California Department of Human Resources
Memorandum

TO: Personnel Management Liaisons (PML)

SUBJECT: California Public Employees' Pension Reform Act of 2013	REFERENCE NUMBER: 2012-037
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This memorandum should be forwarded to:

Employee Relations Officers
Personnel Officers
Personnel Transaction Supervisors

FROM: Department of Human Resources
Benefits Division

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On September 12, 2012, Chapter 296, Statutes of 2012 (AB 340 Furutani), was signed into law by the Governor. This legislation established the "Public Employees' Pension Reform Act of 2013" (PEPRA). PEPRA provides various retirement-related changes that, in some cases, are complex and require additional analysis. CalHR, CalPERS and SCO staff are working together on the implementation details, PEPRA requirements, and communications to labor groups, employers and employees.

This memorandum provides an overview of PEPRA along with the preliminary impact to current, new, and retired state employees. As the analysis continues to unfold, additional information will be provided to employers along with other resources. A majority of the retirement changes under PEPRA will impact new employees effective January 1, 2013; however, there are certain changes that will be effective at a later date as specified in the overview below.

<u>Impact to current, new, and retired state employees</u>

- Forfeit Retirement Benefits – There is a new felony provision that will apply to all public employees and elected officials. An individual who commits a job-related felony including felonies against or involving a minor may be subject to retirement benefit forfeiture.

- Re-employment after Retirement – A retiree will be required to wait 180-days before he or she can return to work unless the appointment is necessary to fill a critically needed position and has been approved by CalHR. Also, retirees may not work in excess of 960 hours in a fiscal year. CalHR will develop a policy to define "critically needed position" along with other details.

- Prohibits Retroactive Benefit Increases – Prohibits the employer from providing retroactive retirement benefit enhancements that apply to service performed prior to the date of the enhancement.

- Employee Retirement Contribution – PEPRA will require employees to pay at least 50 percent of the normal cost to fund the employee's retirement benefit. CalPERS actuarial staff must determine the required employee and employer retirement contributions each fiscal year.

- Purchase Additional Service Credit (also known as "airtime") – Currently CalPERS members have the option of purchasing up to five years of additional service credit. Effective January 1, 2013, this option will be eliminated; however, an official application received by CalPERS by December 31, 2012, will be grandfathered as long as the employee is eligible to purchase service credit.

- Equal Health Vesting Schedule – Prohibits employers from providing a better health benefit vesting schedule to non-represented employees than it does for represented employees. The State is currently in compliance.

Impact to **new** state employees who are new CalPERS members

- New retirement formulas with benefits based on highest average 3-years of compensation.

    - Miscellaneous/Industrial Members = 2% at age 62 up to 2.5% at age 67
    - Safety Members = 1.426% at age 50 up to 2% at age 57
    - Peace Officers = 2% at age 50 up to 2.5% at age 57
    - Firefighters = 2% at age 50 up to 2.7% at age 57
    - Patrol = 2% at age 50 up to 2.7% at age 57

- New Retirement Compensation Cap – A new cap on the annual compensation that can be used to calculate retirement benefits will be based on the Social Security Wage Index. The 2013 Social Security Wage Index is $113,700 for state employees who participate in Social Security and $136,440 for state employees not in Social Security. The compensation cap will be adjusted annually in accordance with the wage index adjustment. Judges are excluded from this provision.

- Eliminates the Replacement Benefit Plan (RBP) – CalPERS currently administers the RBP for members who exceed the benefit limit provided under Internal Revenue Code Section 415. The benefit limit for 2013 is $205,000. The RBP will be eliminated for new members hired on and after January 1, 2013.

- Alternate Retirement Program (ARP) – Currently, new state employees under the miscellaneous or industrial retirement category are subject to ARP for a 24-month period. ARP will be closed to new employees first hired on and after July 1, 2013. New employees will have membership in CalPERS.

- Legislator's Retirement System will be closed to new members first elected on and after January 1, 2013. New members will still have optional membership in CalPERS.

Additional CalPERS Information

In order to assist CalPERS-covered employers, CalPERS has created a "pension reform page" on their website that provides additional information related to PEPRA along with "A guide to Pension Reform," that includes Frequently Asked Questions and answers.

Payroll Processing and Retirement Codes

The State Controller's Office will be issuing a payroll letter to provide additional instructions along with new retirement codes prior to January 1, 2013.

CalHR will be updating the ARP Eligibility Worksheet on CalHR's website. The worksheet will assist personnel staff in determining ARP eligibility and the correct ARP retirement code to apply.

Personnel staff with questions about the retirement changes may contact Desi Rodrigues, Retirement Policy Manager at the contact information located on the first page of this memo.

/s/ Greg Beatty

Greg Beatty, Chief
Benefits Division