BILL NUMBER: AB 2219 (O'Donnell) as introduced February 12, 2020

SUMMARY

AB 2219 authorizes CalSTRS to offer a traditional (tax-deferred) Individual Retirement Account (IRA) in addition to a Roth IRA and accept rollovers from any eligible retirement plan to those IRAs. It also enables CalSTRS to receive contributions from IRA participants and allows spouses of those participants to contribute to a CalSTRS IRA plan.

BOARD POSITION

Sponsor. The board's policy is to support or sponsor legislation that is consistent with the objectives of providing financially sound primary and supplemental retirement plans for California's educators.

REASON FOR THE BILL

This bill provides additional opportunities for CalSTRS members and deferred compensation plan participants to supplement their retirement savings and to take advantage of lower-cost, higher-performing options.

ANALYSIS

Existing Law:

Existing statute allows CalSTRS to offer:

- 403(b), 457(b), Roth 403(b) and Roth 457(b) plans.
- A Roth IRA for the purposes of accepting a rollover from a CalSTRS 403(b) plan.

This Bill:

Specifically, this bill authorizes CalSTRS to:

- Offer a traditional (tax-deferred) IRA in addition to a Roth IRA.
- Allow rollovers to a CalSTRS IRA from any eligible retirement plan as stated in Sections 408 and 408A of Title 26 of the U.S. Code.
- Receive contributions from IRA participants.
- Allow spouses of participants to also contribute to a CalSTRS IRA.
- Make other conforming changes to the Teachers' Retirement Law.

LEGISLATIVE HISTORY

AB 1480 (Mendoza, Chapter 432, Statutes of 2008) authorized CalSTRS to offer a Roth IRA for the purpose of receiving assets converted from a CalSTRS 403(b) account.

AB 2462 (Mullin, Chapter 780, Statutes of 2006) authorized the board to supply, or contract to supply, fiduciary, record keeping and administrative services for employer-sponsored deferred compensation plans to school districts, community college districts and county offices of education that elect to contract with CalSTRS to provide those services.

Public Law 107-16, 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001, enacted several changes to federal law to enhance the portability of funds among different types of retirement plans, including 401(k), 403(b), and 457 plans, IRAs and 401(a) retirement plans.

Introduced Roth 401(k) and Roth 403(b) options effective January 2006, increased the contribution limits to 403(b), 457 and 401(a) plans and increased the annual allowance limit for defined benefit plans.

Public Law 105-304, 1997, the Taxpayer Relief Act of 1997, among other changes to federal tax law affecting individuals and businesses, established the Roth IRA as a new type of individual retirement plan.

AB 3064 (Morrow, Chapter 291, Statutes of 1994) required CalSTRS to offer employees of school districts, community college districts and county offices of education a 403(b) tax-deferred retirement plan.

AB 3705 (PER&SS, Chapter 489, Statutes of 1994) authorized CalSTRS to develop deferred compensation plans under Internal Revenue Code Section 457 that school employers could offer their CalSTRS members and provided the board with exclusive investment and administrative authority over the plan on behalf of the employer. Established the Teachers' Deferred Compensation Fund to serve as a repository of funds for these deferred compensation plans.

PROGRAM BACKGROUND

The CalSTRS Defined Benefit Program provides approximately 50% of a member's preretirement salary. In addition, California public school educators do not pay into Social Security, so they do not receive Social Security benefits for their CalSTRS-covered employment. To provide a low-cost means for CalSTRS members and other school employees to supplement their retirement benefits, CalSTRS offers voluntary tax-deferred savings, including a 403(b) plan, a 457(b) plan, a Roth 403(b) plan and a Roth 457(b) plan. Beginning January 1, 2009, CalSTRS was granted authority to offer Roth IRAs for the purpose of receiving rollovers from a CalSTRS 403(b) account.

While these supplemental retirement savings options are helping school employees prepare financially for retirement, there is a need to expand what CalSTRS offers. Currently, none of the deferred compensation plans offered by CalSTRS allow for participants to make end of year contributions for tax purposes. Additionally, only current school employees have access to CalSTRS deferred compensation plans. Retired school employees without a 403(b) or 457(b) account at their former school district and spouses of current participants are not able to access CalSTRS deferred compensation products or services.

Assets in a participant's 403(b) and 457(b) account must be accessed through a school district's compliance administrator, which can lead to increased wait times for withdrawals and other transactions. Additionally, 403(b) and 457(b) contributions can only be made via an employer's payroll or from a qualified rollover. Currently, participants wishing to make end-of-the-year contributions for tax purposes or wishing to avoid dealing with third-party administrators must seek an IRA vendor outside of their employer to make such contributions or rollovers. As evidence of this trend, CalSTRS is noting an increase in participants requesting rollovers of CalSTRS deferred compensation plans into outside IRAs.

FISCAL IMPACT

Program Cost – None. Any additional costs would be offset by plan fees in the future.

Administrative Costs/Savings – Increased assets under management help the plan gain leverage in reducing overall administrative costs for participants. They also help decrease the expense ratios charged by the individual underlying investment options.

SUPPORT

CalSTRS (Sponsor)

OPPOSITION

None known.

ARGUMENTS

Pro: Provides additional opportunities for CalSTRS members and other school employees to take advantage of CalSTRS deferred compensation plans over other higher-cost, lower-performing options.

Allows plan participants to have more control over their supplemental retirement savings.

Assists CalSTRS in meeting the evolving needs of its deferred compensation participants.

Provides avenues for CalSTRS to reduce rollovers to outside IRA vendors.

Provides potentially lower program costs and expense ratios by retaining assets and increasing the number of those participating in CalSTRS deferred compensation plans.

Con: Uncertainty about the overall utilization of a CalSTRS IRA plan.

LEGISLATIVE STAFF CONTACT

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