" means the aggregate amount~~  
35 ~~of the return on investments, interest, and other earnings~~  
36 ~~with respect to the Defined Benefit Program that would~~  
37 ~~have been received by the retirement fund during any~~  
38 ~~fiscal year if the fund's assets had increased by the~~  
39 ~~actuarially assumed interest rate used in the most recent~~



1 actuarial valuation of the assets and liabilities of the plan  
2 performed pursuant to Section 22311.

3 (2) “Gain-sharing revenue” means the amount by  
4 which the actuarial value of the return on investments,  
5 interest, and other earnings with respect to the Defined  
6 Benefit Program received by the retirement fund for any  
7 fiscal year, as reported by the actuary, exceeds the  
8 expected earnings for the same period.

9 (b) Notwithstanding any other provision of law, the  
10 board shall allocate gain-sharing revenue as follows in the  
11 following order of priority:

12 (1) The amount necessary to eliminate any unfunded  
13 actuarial accrued liability associated with benefits in  
14 effect on or before July 1, 1990, shall be allocated to the  
15 appropriate accounts.

16 (2) An amount determined by the board, based on a  
17 recommendation from the actuary, that adequately  
18 protects the fund in the event future earnings fall below  
19 expected earnings shall be allocated to reserves under  
20 this part.

21 (3) An amount determined by the board, based on a  
22 recommendation from the actuary, that would provide  
23 additional revenue for allocation pursuant to paragraph  
24 (4) in fiscal years in which no additional gain-sharing  
25 revenue is generated.

26 (4) Any remaining gain-sharing revenue shall be  
27 allocated to active member funds and retired member  
28 funds in the Defined Benefit Program to provide  
29 improvements in benefits or credits for contributions, or  
30 both, pursuant to any subsequently enacted legislation  
31 that expressly refers to this section or otherwise specifies  
32 that gain-sharing revenue shall be the source of funding  
33 for those benefits or contributions. For purposes of this  
34 paragraph, gain-sharing revenues shall be allocated  
35 proportionately to active member funds and to retired  
36 member funds based on the percentage of the actuarial  
37 accrued liability of the retirement fund with respect to  
38 the Defined Benefit Program that is attributable (A) to  
39 actuarial liabilities for future benefits payable to  
40 currently active and inactive members, or (B) to



- 1 ~~actuarial liabilities for benefits payable to currently~~
- 2 ~~retired members and their beneficiaries, respectively.~~

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