

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

Item Number: **7**

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SUBJECT: State and Federal Legislation and Regulation

CONSENT: \_\_\_\_\_

ATTACHMENT(S): 4

ACTION: X

MEETING DATE: June 11, 2015 / 30 mins.

INFORMATION: \_\_\_\_\_

PRESENTER: Mary Anne Ashley

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**PURPOSE**

The purpose of this item is to secure the board's position on 2015 legislative affecting CalSTRS. It also provides information on current state and federal legislation.

<u>Attachment</u>	<u>Bill Number</u>	<u>Author</u>	<u>Subject</u>
1	AB 996	Medina	403bCompare
2	H.R. 711	Bradley	Equal Treatment of Public Servants Act of 2015
3	H.R. 973	Davis	Social Security Fairness Act of 2015
4			Legislative Summary

[AB 996 \(Medina, D - Riverside\) – 403bCompare](#)

**EXECUTIVE SUMMARY**

<p><b>PROBLEM:</b> Current law allows any 403(b) product from a qualifying vendor to be made available to public school employees for investment, regardless of cost or quality. This has created a large and chaotic amalgamation of expensive and confusing choices, which hinders the ability of school employees to make the most informed and cost-effective choices possible regarding their retirement savings.</p>	
<p><b>PROPOSAL:</b> Requires (1) the 403bCompare website to include side-by-side comparison of each registered 403(b) product vendor and (2) all local school districts, community college districts and county offices of education to adopt a policy addressing the solicitation of 403(b) products by vendors on school campuses.</p>	
<p><b>STAFF RECOMMENDATION:</b> <b>Support, but recommend amendments</b> to specify the type of information that should be used in the side-by-side comparison of each registered vendor.</p>	
<p><b>RELATED BOARD POLICIES:</b> The board’s policy is to support legislation that improves the opportunity for members to save using pre-tax vehicles. (Board Policy Manual Section 400, I, H)</p>	
<p><b>PROGRAM IMPACT:</b> None.</p>	<p><b>ADMINISTRATIVE IMPACT:</b> Any costs would be offset by fees imposed on vendors.</p>
<p><b>PROS:</b></p> <ul style="list-style-type: none"> <li>• Could enable users of the 403bCompare website to compare vendors so that they may be able to make a more informed selection of a 403(b) product.</li> <li>• Could reduce the likelihood that a user would select a 403(b) product provided by a vendor that charges high fees.</li> </ul>	<p><b>CONS:</b></p> <ul style="list-style-type: none"> <li>• None.</li> </ul>

**AB 996 (Medina, D - Riverside)**

**403bCompare  
(Introduced 2/26/15)**

**Position:**

**Support, but recommend amendments  
(Staff Recommendation)**

**Proponents:**

**CTA (Sponsor)  
Association of California School Administrators  
California Federation of Teachers  
California Retired Teachers Association  
Faculty Association of California Community Colleges**

**Opponents:**

**American Fidelity Assurance Company (Oppose unless Amended)  
AXA Equitable Life Insurance Company (Oppose unless Amended)  
Variable Annuity Life Insurance Company (Oppose unless Amended)  
Association of California Life & Health Insurance Companies (Oppose unless Amended)**

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**EXECUTIVE SUMMARY**

AB 996 requires (1) the 403bCompare website to include side-by-side comparison of each registered 403(b) product vendor and (2) all local school districts, community college districts and county offices of education to adopt a policy addressing the solicitation of 403(b) products by vendors on school campuses.

**FISCAL IMPACT**

Program Cost – None.

Administrative Costs/Savings – Any costs would be offset by fees imposed on vendors.

**RECOMMENDATION**

**Support, but recommend amendments** to specify the type of information that should be used in the side-by-side comparison of each registered vendor.

**BACKGROUND**

Current law requires any 403(b) product from a qualifying vendor be made available for investment by employees of school districts, county offices of education or charter schools. What started out as a goal of providing a level playing field for vendors, and a range of

investment choices for employees, has expanded into an unwieldy disarray of multiple products and fee structures. Vendors offer the following four types of 403(b) products:

- Mutual Fund,
- Annuity—Fixed (guaranteed return),
- Annuity—Variable, and
- Annuity—Equity Indexed (similar to fixed annuity but tied to index).

The “any willing provider” open access model for providing 403(b) products in California has created a large and chaotic amalgamation of expensive and confusing choices, which hinders the ability of school employees to make the most informed and cost-effective choices possible regarding their retirement savings. This open access model can lead members to choose higher-cost products from vendors with aggressive marketing, rather than products more suitable to their financial needs and with lower fees. According to a study by the TIAA-CREF Institute, California has relatively high fees compared to states that utilize a controlled access model. The author of AB 996 notes that, “Too often educators have been lured into less than secure products by free pizza and a sales pitch in the lunch room by a vendor who is more concerned about commission than the retirement security of those they are pitching products to.”

Chapter 1095, Statutes of 2002 (AB 2506–Steinberg), mandated CalSTRS to create and maintain a comprehensive, impartial website information bank and required vendors wishing to sell 403(b) products in California public K-12 schools and community colleges to register with the website and provide certain information on their company and the products offered. The website, known as 403bCompare, provides CalSTRS members and participants, classified employees and eligible state employees the ability to search and compare information about tax-deferred retirement investment 403(b) products provided by registered vendors.

Existing law specifies that vendors provide the following information for 403bCompare:

- Statement of experience in providing investment products under public employer pension plans,
- Characterization of offerings as annuities or custodial accounts,
- Disclosure of expenses paid by retirement plan participants, types of products, product features and services offered to participants,
- Ability, experience and commitment to provide retirement counseling and education service,
- A statement of financial strength and stability,
- Location of offices and counselors,
- Description of ability to comply with all applicable state and federal laws,
- Demonstrated ability to offer an array of accumulation funding options,
- Investment performance data, and
- The range of administrative and customer services provided.

Vendors may submit their information for review throughout the year, and new vendor information is added to the site annually during the open enrollment period, which is currently

held during the month of September. As of January 1, 2015, there were 62 vendors registered on the 403bCompare.com website.

Users of the 403bCompare website may:

- View their employer’s approved list of vendors, a link to their employer’s salary reduction agreement and contact information for any questions.
- View a list of all registered vendors and view information about the vendors and the products they offer.
- Browse the site and add products to their “My Compare” cart, which retains the products added and allows employees to perform side-by-side comparison of like products. This enables employees to see differences in features and fees of products that interest them.
- Perform a word search on the products and vendors contained in the site and narrow the search results based on product type.

403bCompare users are able to compare product information from multiple vendors and can look up individual vendors to view their vendor-specific information. However, there is currently no way for them to perform a side-by-side comparison of multiple vendors. Legislation is not required to enable 403bCompare users to compare vendors, and efforts currently underway to update 403bCompare will allow the comparisons desired by the measure’s sponsor.

## **ANALYSIS**

Specifically, AB 996:

- Requires the 403BCompare site to include a side-by-side comparison of each registered vendor, and
- Requires all local school districts, community college districts and county offices of education to adopt, but not as part of consent agenda, a policy addressing the solicitation of 403(b) products by vendors on school campuses.

The board has generally supported legislation that improves the opportunity for members to save using pre-tax vehicles. Although this legislation does not specifically provide greater opportunities for members to increase their pre-tax savings, it allows users of the 403bCompare website to compare multiple vendors side-by-side, which could help members select a vendor with a lower-fee product. In addition, comparing vendors could enable members to select a vendor on the basis of whether it has been in business longer, has more assets under its management or has a higher credit rating. However, since the type of information by which vendors are to be compared is not specified by the legislation, amendments to clarify the type of side-by-side vendor comparison would help meet the intent. CalSTRS staff suggest the type of comparison information include: (1) years of being in business, (2) financial assets under management, and (3) credit ratings, for vendors that are insurance companies. Opponents are requesting amendments to clarify that the side-by-side comparison be made for vendors of like products, rather than vendors of different types of products, which they believe would make for a more useful comparison.

The bill does not specify the parameters of the policy concerning the solicitation of 403(b) products by vendors on school campuses. To the extent that the adopted policy provides campus access to vendors offering lower-cost products, rather than simply those with more aggressive marketing, the benefits of such a policy would be enhanced. Opponents are suggesting amendments to clearly state that the provision related to the solicitation policy is not intended to change or alter any rules or procedures that are currently in place.

**H.R. 711 (BRADY, R-TX) – EQUAL TREATMENT OF PUBLIC SERVANTS ACT OF 2015**

**EXECUTIVE SUMMARY**

<p><b>PROBLEM:</b> The Windfall Elimination Provision (WEP) can unfairly reduce Social Security benefits for public employees who receive a government pension based on service not covered by Social Security.</p>	
<p><b>PROPOSAL:</b> Establishes a new formula for the treatment of non-covered earnings in determining Social Security benefits to replace the WEP for individuals who turn age 62 after 2016 and prescribes a second formula to lessen the effects of the WEP for current beneficiaries. Also directs the Commissioner of Social Security to recover overpayments from certain individuals.</p>	
<p><b>STAFF RECOMMENDATION: Support, but note concerns regarding effect on nonvested members.</b></p>	
<p><b>RELATED BOARD POLICIES:</b> The Teachers’ Retirement Board supports legislation that seeks to repeal Social Security benefit offsets as a means of addressing concerns about their impact on educators who begin their career at a later age (Board Policy Manual Section 400, I, J). While this bill does not repeal the WEP, it provides a more equitable formula based on actual earnings for those under age 62 in 2016 and includes a provision for a rebate in the form of a reduction to the WEP offset, providing relief from the effects of the offset on current retirees.</p>	
<p><b>PROGRAM IMPACT:</b> None.</p>	<p><b>ADMINISTRATIVE IMPACT:</b> Modest cost associated with the revision of member publications and educational materials, internal training materials and system-generated and manual award letters that reference the WEP. Potential costs associated with coordinating with Social Security or employers to provide information regarding the vesting status of individuals with service reported after 1977.</p>
<p><b>PROS:</b></p> <ul style="list-style-type: none"> <li>• Social Security benefit amount increases for members subject to the WEP.</li> </ul>	<p><b>CONS:</b></p> <ul style="list-style-type: none"> <li>• Any member who works in a CalSTRS-covered position, but does not vest in CalSTRS, and receives a Social Security benefit would be subject to a reduced benefit.</li> <li>• For current Social Security beneficiaries, a portion of Social Security benefits already received may be considered overpayments, which will be collected from future benefits.</li> </ul>

**H.R. 711 (Brady, R-TX)**      **Equal Treatment of Public Servants Act of 2015**

**Position:**                      **Support, but note concerns (Staff recommendation)**

**Proponents:**                 **ACSA, CalRTA, National Association of Police Organizations**

**Opponents:**                 **None known**

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## **EXECUTIVE SUMMARY**

This bill establishes a new formula for the treatment of non-covered earnings in determining Social Security benefits to replace the Windfall Elimination Provision (WEP) for individuals who turn age 62 after 2016 and prescribes a second formula to lessen the effects of the WEP for current beneficiaries. It also directs the Commissioner of Social Security to recover overpayments from certain individuals.

## **FISCAL IMPACT**

Program Cost – None.

Administrative Costs/Savings –Modest cost associated with the revision of member publications and educational materials, internal training materials and system-generated and manual award letters that reference the WEP. Potential costs associated with coordinating with Social Security or employers to provide information regarding the vesting status of individuals with service reported after 1977.

## **RECOMMENDATION**

**Support, but note concerns regarding effect on nonvested members.** It is the policy of the board to support legislation that seeks to repeal Social Security benefit offsets as a means of addressing concerns about their impact on educators who begin their career at a later age. While this bill does not repeal the WEP, it provides a more equitable formula based on actual earnings for those under age 62 in 2016 and includes a rebate in the form of a reduction to the WEP, providing relief from the effects of the offset on current retirees. However, the new formula applies to a population that would not currently be affected by the WEP. Specifically, the new formula would affect nonvested individuals who perform service not covered by Social Security but do not ultimately qualify for an ongoing benefit as a result of that service.

## **BACKGROUND**

The WEP, enacted in 1983, reduces the Social Security benefits of California educators who meet both of the following conditions:

- Worked for a government agency—like a school district—long enough to receive a pension from employment not subject to Social Security taxes (non-covered employment).
- Worked other jobs for which they paid Social Security taxes long enough to qualify for Social Security benefits (covered employment).

The CalSTRS [Retirement Readiness Assessment](#) indicates that 63 percent of retired CalSTRS members earn a Social Security benefit, and 41 percent are currently affected by the WEP.

Prior to the WEP, the Social Security benefit calculated for individuals who worked in non-covered employment was based on earnings that were less than the total income actually earned over the individual's career. This meant the individual received a higher benefit than was intended by the Social Security benefit formula. The WEP applies a modified formula to account for the portion of working years these individuals did not pay the Social Security payroll tax on earned wages.

The WEP reduces the Social Security benefit from covered employment, unless the individual has 30 years of Social Security-covered earnings. The benefit reduction under the WEP is less for individuals who have between 21 and 30 years of earnings under Social Security. The reduction under the WEP may be no more than one-half of the government agency pension to which the individual is entitled.

Under the WEP, the first tier percentage used to calculate the benefit is reduced from 90 percent to 40 percent. The other portions of the formula do not change. Specifically, the first tier benefit amount of Social Security is \$743 (90 percent of the first \$826 of earnings), while the first tier benefit under WEP is \$330 (40 percent of \$826). This is a reduction of \$413, and it is the maximum reduction for a worker who retires in 2015 at age 62.

## **ANALYSIS**

This bill replaces the statutory WEP offset formula with a formula based on actual work history for individuals turning age 62 after 2016. The bill has 24 cosponsors from five states (Texas, Massachusetts, Ohio, Louisiana and California); each of these states has a significant portion of its public workforce is not covered by Social Security. This bill expands the applicability of the new formula to all recipients of Social Security who have non-covered earnings in their work history regardless of whether they vested and receive a benefit for those earnings, expanding the affected population. It mandates enforcement of the current WEP for individuals who are already 62 as of 2016 and includes a provision for reduction of the WEP through a rebate distributed to individuals who are subject to the offset.

### Impact on Members Turning Age 62 After 2016

H.R. 711 amends the Social Security Act to replace the WEP and apply a new formula for individuals who:

- Become eligible for Social Security benefits after 2016 or would attain age 62 after 2016 and become eligible for benefits.
- Have earnings derived from non-covered service performed after 1977.

The bill establishes a new formula for the treatment of non-covered earnings in determining Social Security benefits. Under this bill, Social Security benefits would be calculated as if all the worker’s earnings were subject to Social Security taxes (using the standard benefit formula). This amount would then be multiplied by the percent of earnings covered by Social Security. This ensures Social Security benefits are based only on Social Security wages.

The table below is an example of the H.R. 711 and WEP calculations under different average monthly career earnings, but assuming that 25 percent of the average earnings during the total employment history of a member was covered by Social Security from other employment. Generally, the H.R. 711 benefit will be higher than the current WEP benefit. The offset under H.R. 711 becomes less favorable relative to the WEP for higher income individuals with shorter non-covered careers because the maximum offset under the WEP (\$413 in 2015) is static, without regard to income. The H.R. 711 offset reflects the progressive nature of the Social Security benefit formula, which grants a lower replacement ratio for higher monthly earnings.

**Comparison of H.R. 711 to WEP from Hypothetical Earnings and Coverage**

Average Career Monthly Earnings	\$5,000	\$5,500	\$6,000	\$6,500	\$7,000	\$7,500
Social Security-Covered Earnings as Percentage of Total Career Earnings	25%	25%	25%	25%	25%	25%
Social Security Benefit Under WEP	\$466	\$506	\$546	\$586	\$626	\$666
H.R. 711 Benefit	\$519	\$538	\$556	\$575	\$594	\$613
H.R. 711 Increase/(Decrease) Relative to WEP	\$53	\$32	\$10	(\$11)	(\$32)	(\$53)

The H.R. 711 offset formula applies more broadly than the WEP to individuals who have non-covered service. Members who do not vest in CalSTRS, but receive a Social Security benefit, would have their Social Security benefits reduced, which does not occur under the current WEP. As of June 30, 2014, there are 146,471 inactive nonvested members who could potentially be affected by this provision.

Impact on Members Who Turned Age 62 Prior to 2017

The current WEP formula would remain in place for the population already eligible to receive a Social Security benefit, with provisions added that mandate enforcement by Social Security and reduce the offset.

Social Security would be required to obtain, from all employers who paid non-covered wages after 1977 to a worker not currently subject to the WEP, certification that the person has not

received any periodic payments as a result of his or her employment. If certification is not provided to Social Security's satisfaction, that individual would be subject to the WEP. In theory, this enforcement should not affect CalSTRS retirees because nonvested members have not received any periodic payments, and members receiving an ongoing CalSTRS benefit are already subject to the WEP. However, CalSTRS would probably need to work with employers and the Social Security Administration to facilitate an administratively reasonable mechanism for reporting vesting status for those who performed service after 1977, and CalSTRS staff would monitor any future regulations that are passed in regards to this requirement.

H.R. 711 represents program savings for Social Security through its enforcement of existing WEP provisions and by expanding the population of those who are subject to offset under the new formula, offset to some extent by program costs associated with the new formula for those who turn age 62 after 2016. The bill attains a neutral projected cost through the provision of a rebate that would effectively reduce the current offset for individuals currently subject to the WEP. The rebate would be a percentage based on a calculation by the Chief Actuary of Social Security and was most recently estimated for a duplicate bill put forth in 2014 (H.R. 5697–Brady, R-TX) at a 32 percent reduction in the WEP offset for Social Security benefits beginning in January 2017.

**H.R. 973 (DAVIS, R-IL) – SOCIAL SECURITY FAIRNESS ACT OF 2015**

**EXECUTIVE SUMMARY**

<p><b>PROBLEM:</b> California educators, having earned pension benefits from non-Social Security-covered employment, are often subject to the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) of the Social Security Act. The WEP and GPO reduce or eliminate any Social Security benefits that California educators may have earned through other employment or are eligible for through their spouses. CalSTRS members represent the largest single group of state and local government employees in the country who do not participate in Social Security.</p>	
<p><b>PROPOSAL:</b> Repeals the WEP and GPO.</p>	
<p><b>STAFF RECOMMENDATION: Support.</b> Staff also recommend considering efforts to make appropriate adjustments to the WEP and/or GPO, as a potential alternative to complete repeal, which could be included in more comprehensive Social Security reform legislation.</p>	
<p><b>RELATED BOARD POLICIES:</b> The Teachers’ Retirement Board supports legislation that seeks to repeal Social Security benefit offsets as a means of addressing concerns about their impact on educators who begin their career at a later age. (Board Policy Manual Section 400, I, J)</p>	
<p><b>PROGRAM IMPACT:</b> None.</p>	<p><b>ADMINISTRATIVE IMPACT:</b> Repeal of the WEP and GPO may result in minor costs associated with updating member publications. Temporarily, staff may spend more time answering member questions related to repeal, but costs should decrease over time.</p>
<p><b>PROS:</b></p> <ul style="list-style-type: none"> <li>• CalSTRS members eligible for Social Security benefits would no longer have their Social Security benefits reduced or eliminated.</li> <li>• A teaching career would be more attractive to individuals considering a mid-career change because previously earned Social Security benefits would retain their full value.</li> </ul>	<p><b>CONS:</b></p> <ul style="list-style-type: none"> <li>• Future mandatory Social Security participation may be considered to offset WEP and GPO repeal costs or as an alternative to repealing the WEP and GPO.</li> </ul>

<b><u>H.R. 973 (Davis, R-IL)</u></b>	<b>Social Security Fairness Act of 2015</b>
<b><u>Position:</u></b>	<b>Support (Staff recommendation)</b>
<b><u>Proponents:</u></b>	<b>National Education Association, ACSA, CalRTA, FACCC, Social Security Fairness Committee</b>
<b><u>Opponents:</u></b>	<b>None known</b>

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## **EXECUTIVE SUMMARY**

This bill repeals the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) of the Social Security Act. These provisions reduce or eliminate any Social Security benefits that California educators may have earned through other employment or are eligible for through a spouse.

## **FISCAL IMPACT**

Program Cost – None.

Administrative Costs/Savings – The repeal of the WEP and GPO may result in minor costs associated with updating member publications. Temporarily, staff may spend more time answering member questions related to repeal, but costs should decrease over time.

## **RECOMMENDATION**

**Support.** Staff also recommend considering efforts to make appropriate adjustments to the WEP and/or GPO, as a potential alternative to complete repeal, which could be included in more comprehensive Social Security reform legislation.

## **BACKGROUND**

The WEP and the GPO attempt to address a perceived unfair advantage that occurs when Social Security benefits are calculated for individuals whose primary employment is covered by a pension plan that does not participate in Social Security.

The Social Security Act of 1935 excluded state and local government employees from coverage. In 1954, those employees were given the opportunity to elect to participate in Social Security. In 1955, CalSTRS members voted against participation by an almost four to one margin.

The GPO was introduced in the Social Security amendments of 1977. At the time, workers who received a government pension from a non-Social Security-covered position were able to bypass the “dual entitlement rule” because their non-covered government pension was not included in

the calculation of their spousal Social Security benefits. Under dual entitlement, a spouse effectively receives a Social Security benefit equal to the greater of the benefit from his or her own employment or that derived from his or her spouse's employment. The GPO seeks a similar result if the spouse has a pension from non-covered employment. The offset enacted in 1977 was 100 percent of the pension earned from non-covered employment.

In 1983, the GPO offset was reduced to two-thirds of the pension earned from non-covered employment. As of December 2013, about 615,000 Social Security beneficiaries in the United States had spousal or widow(er) benefits reduced by the GPO. This does not include those eligible for spousal or widow(er) benefits who did not claim them, expecting they would be eliminated by the GPO.

The WEP was introduced in the Social Security amendments of 1983. Prior to 1983, work performed in a non-Social Security-covered position was given a zero value when calculating Social Security benefits. By using a zero value for non-covered work, a worker's average lifetime earnings is artificially decreased. This proved problematic because workers with low average lifetime earnings in Social Security-covered employment receive a larger proportion of their earnings than workers with high average lifetime earnings.

This "windfall" was addressed by reducing the first tier percentage used to calculate the Social Security benefit from 90 percent to 40 percent. Specifically, the first tier benefit amount of Social Security is \$743 in 2015 (90 percent of the first \$826 of earnings), while the first tier benefit under WEP is \$330 (40 percent of \$826). This is a reduction of \$413, and it is the maximum reduction for a worker who retires in 2015 at age 62. The remaining two income tiers were not altered.

The reduction under the WEP may be no more than one-half of the non-covered pension to which the individual is entitled. This benefit reduction is less for individuals who have between 21 and 30 years of earnings under Social Security, and there is no offset if the individual has 30 or more years of Social Security-covered earnings. As of December 2011, about 1.4 million Social Security beneficiaries in the United States were affected by the WEP.

## **ANALYSIS**

Since 2001, a bill repealing or reforming the WEP and GPO has been introduced in every session of Congress. In the current session, this bill has 101 cosponsors, 31 of whom represent California. The bill generally receives widespread bipartisan support in states with public employees that do not participate in Social Security, but none of them have moved forward. They have been stymied by the direct cost of repeal—currently a projected \$80 billion—and by the uncertainty surrounding Social Security's overall financial future.

Full repeal of the WEP and GPO presents political and financial risks to schools and CalSTRS members. The offsets were established to address perceived inequities around Social Security benefits for covered employment versus non-covered employment. Full repeal could resurrect

these perceived inequities and, with them, the most obvious alternative to mandate Social Security participation for all government employees, including CalSTRS members.

The board has opposed mandatory Social Security participation for CalSTRS members, citing studies that show the move would increase costs or reduce total retirement benefits. Additionally, there are potential costs associated with the overlap of CalSTRS' disability and survivor benefits and comparable Social Security benefits.

Efforts to reform the WEP and GPO are distinct from repeal efforts, focusing on the inequitable application of the offsets rather than seeking outright repeal. In addition, reform efforts have treated the WEP as a separate issue from the GPO. Individually, building consensus around the WEP has been easier because it is specific to what a retiree has earned from employment under Social Security. A focus on eliminating the inequities of the offsets, rather than full repeal, may result in a successful outcome and lower the likelihood that policymakers pursue mandatory Social Security coverage for all government employees.

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**  
**LEGISLATIVE SUMMARY**  
**2015-16 Legislative Session—June 2015**

**BILL NO. INFORMATION**

**AB 736**    **AUTHOR:**                    **Cooley (D - Rancho Cordova)**  
**TITLE:**                                **Expand Board's Authority over COO and CFO**  
**INTRODUCED:**                    **2/25/15**  
**LOCATION:**                         **Assembly Appropriations Committee (Suspense File)**  
**BOARD POSITION:**               **Sponsor**

**SUMMARY:** Adds Chief Operating Officer and Chief Financial Officer to those positions for which the Teachers' Retirement Board has the authority to establish desired competencies, set terms and conditions of employment and fix the compensation levels.

**COST:**    Program – None.

Administrative – The exact cost will be dependent on the compensation package developed. Any anticipated increased compensation costs would be offset by savings based on future financial and operational risk avoidance and increased organizational efficiencies.

P – CalSTRS (Sponsor)

O – None known.

**AB 963**    **AUTHOR:**                    **Bonilla (D - Concord)**  
**TITLE:**                                **Membership Issues Clean Up**  
**AMENDED:**                        **3/24/15**  
**LOCATION:**                         **Pending Referral to Senate Policy Committee**  
**BOARD POSITION:**               **Sponsor**

**SUMMARY:** Clarifies the definition of service that can be reported to CalSTRS and includes CalSTRS membership for those in partial certificated positions. Remedies membership issues for individuals in classified positions who were erroneously reported to CalSTRS.

**COST:**    Program – There would likely be a de minimis impact to the fund because the full contributions for the service were paid even though the service was not creditable under current law.

Administrative – Technology costs are estimated at below \$100,000 with an effort that may take up to six months related to returning any contributions to the employer and assuming standard processes for reversing contribution lines. Allowing individuals erroneously reported to CalSTRS the option to stay in the system avoids the need to process re-reporting of service that was not creditable. Other administrative costs and anticipated increase in workload are absorbable.

P – CalSTRS (Sponsor)

O – None known.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
LEGISLATIVE SUMMARY  
2015-16 Legislative Session—June 2015

**BILL NO. INFORMATION**

**AB 991**    **AUTHOR:**                    **PER&SS**  
**TITLE:**                                **CalSTRS Technical Housekeeping Bill of 2015**  
**INTRODUCED:**                    **2/26/15**  
**LOCATION:**                         **Senate PE&R Committee**  
**BOARD POSITION:**                **Sponsor**

**SUMMARY:** Makes various technical, conforming or minor changes to the Teachers' Retirement Law to facilitate efficient administration of the State Teachers' Retirement Plan.

**COST:**    Program – None.

Administrative – Costs for one-time changes to the CalSTRS member database system are estimated to range from \$90,000 to \$100,000 to broaden the types of payments and collection of overpayments eligible for dispensation. However, there would be ongoing savings related to eliminating payments or collection efforts for amounts subject to dispensation.

P – CalSTRS (Sponsor)

O – None known.

**AB 996**    **AUTHOR:**                    Medina (D - Riverside)  
**TITLE:**                                403(b) Vendors  
**INTRODUCED:**                    2/26/15  
**LOCATION:**                         Assembly Appropriations Committee (Suspense File)  
**BOARD POSITION:** To be presented to the board in June

**SUMMARY:** Requires [403bCompare.com](http://403bCompare.com) to include a side-by-side comparison of each registered 403(b) product vendor and requires all local school districts, community college districts and county offices of education to adopt a policy addressing the solicitation of 403(b) products by vendors on school campuses.

**COST:**    Program – None.

Administrative – System changes to include a side-by-side comparison of each registered vendor on the 403bCompare website that meet the intent of AB 996 are part of the scope of an existing project to update the website. Therefore, the costs associated with this bill are absorbable.

P – CTA (Sponsor), ACSA, CFT, CalRTA, FACCC

O – American Fidelity Assurance Company (Oppose unless Amended), AXA Equitable Life Insurance Company (Oppose unless Amended), Variable Annuity Life Insurance Company (Oppose unless Amended)

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**  
**LEGISLATIVE SUMMARY**  
2015-16 Legislative Session—June 2015

**BILL NO. INFORMATION**

**[AB 1052](#)**    **AUTHOR:**                    **Cooley (D - Rancho Cordova)**  
**TITLE:**                                **Investment Procurement Process**  
**INTRODUCED:**                    **2/26/15**  
**LOCATION:**                         **Pending Referral to Senate Policy Committee**  
**BOARD POSITION:**               **Sponsor**

**SUMMARY:** Consistent with existing constitutional authority, authorizes the boards of CalSTRS and CalPERS to enter into agreements, contracts or other arrangements for investment-related services under the boards' terms and conditions in lieu of state contracting requirements.

**COST:**    Program – Potential unknown savings. To the extent that CalSTRS' allocation strategy meets performance objectives, opportunity costs associated with the current process would be reduced, thus allowing CalSTRS to take advantage of favorable market dynamics and to maximize gains while minimizing losses.

Administrative – Unknown savings from reduced staff work required for a faster and more efficient procurement process.

P – CalSTRS (Co-Sponsor), CalPERS (Co-Sponsor)

O – None known.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
LEGISLATIVE SUMMARY  
2015-16 Legislative Session—June 2015

**BILL NO. INFORMATION**

[AB 1410](#) AUTHOR: Nazarian (D - Sherman Oaks)  
TITLE: Public Divestiture of Turkish Investment Vehicles  
INTRODUCED: 2/27/15  
LOCATION: Assembly Appropriations Committee (Suspense File)  
BOARD POSITION: Oppose

**SUMMARY:** Requires the CalSTRS and CalPERS boards to divest of any investment vehicle issued by, owned, controlled or managed by the government of Turkey. Also requires these boards, on or before January 1, 2017, and annually thereafter, to report to the Legislature any investments in a Turkish investment vehicle and the sale or transfer of those investments, subject to the fiduciary duty of these boards.

**COST:** Program – CalSTRS exposure to debt securities issued by the government of Turkey is approximately \$21 million. Global equities and innovation and risk investments subject to divestment have a potential combined market value of up to \$210 million. CalSTRS may incur opportunity costs if suitable alternative investments are unavailable or if such alternative investments do not provide an investment return that meets or exceeds those of the divested securities. Any resulting costs would increase the unfunded liability and also may result in an increase in the state's contribution to the Defined Benefit Program.

Administrative – Approximately \$405,100 initial costs and \$43,200 annual ongoing costs resulting from transaction costs for liquidating securities and additional costs related to external research services. Implementation and ongoing compliance will also require reallocation of staff resources.

P – None known.

O – None known.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
LEGISLATIVE SUMMARY  
2015-16 Legislative Session—June 2015

**BILL NO. INFORMATION**

[SB 185](#) AUTHOR: De León (D - Los Angeles)  
TITLE: Public Divestiture of Thermal Coal Companies Act  
AMENDED: 4/8/15  
LOCATION: Senate Appropriations Committee (Suspense File)  
BOARD POSITION: No Position, but recommend amendments

SUMMARY: Requires the CalSTRS and CalPERS boards to engage with thermal coal companies, as defined, and to divest the public employee retirement funds of any investments in thermal coal companies. Prohibits additional or new investments or the renewal of existing investments in thermal coal companies. Requires an assessment of the feasibility of divesting from additional fossil fuel investments, such as natural gas and petroleum.

COST: Program – CalSTRS invests in 12 companies with a combined market value of approximately \$40 million that meet the definition of “thermal coal company” set forth in the bill. CalSTRS may incur opportunity costs if suitable alternative investments are unavailable or if such alternative investments do not provide an investment return that meets or exceeds those of the divested securities.

Administrative – Approximately \$683,500 initial costs and \$129,100 annual ongoing costs resulting from transaction costs for liquidating securities, benchmark modification costs and additional costs related to external research services. Implementation and ongoing compliance will also require reallocation of staff resources. Additional unknown costs will be required to assess the feasibility of divesting from additional fossil fuel investments, as required by the bill.

P – Friends Committee on Legislation of California

O – None known.

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**  
**LEGISLATIVE SUMMARY**  
2015-16 Legislative Session—June 2015

**BILL NO. INFORMATION**

[SJR 1](#)    AUTHOR:            Beall (D - San Jose)  
          TITLE:            WEP/GPO Repeal  
          AMENDED:        1/12/15  
          LOCATION:         Pending Referral to Assembly Policy Committee  
          BOARD POSITION: Support

SUMMARY: Requests the President and the Congress of the United States to pass legislation repealing the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) from the Social Security Act.

COST:     Program – None.

Administrative – The repeal of the WEP and GPO may incur minor costs associated with updating member publications. Temporarily, staff may spend more time answering member questions related to repeal, but costs should decrease over time.

P – CalRTA (Co-Sponsor), CTA (Co-Sponsor), ACSA (Co-Sponsor), FACCC (Co-Sponsor), AFSCME Local 685, ACCCA, Association for Los Angeles Deputy Sheriffs, California State Lodge, Fraternal Order of Police, Glendale City Employees Association , Long Beach Police Officers Association, Los Angeles County Professional Peace Officers Association, Los Angeles Police Protective League, Los Angeles Probation Officers Union, Riverside Sheriffs' Association, Sacramento County Deputy Sheriffs' Association, Sacramento Municipal Utility District, San Bernardino Public Employees Association, San Diego County Employees Association, San Luis Obispo County Employees' Association, Santa Ana Police Officers Association

O – None known.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
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**BILL NO. INFORMATION**

**FEDERAL LEGISLATION**

[H.R. 711](#) AUTHOR: Brady (R - TX)  
TITLE: Equal Treatment of Public Servants Act of 2015  
INTRODUCED: 2/4/15  
LOCATION: House Committee on Ways & Means  
BOARD POSITION: To be presented to the board in June

SUMMARY: Establishes a new formula for the treatment of non-covered earnings in determining Social Security benefits to replace the WEP for individuals who turn age 62 after 2016 and prescribes a second formula to lessen the effects of the WEP for current beneficiaries. Also directs the Commissioner of Social Security to recover overpayments from certain individuals.

COST: Program – None.

Administrative – Modest cost associated with the revision of member publications and educational materials, internal training materials and system-generated and manual award letters that reference the WEP. Potential costs associated with coordinating with Social Security or employers to provide information regarding the vesting status of individuals with service reported after 1977.

P – ACSA, CalRTA, National Association of Police Organizations

O – None known.

[H.R. 973](#) AUTHOR: Davis (R - IL)  
TITLE: Social Security Fairness Act of 2015  
INTRODUCED: 2/13/15  
LOCATION: House Committee on Ways & Means  
BOARD POSITION: To be presented to the board in June

SUMMARY: Repeals the WEP and the GPO.

COST: Program – None.

Administrative – The repeal of the WEP and GPO may result in minor costs associated with updating member publications. Temporarily, staff may spend more time answering member questions related to repeal, but costs should decrease over time.

P – National Education Association, ACSA, CalRTA, FACCC, Social Security Fairness Committee

O – None known.

## **LEGEND OF ABBREVIATIONS**

### **P = PROPONENTS    O = OPPONENTS**

<b><u>ABBREVIATION</u></b>	<b><u>ORGANIZATION</u></b>
AARP	American Association of Retired Persons, State Legislative Committee
ACCCA	Association of California Community College Administrators
ACSA	Association of California School Administrators
AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
AFSCME	American Federation of State, County and Municipal Employees
AFT	American Federation of Teachers
ARE	Association of Retirees for Equity
ART	Association of Retired Teachers
CalPERS	California Public Employees' Retirement System
CalRTA	California Retired Teachers Association
CASBO	California Association of School Business Officials
CCA	Community College Association
CCAE	California Council for Adult Education
CCC	California Community Colleges
CCLC	Community College League of California
CFA	California Faculty Association
CFT	California Federation of Teachers
CLTA	California Language Teachers Association
CNEC	California Network of Educational Charters
COE	County Office of Education
CPFA	California Part-time Faculty Association
CSBA	California School Boards Association
CSEA	California School Employees Association
CTA	California Teachers Association
CTA/NEA – Retired	California Teachers Association/National Education Association – Retired
DOE	Department of Education
DPA	Department of Personnel Administration
FACCC	Faculty Association of California Community Colleges
LACFG	Los Angeles College Faculty Guild, Local 1521
LAUSD	Los Angeles Unified School District
NAACP	National Association for the Advancement of Colored People
RPEA	Retired Public Employees Association
SACRS	State Association of County Retirement Systems
SEIU	Service Employees International Union
SSC	School Services of California
SSDA	Small School Districts' Association
TRL	Teachers' Retirement Law
UTLA	United Teachers Los Angeles

### **STANDING COMMITTEES OF THE ASSEMBLY/SENATE**

Assembly PER&SS	Assembly Public Employees, Retirement and Social Security Committee
Senate PE&R	Senate Public Employment and Retirement Committee