ATTACHMENT 2

PRELIMINARY SUMMARY OF REFORM PROVISIONS INCLUDING STAFF RECOMMENDATIONS

These preliminary comments of CalPERS staff are based on its current understanding of AB 340/SB 827 as set forth in Conference Report. These comments are not intended to address all issues that could arise if the bill becomes law.

Brief Summary	Pertinent Legislative Policy Standard(s)	Staff Recommendation
Changes in Retirement Benefits		
Reduced Benefit Formulas & Increased Retirement Ages: New Employees Would create a new defined benefit formula of 2% at age 62 for all new non-safety employees with an early retirement age of 52 and a maximum benefit factor of 2.5% at age 67, and three new defined benefit formulas for safety public employees with a normal retirement age at 50 and a maximum retirement age at 57 as follows: Normal Ret Age / Maximum Ret Age Basic Formula: 1.426% at Age 50 / 2% at Age 57 Option Plan 1: 2% at Age 50 / 2.5% at Age 57 Option Plan 2: 2% at Age 50 / 2.7% at Age 57	**Neutral** – Proposals to change retirement benefits which are appropriately subject to collective bargaining and are consistent with other Board Policies.	**Neutral** – Setting benefits is a matter for the Legislature to decide, consistent with the rules of collective bargaining where applicable.
Cap Compensation that Counts Toward Pension Benefits: New Employees Would cap the annual salary that counts towards final compensation for all new employees, excluding judges, at $110,100 (2012 Social Security Contribution and Benefit Base) for employees that participate in social security or $132,120 (120% of the Contribution and Benefit Base) for those employees that do not participate in Social Security. This compensation cap would adjust annually based on the CPI for all Urban Consumers.		
Eliminate Replacement Benefit Plan: New Employees Would prohibit a retirement board from administering, and a public employer from offering, a benefit replacement plan for any new member of the public retirement system who is subject to the IRC Section 415(b) benefit limit.		

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Federal Compensation Limit for Determining Retirement Benefits: New Employees (1) Would require all public retirement systems in California to adhere to the federal compensation limit when calculating retirement benefits for new members; and (2) would prohibit a public employer from making contributions to any qualified public retirement plan based on any portion of compensation that exceeds the limit. (Note: CalPERS already adheres to the federal compensation limit) **Actuarially Reduced IDR Benefits for Public Safety** Would provide a safety member, who qualifies for an IDR, an actuarially reduced retirement formula, as determined by the actuary, for each quarter year of service age less than age 50 if that amount would be higher than 50 percent of salary.	**Neutral** – Proposals to change retirement benefits which are appropriately subject to collective bargaining and are consistent with other Board Policies.	**Neutral** – Setting benefits is a matter for the Legislature to decide, consistent with the rules of collective bargaining where applicable.
Equal Sharing of Normal Cost For new employees, it would generally require the employees and the employer to each contribute 50% of the total annual normal cost of pension benefits. For current employees of contracting agencies and schools, the employer and employee organization could mutually agree to any cost sharing agreement for pension benefits between January 1, 2013 and December 31, 2017. Beginning on January 1, 2018 the employer could unilaterally require employees to pay 50% of the total annual normal cost up to an 8% contribution rate for miscellaneous employees and an 11 or 12 percent contribution rate for safety employees. For state employees, contribution rates increase by a fixed percentage at specific dates beginning July 1, 2013. Rates increase and vary by bargaining unit and classification. Employers may not pay any of the required employee contribution.	The Board's legislative policy standards do not address this proposal.	**Neutral** – The closest legislative policy standard (relating to benefit changes as opposed to member contribution rate changes) suggests that setting the employee contribution amount should be a matter for the Legislature to decide, consistent with the rules of collective bargaining where applicable.

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Close LRS: New Employees Would prohibit new members from participating in the LRS. However, new statewide constitutional and legislative statutory officers would still be eligible for optional membership in CalPERS.	The Board's legislative policy standards do not address this proposal.	**Neutral** – Setting benefits is a matter for the Legislature to decide.
Equal Health Benefits or Health Benefit Vesting for Non-Represented and Represented Employees Would eliminate the ability of an employer to provide better health benefits or health benefit vesting to non-represented employees than it does for represented employees.	**Neutral** – Proposals that do not significantly impact CalPERS benefits or the administration of the System.	**Neutral** – Does not impact the administration of the CalPERS health program.
Prohibit Purchases of Airtime: All Employees Would eliminate the ability of any public employee to purchase nonqualified service or "airtime," unless an official application was received by the system prior to January 1, 2013.	**Oppose** – Proposals that deprive members of vested benefits and do not provide an equivalent, compensating benefit.	**Neutral** – To the extent that the proposal does not impair vested rights of existing members without providing an equivalent, compensating benefit
Additional Protection for the Trust		
Prohibit Retroactive Pension Increases: All Employees Would prohibit public employers from granting to both current and future employees retroactive pension benefit enhancements that apply to service performed prior to the enhancement.	**Support** – Proposals to add protection to the trust.	**Support** – Adds protection to the trust because it would reduce employer rate volatility that could be triggered by retroactive increases

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Prohibit Pension Holiday: All Employees and Employers Would require the combined employer and employee contributions, in any fiscal year, to cover that year's normal cost.	**Support** – Proposals to add protection to the trust. **Oppose** – Proposals that reduce or limit the Board's administrative authority.	**Support** to the extent that it does not interfere with the actuarial authority of public pension plans under CA Constitution article XVI, section 17. Note, this proposal is consistent with existing CalPERS actuarial policy.
Calculate Benefits Based on Regular, Recurring Pay to Stop Spiking: New Employees Would require that compensation for all new employees be defined as the normal rate of regular, recurring pay, excluding special bonuses, unplanned overtime, payouts for unused vacation or sick leave, and other special pay, provided that these requirements do not apply to the extent a system has adopted a more restrictive definition of compensation earnable.	**Support** – Proposals to add protection to the trust.	**Support** – Using regular rates of pay to calculate the final compensation for new employees will protect the pension trust by reducing compensation volatility.
Require Three-Year Final Compensation: New Employees Would require that final compensation for new employees of all California public agencies be defined as the highest average annual final compensation during a consecutive 36 month period, subject to the cap.	**Support** – Proposals to add protection to the trust.	**Support** – A three-year final compensation period for new employees will protect the pension trust by spreading compensation changes over a longer period of time, thus reducing volatility in the employer contribution rates.

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Brief Summary	Pertinent Legislative Policy Standard(s)	Staff Recommendation
Broader Employment Issues		
Felons Forfeit Pension Benefits: All Employees Would require both current and future public officials and employees to forfeit pension and related benefits if they are convicted of a felony in carrying out official duties, in seeking an elected office or appointment, or in connection with obtaining salary or pension benefits, subject to certain requirement.	**Oppose** – Proposals that deprive members of vested benefits and do not provide an equivalent, compensating benefit.	**Neutral** – To the extent that the proposal does not impair vested rights of existing members without providing an equivalent, compensating benefit.
Limit Post-Retirement Public Employment: All Employees • Would limit all employees who retire from public service from working more than 960 hours or 120 days per year for any public employer. • Would require a 180-day "sit-out" period before a retiree could return to work except under certain circumstances. • Would require a one-year "sit-out" period for retirees who received either a golden handshake or some other employer incentive to retire. • Would prohibit an individual receiving an industrial disability retirement from working for another public employer doing the same or substantially similar job. • Would require a public retiree appointed to a full time state board or commission to suspend his or her retirement allowance and become a member of CalPERS.	**Neutral** – Proposals that do not significantly impact CalPERS benefits or the administration of the System.	**Neutral** – Does not significantly affect the benefits of our members or the administration of our System.
Contracting Agency Liability for Excessive Compensation Would require CalPERS (for plans it administers) to develop requirements for defining a significant increase in actuarial liability for a former employer due to excessive compensation paid by a subsequent public employer, and to develop a plan to assess the cost of that excess liability to the employer who paid the excessive compensation.	**Neutral** – Proposals that do not significantly impact CalPERS benefits or the administration of the System.	**Neutral** – Does not significantly affect the benefit interest of our members.