Agenda Item No. 11

File Code No. 430.08

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: October 16, 2012

TO: Mayor and Councilmembers

FROM: City Administrator's Office

SUBJECT: Pension Reform Update

RECOMMENDATION:

That Council receive an update on the California Public Employees' Pension Reform Act of 2013 and its expected effects on the City's CalPERS administered pension plans.

DISCUSSION:

On March 7, 2012, Council held a special work session on pensions during which staff provided a comprehensive overview of the CalPERS pension program, reform options being considered by various municipalities, and potential state legislation to address pension reform. On September 12, 2012, the Governor signed AB 340, which included the California Public Employees' Pension Reform Act of 2013 (the Act). The Act affects most public retirement systems in California, including CalPERS and the City's CalPERS-administered plans.

The Act will significantly change the pension plans that public employers may offer to employees who are new to public employment, or who reenter public employment after a break of more than six months. The Act has only limited application to benefits for existing employees, but includes some structural changes that will limit pension enhancements and prevent pension abuses. A "Preliminary Summary of Pension Reform Provisions", prepared by CalPERS, is attached.

In follow up to the March 2012 work session, staff plans to present an abbreviated review of the City's pension plan benefits and funding, and to focus on the expected effects of the Act on the benefits payable to the City's existing and future employees, and on the potential financial impacts to the City of such changes. The general context for future collective bargaining related to other retirement benefit changes will also be discussed.

ATTACHMENT: CalPERS Preliminary Summary of Pension Reform Provisions (September 26, 2012 Update)

PREPARED BY: Robert Samario, Finance Director
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SUBMITTED BY: Marcelo López, Assistant City Administrator

APPROVED BY: City Administrator's Office

CalPERS

Preliminary Summary of Pension Reform Provisions

These preliminary comments of CalPERS staff are based on its current understanding of AB 340 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	PROPOSED STATUTE	IMPACTS CURRENT MEMBERS	IMPACTS FUTURE MEMBERS
Reduced Benefit Formulas & Increased Retirement Ages 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 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 Also would require 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.	**7522.10** **7522.15** **7522.20** **7522.25**		**X**
Cap Compensation that Counts Toward Pension Benefits 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.	**7522.10**		**X**

* Although these provisions would not impact curret members directly, they would prohibit public employers from offering such a benefit or option to current members in the future.

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Eliminate Replacement Benefit Plans Would prohibit a public employer from offering a plan of replacement benefits for new members whose retirement benefits are limited by IRC Section 415. Also would prohibit a public 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.	**7522.43**	*	**X**
Federal Compensation Limit for Determining Retirement Benefits (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 this limit. *(Note: CalPERS already adheres to the federal compensation limit)*	**7522.42**		**X**
Actuarially Reduced IDR Benefits for Public Safety Would allow a safety member, who qualifies for an IDR, to receive the greater of: 1) 50% of the member's final compensation plus any annuity purchased with his/her accumulated contributions, 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.	**7522.66** **21400**	**X**	**X**
Equal Sharing of Normal Cost • For new and current employees, the bill provides that "the standard shall be that	**7522.30**	**X**	**X**

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employees pay at least 50% of the normal costs and that that employers not pay any of the required employee contribution." • For new employees of contracting agencies and schools, the initial employee contribution rate may not be less than 50% of the total annual normal cost of pension benefits. • For employees of contracting agencies and schools, the employer and employee organization may mutually agree to pay cost sharing agreement for pension benefits between January 1, 2013 and December 31, 2017. Beginning on January 1, 2018 the employer may 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.	**20516.5** **20683.2**		
Close LRS For New Members 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.	**9355.4**		**X**
Equal Health Benefit Vesting Schedule for Non-Represented and Represented Employees	**7522.40**	**X**	**X**

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Would eliminate the ability of an employer to provide a better health benefit vesting schedule to non-represented employees than it does for represented employees.			
Prohibit Purchases of Airtime 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.	**7522.46**	**X**	**X**
Prohibit Retroactive Pension Increases Would prohibit public employers from granting retroactive pension benefit enhancements that would apply to service performed prior to the date of the enhancement. This would apply to current and future employees.	**7522.44**	**X**	**X**
Prohibit Pension Holiday Would require the combined employer and employee contributions, in any fiscal year, to cover that year's normal cost.	**7522.52**	**X**	**X**
Calculate Benefits Based on Regular or Base Pay to Stop Spiking: New Employees Would require 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	**7522.40**		**X**

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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. Also would exclude 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.			
Require Three-Year Final Compensation 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. 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 existing employees.	**7522.33**	*****	**X**
Felons Forfeit Pension Benefits Would require 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.	**7522.70** **7522.72** **7522.74**	**X**	**X**
Limit Post-Retirement Public Employment • Would limit all 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	**7522.56**	**X**	**X**

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system without reinstating from retirement. • Would require a 180-day "sit-out" period before a retiree could return to work without reinstating from retirement except under certain circumstances. • Would require a 180-day "sit-out" period for retirees who received either a golden handshake or some other employer incentive to retire. • Would require a public retiree appointed to a full-time position on a state board or commission to suspend his or her retirement allowance and become a member of CalPERS.			
Contracting Agency Liability for Excessive Compensation Would require CalPERS (for plans it administers) to define a “significant increase” in actuarial liability for a former employer caused by increased compensation paid to a nonrepresented employee by a subsequent public employer. Would also require CalPERS develop a plan to assess the cost of that excess liability to the employer who paid the excessive compensation and the provision would apply to any significant increase that is determined after January 1, 2013 regardless of when that increase occurred.	**20791**	**X**	**X**

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