

6300 State Contributions to the State Teachers' Retirement System

The state General Fund makes annual payments to the California State Teachers' Retirement System (CalSTRS) in order to reduce the retirement contribution burden on members and school districts.

Effective July 1, 2003, the annual General Fund contribution to the CalSTRS is based on 2.017 percent of the members' creditable earnings of the fiscal year ending in the immediately preceding calendar year. Current law also provides for an additional state contribution when the State Teachers' Retirement Fund has a normal cost deficit or unfunded obligation for benefits in place on July 1, 1990. This contribution is 0.524 percent of the members' creditable earnings of the fiscal year ending in the immediately preceding calendar year. If the unfunded obligation continues, the 0.524 percent factor may be adjusted upwards annually in increments of no more than 0.25 percent and is capped at 1.505 percent of members' creditable earnings of the fiscal year ending in the immediately preceding calendar year. No state contribution is required for this purpose in 2008-09. The state contributions are not appropriated through the annual Budget Act.

The Supplemental Benefit Maintenance Account (SBMA) was established in 1989 to maintain purchasing power of retired members. In 2001, the purchasing power threshold was increased from 75 percent to 80 percent of the value of the original benefit. The state General Fund provides a statutory transfer to the CalSTRS of an amount equal to 2.5 percent of the members' creditable earnings of the fiscal year ending in the immediately preceding calendar year to be deposited in the SBMA. If, at anytime the funds in the SBMA are insufficient to support 80 percent purchasing power, the Teachers' Retirement Board can: (1) transfer funds from the Teachers' Retirement Fund if no CalSTRS unfunded obligation exists; (2) increase employer contributions; or (3) reduce the SBMA benefit payment. A recent actuarial analysis performed at the direction of the Department of Finance concluded that the currently required state contributions are more than sufficient to maintain purchasing power at 80 percent, based on current economic assumptions. The state's basic contributions (2.5 percent of members' creditable earnings of the fiscal year ending in the immediately preceding calendar year) for purchasing power protection are not appropriated through the annual Budget Act. Any increase in employer contributions must be approved through the Budget Act.

3-YR EXPENDITURES AND POSITIONS (Summary of Program Requirements)

| | Positions | | | Expenditures | | |
|--|-----------|----------|----------|------------------|--------------------|--------------------|
| | 2006-07 | 2007-08 | 2008-09 | 2006-07* | 2007-08* | 2008-09* |
| 10 Benefits Funding | - | - | - | \$360,183 | \$501,416 | \$535,603 |
| 20 Supplemental Benefits Maintenance | - | - | - | 598,391 | 1,121,501 | 663,860 |
| TOTALS, POSITIONS AND EXPENDITURES (All Programs) | - | - | - | \$958,574 | \$1,622,917 | \$1,199,463 |
| FUNDING | | | | 2006-07* | 2007-08* | 2008-09* |
| 0001 General Fund | | | | \$958,574 | \$1,622,917 | \$1,199,463 |
| TOTALS, EXPENDITURES, ALL FUNDS | | | | \$958,574 | \$1,622,917 | \$1,199,463 |

LEGAL CITATIONS AND AUTHORITY

DEPARTMENT AUTHORITY

Education Code, Title 1, Division 1, Part 13, Chapter 16.

MAJOR PROGRAM CHANGES

- The state makes annual General Fund contributions to the Supplemental Benefit Maintenance Account (SBMA) of 2.5 percent of teacher payroll for purchasing power protection. An actuarial analysis performed in 2005 at the direction of the Department of Finance shows that the SBMA has more than enough money to provide the purchasing power protection for current and future retired teachers. The Administration is proposing to fully vest the benefit at 80 percent purchasing power protection, which would provide increases to the future value of this program for retired teachers. As a result of the funded status of the SBMA, the state will be able to fully vest the purchasing power protection and reduce the state's contributions to the SBMA from 2.5 percent to 2.2 percent of salary consistent with the actuarial calculation. The savings from the reduced contribution equates to \$80 million in 2008-09. In addition, payments of 1.1 percent each would be made on November 1 and April 1, instead of July 1 of each fiscal year.
- In May 2003, the Legislature enacted legislation (Chapter 6, Statutes of 2003-04, First Extraordinary Session, Senate Bill No. 20, 'SBX1 20') that reduced the payment by \$500 million to CalSTRS's SBMA. On October 14, 2003, the CalSTRS board and certain CalSTRS members filed a complaint in the Sacramento County Superior Court as Teachers' Retirement Board, as Manager of the California State Teachers' Retirement System, et al. v. Tom Campbell, Director of California Department of Finance, and Steve Westly, California State Controller (Case No. 03CS01503). This lawsuit sought, primarily, to compel the State Controller to transfer funds from the state's General Fund to the SBMA in an amount equal to \$500 million plus interest. The court declared SBX1 20 unconstitutionally impairs CalSTRS members' vested contractual rights. The court ordered the State Controller to transfer \$500 million from the General Fund to the SBMA. The state appealed the decision, and plaintiffs and the intervening California Retired Teachers' Association filed cross-appeals (Court of Appeal, Third Appellate District, Case No. C050889). The Third District Court of Appeals issued its decision, which affirms the portion of the trial court's judgment that found the amendment of Education Code section 22954 by SBX1 20 to be an unconstitutional impairment of contract and ordered the Controller to transfer funds to the SBMA in accordance with the provisions of Education Code 22954 as it existed prior to SBX1 20. That decision was final

* Dollars in thousands, except in Salary Range.

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on September 29, 2007. Education Code 22954 contains a continuous appropriation that is available for the payment of the \$500 million. No appropriation currently exists, but is required, for the payment of any costs to petitioners or the pre-judgment interest ordered by the court. The Administration is proposing to pay the \$210 million interest in three annual installments, the first to be made in fiscal year 2008-09 in the amount of approximately \$80 million.

DETAILED BUDGET ADJUSTMENTS

| | 2007-08* | | | 2008-09* | | |
|---|------------------|-------------|-----------|------------------|-------------|-----------|
| | General Fund | Other Funds | Positions | General Fund | Other Funds | Positions |
| Baseline Adjustment Descriptions | | | | | | |
| • SBMA Interest | \$- | \$- | - | \$79,663 | \$- | - |
| • Revised Creditable Compensation | - | - | - | 76,546 | - | - |
| • SBMA Lawsuit Payment | 500,000 | - | - | - | - | - |
| Totals, Baseline Adjustments | \$500,000 | \$- | - | \$156,209 | \$- | - |
| Policy Adjustment Descriptions | | | | | | |
| • Reduce SBMA Contributions from 2.5% to 2.2% | \$- | \$- | - | -\$79,663 | \$- | - |
| Totals, Policy Adjustments | \$- | \$- | - | -\$79,663 | \$- | - |
| TOTALS, BUDGET ADJUSTMENTS | \$500,000 | \$- | - | \$76,546 | \$- | - |

DETAIL OF APPROPRIATIONS AND ADJUSTMENTS (Reconciliation with Appropriations)

| 2 LOCAL ASSISTANCE | 2006-07* | 2007-08* | 2008-09* |
|---|------------------|--------------------|--------------------|
| 0001 General Fund | | | |
| APPROPRIATIONS | | | |
| Education Code Section 22955(a) (Benefits Funding) | \$360,183 | \$501,416 | \$535,603 |
| Education Code Sec 22954 (Supplemental Benefit Maintenance Account) | 598,391 | 1,121,501 | 584,197 |
| SBMA Interest | - | - | 79,663 |
| TOTALS, EXPENDITURES | \$958,574 | \$1,622,917 | \$1,199,463 |
| TOTALS, EXPENDITURES, ALL FUNDS (Local Assistance) | \$958,574 | \$1,622,917 | \$1,199,463 |

* Dollars in thousands, except in Salary Range.