A Preliminary Analysis of Governor Brown's Twelve Point Pension Reform Plan

Prepared by the California Public Employees' Retirement System (CalPERS)

CalPERS

Introduction

On October 27, 2011, the Governor announced a pension reform plan that highlights, in concept, twelve pension reform proposals. Details regarding the proposals have not been proposed yet, nor has statutory language. Although the pension reform proposals are still conceptual in nature, CalPERS has prepared this preliminary analysis of the proposals and the potential impacts. The intent of this preliminary analysis is to explore the reform concepts within the broader context of CalPERS' operations, procedures, finances and primary governing laws, namely the California Public Employees' Retirement Law, state and federal tax law, and the California and United States Constitutions.

However, insofar as the proposals are still undeveloped, this preliminary analysis is not intended to address all issues which may result from the Governor's plan, nor is it intended to address any particular legislative proposals which may eventually be proposed. The merits and impact of any new legislative proposal will have to be analyzed based on its own unique terms and conditions, and CalPERS will respond to each proposal individually. Similarly, this preliminary analysis should be treated as a working document that will evolve over time as additional information about the proposals becomes available. To that end, it should not be relied upon as a definitive statement of the impact that the Governor's plan may have on CalPERS, its existing defined benefit plans, or its members and employers. None of the information provided in this preliminary analysis is intended or written to be used as legal advice or opinion, and accordingly should not be relied upon as such.

CalPERS has previously published papers on the vested rights of members and the implications of closing the defined benefit plan. This document does not repeat the issues and facts identified in these documents, but should be read in conjunction with these documents.

CalPERS is committed to being an honest broker of information. We welcome the opportunity to provide this information and we look forward to participating in the ongoing discussions about pensions and pension reform.

GOVERNOR'S TWELVE POINT PENSION REFORM PLAN

1. Equal Sharing of Pension Costs: All Employees and Employers

The funding of annual normal pension costs should be shared equally by employees and employers.

Effective Date

BACKGROUND

Currently, contributions toward annual pension costs come from both employees and employers. Employees typically contribute a fixed percentage of their earnings. The employee contribution rate is generally fixed by statute or memorandum of understanding, and varies from approximately 5% to 11% of an employee's salary. The employer contribution is determined on an annual basis by the plan's actuaries.

Employers may also pay all or a portion of the employee contribution pursuant to an adopted contract option, resolution or written labor agreement, effectively reducing the employee contribution rate to zero.

IMPACTS

LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
Increasing employee contributions may impair vested rights in some cases, depending upon the extent of the increase as well as other factors. Vested rights may also be impaired where the Legislature or employer did not reserve the right to increase contributions (i.e., in statute or memorandum of understanding). How will this impact existing memorandums of understanding and other employment contracts? How will this impact the bargaining process going forward?	The workload will depend on how this proposal is implemented. Is the equal sharing only a target or is the intent to literally require the employer and employee to each contribute half of the total normal cost? If the final language actually sets the employee contribution rate at 50%, it would result in employee contribution rates changing annually and likely increase the administrative workload for both the system and employers (i.e., statutory clean-up, rate setting and payroll reporting, etc.).	***Program Costs:*** If it only applies to normal cost there will be very little savings, if any, for state plans because with the recent bargaining agreements most state employees are paying more than or close to half the total normal cost. For most local contracting agencies, LRS, and JRS this could result in increased employee contributions and reduced employer contributions. The actual impact will vary by employer and will depend on the benefit formula	PROs: • May make it clearer to the public who is paying each portion of pension costs. • Reduces fiscal pressure on public agencies that are paying the members' share of contributions. CONs: • Eliminates ability to negotiate contribution rates and employer paid member contributions (and thereby eliminates bargaining options). • Because the actual normal cost varies by an employee's entry

Is the intent of the proposal to eliminate an employer's ability to pay member contributions on behalf of members (referred to as employer paid member contributions)? Would the proposal preserve the pre-tax treatment of member contributions under federal tax law (specifically under Section 414(h)(2) Internal Revenue Code)? If so, the proposal should address this.	Additional workload will depend on the answers to the following questions: • How should normal cost increases or decreases due to demographic or assumption changes be executed? • How will the ramp-up of new employee contributions to half the normal cost be handled? This could vary from employer to employer? Who is responsible for monitoring? Will sharing the normal cost result in employers or employee groups wanting to split their rate plans by benefit formula and/or bargaining unit?	and the current cost sharing arrangement. ***Administrative Costs:*** From an administrative standpoint there will be increased workload due to updating employer contracts and resolutions. Costs will be greater if employee contribution is actually 50% of the total rate due to the need to annually update computer systems, added complexity for certain service credit purchase and potential increase in the number of actuarial valuations per contracting agency.	age, the proposal may create fairness issues between employees who enter service at different ages. • Normal Cost could vary by each employer's plan due to the average entry age of its employees, and vary by retirement systems due to the use of different assumptions. • Normal cost is recalculated each year to reflect the most recent demographics. Normal cost will be different from year to year and can either decrease or increase, which in turn may lead to unpredictable contribution rates for members and financial hardship.

2. "Hybrid" Risk-Sharing Pension Plan: New Employees Would require all new employees to enter a hybrid pension plan that would target a 75% replacement ratio after a full career of 30 years for safety employees and 35 years for non-safety employees. The retirement benefit should be provided equally from the Defined Benefit (DB) component, Defined Contribution (DC) component and Social Security. If the employee is not in Social Security then the DB component would provide 2/3rds and the DC component would provide 1/3rd of the retirement benefit. The DB portion would also include a cap to ensure employers do not bear an unreasonable liability for high-income earners.	Effective Date

BACKGROUND

CalPERS currently administers defined benefit pension plans, as primary retirement plans for its members. CalPERS also administers three supplemental income plans that are available to various State and local government employers and their employees. These supplemental income plans are intended to supplement the benefits received from the primary defined benefit plans.

CalPERS' defined benefit plans provide guaranteed lifetime retirement income based on a predetermined formula that includes an employee's age at retirement, length of service, and highest one-year or three-year average compensation. A CalPERS pension provides employees with a predictable monthly retirement benefit.

IMPACTS			
LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
How will the defined contribution component be designed to ensure that it is a tax-deferred plan? Will the defined contribution component include employee contributions? If so, will the contributions be elective or mandatory? In either case, there will be specific federal tax requirements that must be satisfied which should be considered during the plan design phase. A hybrid pension structure will likely require significant legislative action, including statutory and administrative restructuring, which will require time and resources to implement. No assets from the Public Employees' Retirement Fund may be used to design or implement any other plan, nor may such assets be used to administer any other plan. How will the defined benefit component be designed? Will it be part of the existing defined benefit plan, or will a separate defined benefit plan be established (with the effect of closing the existing defined benefit plan to new employees)?	Workload impact would depend on the structure and design of the hybrid plan and who administers the DC component. For example when considering the DB component: • Will the DB component be part of the existing plan or be its own plan? • What are the permitted plan designs/formulas? • What optional benefits will be permitted in the DB portion? • How will the cap work? Is it necessary since earnings are capped under 401(a)(17) and the lower formulas will mean that it would be difficult to get to $100K (indexed?) under the DB portion of the hybrid? When looking at the DC component of the hybrid plan one needs to consider: • For the State, should the DC component be the DC plans administered by Department of Personnel Administration?	In order to complete a fiscal impact one would need to know • What income level should be used in determining whether a particular design achieves the target? For example a benefit design that provides 75% replacement ratio to an employee with a final compensation of $50,000 will not likely provide that same percentage to employees earning above or below $50,000. • What assumptions should be used (especially for the DC portion) in determining if the 75% replacement is met? For example, Social Security replaces a higher portion of income for low paid workers – to achieve a uniform 75% replacement rate; either the DB or the DC piece of the hybrid would have to provide extra benefits to high paid employees. Assuming that is not intended then it will be necessary to choose an income level at which the 75% is to be achieved. The following are high level comments regarding fiscal impact:	PROs: • Reduces long-term employer risks associated with defined benefit liabilities by shifting a portion of those risks to employees. • Fundamentally changes public pensions in a way that may satisfy calls for reform. • Reduces employer cost. CONs: • May reduce public employers' recruiting success to the extent skilled workers value traditional pension benefits. • May result in increased cost for funding the benefits of current members. • Reduces employee benefits. • Creates unequal treatment between new and current employees who are similarly situated. • Closing the existing defined benefit plan would threaten its actuarial soundness.

If the existing defined benefit plan is closed to new employees, there may be sustainability concerns which, among other things, may impair the vested rights of existing employees to an actuarially sound retirement fund. Additional issues arise if the existing defined benefit plan is closed to new employees. See issue brief on *The Impact of Closing the Defined Benefit Plan at CalPERS*. Is the proposed 75% replacement ratio target intended to be an actual limit, or is it intended to be a design estimate? In other words, will the benefit stop accruing when the 75% replacement ratio is triggered? Would the Alternative Retirement Plan for new state hires be eliminated?	• What are the payout options under the DC portion? • What tax vehicle will be used? It is also important to know how the hybrid plan in its entirety will coordinate with other benefits that are part of the existing DB design structure: • Will there be a change to the COLA or PPPA provisions? Currently public agencies have a guaranteed 80% PPPA benefit whereas State and School members have a non-guaranteed 75% PPPA benefit. This affects the cost structure and any savings that could be achieved. • How will the plan coordinate with industrial and non-industrial disability benefits? • How will the plan coordinate with pre-retirement and special death benefits? Finally, will there only be one hybrid design to implement or will employers have an option of multiple designs?	***<u>Program Costs:</u>*** It would appear that the Governor's intent is to reduce the employers cost and risk by reducing benefits and transferring risk to the employee. The actual amount of cost savings will depend on the reduction of the DB benefit and the design of the DC component. . DC component could increase employer's administrative costs depending on how it is structured. It should be noted that if the design of the Hybrid Plan results in the closing of the current DB plan there would be a significant cost impact to the employer due to changes in asset allocation and amortization methods. Even if the Hybrid Plan design does not result in closing the existing plan, the reduction in the DB portion of the benefit package compared to the benefit provided to current members will over time lead to higher cost for the existing DB plan The reasons for the impact will be the requirement for a more conservative investment strategy as the current members retire. The quantification of this impact is difficult to predict and will depend on how the DB portion of	

		the proposed hybrid plan is designed and implemented. ***Administrative Costs:*** Regardless of final design one should anticipate substantial workload and costs to implement and administer new benefit plan(s).	

3. Increase Retirement Ages: New Employees

Increase retirement age for most new miscellaneous employees to align with Social Security retirement age which is currently set at age 67. The retirement age for new safety employees will be less than 67, but commensurate with the ability of those employees to perform their jobs in a way that protects public safety.

Effective Date

BACKGROUND

Currently, to be eligible for service retirement, most CalPERS members must be at least age 50 with a minimum of five years of CalPERS-credited service. In some cases, members who retire prior to the normal retirement age (as determined by the applicable retirement benefit formula) receive a modified benefit, reduced to reflect the member's age at retirement. For example, for the State Miscellaneous 2% @ 60 formula, at age 50 the benefit factor is 1.09%

IMPACTS

LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
How will the proposal address public safety employees? How will the proposal address industrial and non-industrial disability? Is the intent that the new minimum retirement age would apply to existing public employees when they change public employers (as opposed to applying only to new employees who have not yet acquired service credit under CalPERS or a public pension system that has reciprocity with CalPERS)? If so, how will the	The workload will depend on how this provision is coordinated with the Hybrid Plan structure and whether any corresponding changes are made to the industrial and non-industrial disability retirement benefits. Will higher retirement ages result in more industrial or non-industrial disability retirement applications? This may be an issue, especially if no corresponding changes are made to the disability retirement laws.	***Program Costs:*** It is difficult to determine any cost savings without knowing: • The retirement age for Safety Classifications, and • The multipliers at ages other than the full retirement age. Will higher retirement ages result in more disability retirements which could impact plan costs? ***Administrative Costs:*** Will higher retirement ages have the unintended consequence of incenting disability retirements	PROs: • Potentially reduces employers' liabilities for other post-employment benefits, such as retiree health. • Reduces employer costs. CONs: • Employees who have to retire early due to health or other unforeseen reasons may not have an adequate pension. • May increase the number of industrial or ordinary disability retirements. • Reduces employee benefits.

proposal address cases where a member has two different minimum retirement ages that apply to different portions of his or her service credit? What does “new employee” mean in this context? Does it include existing public employees who obtain new employment with a different public employer (i.e., moving from employment with the State to employment with a contracting agency)? If so, vested rights may be impaired if the older retirement age applies to the service credit acquired with the first public employer.		resulting in increased applications and administrative costs?	

4. Require Three-Year Final Compensation to Stop Spiking: New Employees Final compensation for new employees of all California public agencies would be defined as the highest average annual compensation during a consecutive 36 month period.	Effective Date

BACKGROUND
CalPERS’ defined benefit pension plans provide members with a guaranteed lifetime retirement income based on a predetermined formula that includes an employee’s age at retirement, length of service, and the member’s highest one-year or three-year average compensation with a CalPERS covered employer.

IMPACTS			
LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
Is the intent that this change would only eliminate 12 month final compensation (meaning it would not otherwise change CalPERS current three year final compensation statutes and regulations)? What does “new employee” mean	Will three-year final compensation for new employees be implemented in coordination with the hybrid plan for new employees? If so, many of the implementation tasks could be combined.	***<u>Program Costs:</u>*** Will likely reduce employer contributions over the long term. ***<u>Administrative Costs:</u>*** Minor one-time costs to create new contract packages.	PROs: • Might encourage employees who take promotions late in their career to stay longer (retention).

in this context? Does it include existing public employees who obtain new employment with a different public employer (i.e., moving from employment with the State to employment with a contracting agency)? If so, vested rights may be impaired with respect to service credit acquired with the first employer if the employee is currently entitled to 12 month final compensation.	If not, staff would need to make computer system changes and amend contracts for those employers that have yet to contract for three-year final compensation.		

5. Calculate Benefits Based on Regular, Recurring Pay to Stop Spiking: New Employees Final compensation would be defined as the normal rate of base pay, excluding special bonuses, unplanned overtime, payouts for unused vacation or sick leave, and other pay perks.	Effective Date

BACKGROUND

Final compensation is currently defined as the highest average “compensation earnable” by a member during twelve or thirty-six consecutive months of employment at any time during such member’s employment with a CalPERS employer (or, in some instances with reciprocal employers).

Currently, for CalPERS purposes, “compensation earnable” is made up of the pay rate and special compensation of the member and must be included in written pay schedules, ordinances, or other documents that are available for public scrutiny.

IMPACTS

LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
What is meant by “normal rate of base pay”? The proposal should specifically define this term or incorporate terms used in existing law. Is the intent to eliminate special compensation or otherwise change the scope and definition of special compensation? If so, how would the definition of special compensation change?	Workload will depend on how employers and employees react to the new rules. Will employers continue to pay special comp to all employees and administer two sets of reporting rules, continuing to report special comp for existing employees but not for new employees? Or move away from special compensation for all employees? Trying to administer differing	***<u>Program Costs:</u>*** The cost impact will depend on whether base salaries increase over time to offset loss of reporting special compensation ***<u>Administrative Costs:</u>*** Will these new rules reduce complexity and result in fewer payroll reporting errors? Or add to the complexity by creating the need to administer two sets of rules?	PROs: • Could eliminate disputes over reportable compensation. • Increases salary transparency. • May reduce payroll reporting errors. • Reduces employer cost. • Likely reduces the opportunities for pension spiking or abuse. CONs: • Could result in eliminating

What does "new employee" mean in this context? Does it include existing public employees who obtain new employment with a different public employer (i.e., moving from employment with the State to employment with a contracting agency)? If so, vested rights may be impaired with respect to service credit acquired with the first employer. This proposal will require additional statutory and administrative restructuring to conform to the many other parts of the Public Employees' Retirement Law addressing compensation.	reporting requirement for special compensation could result in increased workload due to added complexity, while moving away from special compensation could have the opposite effect.		special compensation from current employees. • Reduces employee benefits. • Create unequal treatment between new and current employees who are similarly situated.

6. Limit Post-Retirement Public Employment: All Employees Would limit all employees who retire from public service to working 960 hours or 120 days per year for a public employer. Would prohibit all retired employees who serve on public boards and commissions from earning any retirement benefits for that service.	Effective Date

BACKGROUND

Currently, a retired member can be reinstated from retirement and perform services for the State or a contracting agency. When a retired member is reinstated from retirement, his or her retirement allowance is canceled and he or she becomes of member of the system as of his or her date of reinstatement.

Subject to certain limitations and restrictions related to compensation, position and hours worked, a retired member may also be able to perform services for a CalPERS covered employer without being reinstated.

IMPACTS

LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
Is the intent that this change would be consistent with CalPERS' existing post-retirement employment statutes and requirements?	Will depend on final language that is adopted – may be very similar to current rules followed by CalPERS members.	If similar to the post-retirement rules that CalPERS already administers, increased program or administrative costs are not anticipated.	PROs: • May create clearer and more consistent guidelines for employers who wish to employ

			annuitants without reinstatement.

7. Felons Forfeit Pension Benefits: All Employees Would require that public officials and employees 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.	Effective Date

BACKGROUND
In limited circumstances, current law provides for suspension of benefits for state members of CalPERS and members of the Legislators' Retirement System upon indictment for specified felonies. In addition, in limited circumstances, current law provides for some benefit forfeiture for certain members of Judges' Retirement Systems I and II and elected public officials.

IMPACTS			
LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
This proposal may impair vested rights of existing employees who have already acquired substantial rights to their pensions prior to the time that the statute takes effect and/or prior to the time the felony is committed. How will the proposal define final conviction, and how will public pension systems determine when a conviction is final? Which benefits will be forfeited (i.e., benefits acquired after the statute goes into effect and/or after the felony is committed)? If forfeited benefits only include those which are acquired after the felony is committed, how will public pension systems determine the date on which the felony is committed, particularly in cases	The impact depends on the number of felony convictions. However, it should be noted that the cases that do arise may require a significant amount of work based on our experience and difficulty of administering pension forfeit laws. Who would be responsible for monitoring and enforcing?	***<u>Program Costs:</u>*** Employer savings would depend on the number of convictions and the amount of the benefit forfeited. ***<u>Administrative Costs:</u>*** Will depend on the number of benefit forfeitures processed and whether litigation costs are incurred in enforcing this expanded application of the forfeiture statutes.	PROs: • May create greater consistency with existing laws which provide that elected officials and judges forfeit public pension benefits for certain crimes. • Provides a possible deterrent for those who would consider committing these acts as a public employee. • May address some public concerns regarding member abuse of system. CONs: • May be difficult and impractical to implement and enforce. • Could negatively impact the future benefits of a spouse or dependent. • May impair vested rights • Currently, there is no way to enforce this for retirees who go

where the felonious acts are ongoing in nature or not obviously limited to a specific date? What types of crimes will be covered by the proposal?			to work for public agencies other than from which they retired. • Does not address pleas bargains from felony to a lesser charge.
8. Prohibit Retroactive Pension Increases: All Employees All California public employers would be prohibited from granting any future retroactive pension benefit increases, such as benefit formula improvements that credit prior service.			Effective Date
BACKGROUND			
Under current law, when a CalPERS employer amends its contract with CalPERS to improve employee benefits, the improvement applies retroactively, meaning it applies to past service rendered for that employer by active members.			
IMPACTS			
LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
Would the proposal apply only to the basic benefit formula, or would it apply to other benefit enhancements, such as cost of living increases, post-retirement survivor allowances, industrial death benefits and disability benefits, among others? How will the proposal address cases where a member changes from one classification to another classification with a better benefit formula (such as from miscellaneous to safety)?	Will this change cause an increase in the amount of contract activity for contracting agencies, either requests for cost analysis or actual contract amendments?	***Program Costs:*** Eliminates the cost and risk associated with retroactive benefit increases ***Administrative Costs:*** Depends on the number of requests for cost analysis and actual amendments to increase pension benefits retroactively.	PROs: • Reduces the cost to increase benefit formulas because increased formulas would not apply retroactively. • Reduces employer rate volatility that would otherwise be triggered by retroactive formula increases. CONs: • Eliminates the ability to negotiate retroactive pension formula increases and thereby eliminates a bargaining option.
9. Prohibit Pension Holiday: All Employees and Employers Would prohibit all employers from suspending employer and/or employee contributions necessary to fund annual pension costs.			Effective Date
BACKGROUND			
Generally, employee contributions are a fixed percentage of salary, and employer contributions fluctuate based on the annual actuarial valuations of			

retirement system assets compared to liabilities. When investment earnings on assets are high, employer contributions can generally be reduced, and when investment earnings are low, employer contribution rates generally are increased. Under certain circumstances, the actuarially determined employer contribution rate may be zero, resulting in a contribution holiday for employers. In 2005, the Board adopted an Employer Rate Stabilization Policy (ERSP) to help reduce volatility in the employer contribution rates. The ERSP requires that any surplus assets be amortized over a period of 30 years. The result of the ERSP is that the possibility of contribution holidays is minimized but it is still possible.

IMPACTS			
LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
Will the proposal be sufficiently limited so that it does not interfere with the Board's constitutional authority and fiduciary obligations (i.e., authority to set employer contribution rates)? Will the proposal be sufficiently limited so that it does not inadvertently permit or require superfunding[1] which could compromise the tax qualified status of the plan? Will the proposal be consistent with CalPERS current Employer Rate Stabilization Policy and the recommendation of the Governor's Post-Employment Benefits Commission?	Workload will depend on how closely the actual proposal matches current Board policies. May require actuarial system or fiscal system changes. What happens when a plan becomes superfuned? Will there be limits or parameters put on how these surplus assets are managed or used?	***Program Costs:*** This proposal will not have an immediate impact on most employers due to the current funding levels. It will increase the cost of the few public agencies that are currently overfunded and contribute less than the normal cost. ***Administrative Costs:*** This will depend on how closely the proposal matches current Board policies.	PROs: • Could stabilize rates at normal cost from year to year over time. CONs: • Could lead to unnecessary accumulation of funds for plans that are already superfunded. • Could result in pressure to increase benefits if surplus assets build up. • Would create immediate cost pressure on overfunded contracting agencies for no apparent benefit. • May infringe on the CalPERS Board's constitutional authority to set rates. • May increase pressure on the CalPERS Board to change certain actuarial methods or assumptions as plans become better funded. • Potential tax implications if

[1] A superfuned plan is considered to already have enough assets to pay for all past and expected future service accrual.

			proposal does not adequately address superfunding.

10. Prohibit Purchases of Airtime: All Employees

Would prohibit all current and future members of all state and local retirement systems from purchasing additional retirement service credit

Effective Date

BACKGROUND

State law, enacted in 2003, allows any active CalPERS member with at least five years of earned service credit to purchase up to five years of Additional Retirement Service Credit (Airtime). Inactive and retired members are ineligible for this purchase unless they made their election while they were still active employees. Only one Airtime purchase may be made by a member, even if the member chooses to purchase less than the maximum of five years. Airtime purchases must be made in whole-year increments.

To date, approximately 49,000 members have elected to purchase Airtime.

IMPACTS

LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
This proposal may impair the vested rights of existing employees to purchase service credit under the terms that currently exist which allow a member to purchase service credit prior to retirement. Will the proposal impact existing service credit elections, such as elections that are made before the proposal takes effect (whether or not fully paid for)? If so, there will likely be tax problems and vested rights issues. Is the intent that this change would only apply to additional service credit as described in Government Code Section 20909, or would it apply to others forms of service credit purchases?	This proposal may result in a spike of airtime requests causing new workload. Otherwise, should reduce ongoing workload associated with processing estimates, purchase requests & payments for airtime.	***Program Costs:*** Eliminates the risk transfer to employers that results when assumptions are not met. ***Administrative Costs:*** Will a spike in requests or litigation over vested rights occur? Otherwise eliminates the administrative costs associated with processing air-time requests in the future. Legal costs will be incurred if litigation is brought to challenge this provision as violation of vested rights.	PROs: • Eliminates the risk employers would assume from airtime purchases in the future. CONs: • Potential vested rights issue. • Could impact employees that have a break in public service to care for an ailing child or parent, or to follow a spouse that changes jobs, etc. • Reduces members' retirement planning flexibility. • Potential impact on recruitment of senior/experienced workers.

11. Increase Pension Board Independence and Expertise: CalPERS Board of Administration

Would add 2 independent, public members with financial expertise to the CalPERS Board and replace the SPB rep with the Director of DOF.

Effective Date

BACKGROUND

Currently, CalPERS is administered by a 13-member Board of Administration that is intended to be representative of CalPERS' constituents. The Board consists of six member-elected members, three appointed members, and four ex officio members.

IMPACTS

LEGAL	WORKLOAD	FISCAL	POTENTIAL PROs/CONs
Will the proposal preserve sufficient authority and independence for Board members to carry out their fiduciary duties?	Additional workload to provide staff support to the two additional board members. Will the additional Board members be elected or appointed? If elected, will CalPERS be responsible for holding the election?	***Program Costs:*** None ***Administrative Costs:*** Increased costs for travel, staff support, training and accommodating additional Board members within existing facilities. Will new Board members be eligible for a daily stipend?	PROs: • Diversifies perspectives on the Board. CONs: • Additional costs to reconfigure auditorium and Board chambers. • Makes the Board more unwieldy and less efficient. • Will not impact benefit packages agreed to by employers and employees.

12. Reduce Retiree Health Care Costs: New State Employees

Would change the vesting requirements for new state employees to 15 years of service to become eligible for the minimum employer contribution and 25 years of service to receive the maximum employer contribution. Also, would change the anomaly of retirees paying less for health care premiums than current employees.

Effective Date

BACKGROUND

Currently, the vesting requirements for employer-paid retiree health benefits differ for various CalPERS' members (State, CSU, judicial, public agency and school members). The number of years of state service required for a member to fully vest ranges between 5 years of state service and 20 years of state service.

The maximum employer contribution for State annuitants is 100% of health care premium costs, while the maximum State contribution for the dependents of State annuitants is 90%. For most active State employees, the employer contribution is 80% for both the employee and his or her dependents. The percentage varies based on collective bargaining for each unit. The actual dollar amount this

<table>
<tr><td colspan="4">represents is based on a weighted average employee premium cost for the four most popular health care benefit plans CalPERS provides to the State, schools and contracting agencies.</td></tr>
<tr><td colspan="4">IMPACTS</td></tr>
<tr><td>LEGAL</td><td>WORKLOAD</td><td>FISCAL</td><td>POTENTIAL PROs/CONs</td></tr>
<tr><td>Is the intent that this change would be consistent with CalPERS existing statutes and regulations, except that vesting requirements would change for new State employees?</td><td>Will require statutory changes.</td><td>It is difficult to determine any cost savings without knowing what changes will be made to the employer contribution formula for future retirees.

<u>Program Costs:</u>
Unknown employer savings – A combination of the new vesting requirements and “Hybrid” plan may result in later retirement dates.

<u>Administrative Costs:</u>
Probably little or no impact</td><td>PROs:
• Reduces the employer’s liabilities for retiree health care costs (i.e., OPEB liabilities).
CONs:
• Increased retiree health benefit costs combined with lower pension benefits.</td></tr>
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