

Summary of Pension Reform Provisions

This Summary is based on the provisions of the Public Employees' Pension Reform Act of 2013 (PEPRA) and amendments to the County Employees' Retirement Law of 1937 (CERL) enacted during the 2012 Legislative Session and effective January 1, 2013. This Summary is not intended to address all issues that could arise under the recent enactments.

| Brief Summary | GOVT. CODE PROVISION | IMPACTS CURRENT MEMBERS | IMPACTS FUTURE MEMBERS | | | | | | | | | | | | |
|--|-----------------------|--------------------------|------------------------|---------------|------------------|------------------------|-------------|----------------|--------------------------|-------------|----------------|--------------------------|---|--|-----------------|
| <p>Reduced Benefit Formulas & Increased Retirement Ages</p> <p>Creates 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:</p> <table border="0" data-bbox="344 695 1150 818"> <thead> <tr> <th></th> <th>Normal Ret Age</th> <th>Maximum Benefit Factor</th> </tr> </thead> <tbody> <tr> <td>Basic Formula</td> <td>1.426% at Age 50</td> <td>2% at Age 57 and older</td> </tr> <tr> <td>Option Plan</td> <td>1 2% at Age 50</td> <td>2.5% at Age 57 and older</td> </tr> <tr> <td>Option Plan</td> <td>2 2% at Age 50</td> <td>2.7% at Age 57 and older</td> </tr> </tbody> </table> <p>Also requires the formula offered be the closest to the formula presently offered to the same classification and that provides a lower benefit at 55 years of age.</p> <p>Provides for retirement after 5 years of service (change from 10 years currently)</p> <p>Employers may offer one or more of the safety formulas to their safety employees. Future changes to lower benefit safety options that may be offered must be bargained for and may not be imposed on impasse.</p> | | Normal Ret Age | Maximum Benefit Factor | Basic Formula | 1.426% at Age 50 | 2% at Age 57 and older | Option Plan | 1 2% at Age 50 | 2.5% at Age 57 and older | Option Plan | 2 2% at Age 50 | 2.7% at Age 57 and older | <p>7522.10 7522.15 7522.20 7522.25</p> | | <p>X</p> |
| | Normal Ret Age | Maximum Benefit Factor | | | | | | | | | | | | | |
| Basic Formula | 1.426% at Age 50 | 2% at Age 57 and older | | | | | | | | | | | | | |
| Option Plan | 1 2% at Age 50 | 2.5% at Age 57 and older | | | | | | | | | | | | | |
| Option Plan | 2 2% at Age 50 | 2.7% at Age 57 and older | | | | | | | | | | | | | |
| <p>Cap Compensation that Counts Toward Pension Benefits</p> <p>Caps 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 adjusts annually based on the CPI for All Urban Consumers.</p> | <p>7522.10</p> | | <p>X</p> | | | | | | | | | | | | |

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| <p>Eliminate Replacement Benefit Plans</p> <p>Prohibits an employer from offering a plan of replacement benefits for new members whose retirement benefits are limited by IRC Section 415. Also prohibits an employer from offering a replacement benefit plan for any employee if the employer does not offer a plan of replacement benefits prior to January 1, 2013.</p> | 7522.43 | 1 | X |
| <p>Federal Compensation Limit for Determining Retirement Benefits</p> <p>(1) Requires all public retirement systems in California to adhere to the federal compensation limit when calculating retirement benefits for new members; and (2) prohibits a public employer from making contributions to any qualified public retirement plan based on any portion of compensation that exceeds this limit.</p> | 7522.42 | | X |
| <p>Enhanced Disability Benefits for Public Safety</p> <p>Allows a safety member, who qualifies for a disability retirement, to receive the greater of: 1) 50% of the member's final compensation <u>plus an annuity purchased with his/her accumulated contributions</u>, if any; 2) a service retirement, if the member qualifies for service retirement; or 3) 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% of salary.</p> <p>Provision is in effect only until January 1, 2018, unless later amended.</p> | 7522.66 | X | X |

¹ Although this provision does not impact current members directly, it would prohibit public employers from first offering such a benefit or option to today's current members in the future.

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| <p>Equal Sharing of Normal Cost²</p> <ul style="list-style-type: none"> For new and current employees, "the standard shall be that employees pay at least 50% of the normal costs and that that employers not pay any of the required employee contribution." This general statement of intent is subject to specific provisions that follow. For new employees not entering into an existing MOU, the initial employee contribution rate may not be less than 50% of the total annual normal cost of pension benefits. Current MOUs providing for different cost sharing remain in place until expiration or amendment. Unrepresented employees shall contribute at the same rate as represented employees. Future increases in employee rates must be collectively bargained. | 7522.30 | X | X |
| <p>Limitation on Employee Normal Cost Contribution Rates</p> <p>The 50% of normal cost contributions employers require of employees may not be greater than 14% over what general employees, and 33% over what safety employees, are currently paying under CERL.</p> | 31631 | X | X |

² Most, but not all, CERL systems use "entry age normal" method for calculating "normal cost." New GASB regulations are likely to make this universal.

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| <p>Employers May Bargain for Additional Contributions with Employees</p> <p>After January 1, 2018, Employers may negotiate with represented employees to increase employee contributions, which shall be uniform within bargaining units or classifications (e.g., general or safety.)</p> | 31631.5 | X | X |
| <p>Equal Health Benefits and Health Benefit Vesting Schedule for Non-Represented and Represented Employees</p> <p>Eliminates the ability of an employer to provide better health benefits or a better health benefit vesting schedule to non-represented employees than it does for represented employees.</p> | 7522.40 | X | X |
| <p>Prohibit Replacement Benefit Plans</p> <p>Prohibits employers from offering replacement benefit plans providing benefits in excess of IRC 415 limits.</p> | 7522.43 | | X |
| <p>Require Three-Year Final Compensation</p> <p>Requires that final compensation for <i>new</i> 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. Also would prohibit a public employer in the future from modifying a benefit plan to provide a final compensation period of less than a three year period for <i>current</i> employees.</p> | 7522.32 | 3 | X |

³ Although this provision does not impact current members directly, it would prohibit public employers from offering a more advantageous final average compensation period to today's current members in the future.

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| <p>Calculate Benefits Based on Regular or Base Pay: New Employees</p> <p>Requires that pensionable compensation for all new employees be defined as the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group for services rendered on a full-time basis during normal working hours, pursuant to a publicly available pay schedule. Would also exclude all bonuses, overtime, pay for additional services outside normal working hours, cash payouts for unused leave (vacation, annual, sick leave, CTO, etc.), severance pay and various other types of pay as specified (including cash payments for benefits previously provided in-kind, one-time or ad hoc payments.)</p> <p>Also excludes any compensation determined by the retirement board to have been paid to increase a member's retirement benefit and any other form of compensation determined to be inconsistent with the statutory definition.</p> <p>Unrepresented employees treated the same as represented employees.</p> | 7522.34 | | X |
| <p>Calculate Benefits Based on Regular or Base Pay: Current Members</p> <p>Pensionable compensation shall not include any compensation determined by the retirement board to have been paid to enhance a member's retirement benefit, including any in-kind benefits converted to cash in the final average salary period, any one-time or ad hoc payments, payments made solely due to termination of employment (except to extent earned and payable in each twelve month period in the final average salary period), unused leave time (except to extent earned and payable in each twelve month period in the final average salary period), overtime, or termination pay (except to extent earned and payable in each twelve month period in the final average salary period.)</p> | 31461 | X | X |

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| <p>Prohibit Purchases of Airtime</p> <p>Eliminates 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.</p> | 7522.46 | X | X |
| <p>Prohibit Retroactive Pension Increases</p> <p>Prohibits public employers from granting retroactive pension benefit enhancements that would apply to service performed prior to the date of the enhancement.</p> | 7522.44 | X | X |
| <p>Prohibit Pension Holiday</p> <p>Requires the combined employer and employee contributions, in any fiscal year, to cover that year's normal cost (with limited future exceptions.)</p> | 7522.52 | X | X |
| <p>Felons Forfeit Pension Benefits</p> <p>Requires both current and future public officials and employees to forfeit certain specified pension and related benefits if they are convicted of a felony in carrying out their official duties, in seeking an elected office or appointment, or in connection with obtaining salary or pension benefits, subject to certain requirements.</p> | 7522.70 7522.72 7522.74 | X | X |

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| <p>Retirement Board to Establish Procedures to Make Pay Determinations</p> <p>Retirement board shall establish procedures for assessing whether elements of compensation were paid to enhance a member's retirement benefit. If determine element was paid for that purpose, member may contest; board has final authority to decide, subject to judicial review initiated by either member or employer.</p> | 31542 | X | X |
| <p>Retirement Board to Audit Employer Pay Practices; Right to Assess Fee</p> <p>Retirement board may audit employers to determine correctness of benefits, reported compensation, enrollment and reinstatement of employees in the system.</p> <p>Employers must identify pay period for each employee in which elements of compensation are earned, regardless of when paid. Board may assess employers costs of audit and adjustments if inadequate employer reporting.</p> | 31543 31542.5 | X | X |
| <p>Limits Post-Retirement Public Employment – Non-Safety Employees Only</p> <ul style="list-style-type: none"> • Limits general employees who retire from public service from working more than 960 hours or 120 days per year for any public employer in the same public retirement system without reinstating from retirement. • Requires a 180-day "sit-out" period before a retiree could return to work without reinstating from retirement except under certain circumstances. • Requires a 180-day "sit-out" period for retirees who received either a golden handshake or some other employer incentive to retire. | 7522.56 | X | X |