ROSS VALLEY FIRE DEPARTMENT
STAFF REPORT

For the meeting of: November 14, 2012

To: Board of Directors

From: Roger Meagor, Fire Chief

Subject: Pension Reform Update

RECOMMENDATION:

For Board discussion

BACKGROUND:

In late 2011 the Governor issued his 12 point plan for pension reform. The California Legislature then called for a conference committee on pension to review the Governor's plan.

Governor's 12 Point Pension Reform Plan:

1. Equal Sharing of Pension Costs: All Employees and Employers
2. "Hybrid" Risk-Sharing Pension Plan: New Employees
3. Increased Retirement Ages: New Employees
4. Require Three-Year Final Compensation to Stop Spiking: New Employees
5. Calculate Benefits Based on Regular, Recurring Pay to Stop Spiking: New Employees
6. Limit Post-Retirement Employment: All Employees
7. Felons Forfeit Pension Benefits: All Employees
8. Prohibit Retroactive Pension Increases: All employees
9. Prohibit Pension Holidays: All Employees and Employers
10. Prohibit Purchases of Service Credit: All Employees
11. Increase Pension Board Independence and Expertise
12. Reduce Retiree Health Care Costs: State Employees

Over the course of nine months the committee held a series of hearings on issues such as normal retirement ages, cost sharing, vested benefits and pension spiking. AB 340, authored by Assembly Member Furutani, was passed by the Legislature in September. AB 197, which provided clean up language, was also passed. The plan is called the "California Public Employees' Pension Reform Act of 2013" and impacts all state and local public retirement systems in California, along with their participating employers, with the exception of charter cities and counties that operate independent retirement systems.

AGENDA ITEM # 5
Date 11/14/12

PROVISION OF THE ACT:

General Provisions: Any person who is a "new member" of a retirement system on or after January 1, 2013, including elected and appointed employees, will be subject to the benefit formulas as specified in the Reform Act. A new employee with reciprocity from another pension system where membership was established prior to January 1, 2013 must be provided the benefit formulas offered by the employer in effect on December 31, 2012. If an individual has a break in service of more than six months, and then returns to the PERS retirement system with a new PERS employer, that individual will be considered a "new member" and subject to the benefit formulas as specified by the Reform Act.

Benefit Levels & Increased Retirement Age for New Members: The Reform Act creates new defined benefit formulas for "new members". Benefit formulas for existing employees would not change. All non-safety new hires will be subject to a formula providing 2% of compensation for each year of service for an individual retiring at age 62, increasing to 2.5% for an individual retiring at age 67. For Safety there are three new defined benefit formula's, depending on the benefits provided to existing employees on December 31, 2012 (3%@55 for Ross Valley Fire). The new Safety formula that applies to the Department is the 2.7% at age 57. It should be noted that not all new hires will be "new members", as outlined in the General Provisions section above.

New Member Contributions: The final version of the Reform Act includes the Governor's goal for a 50/50 split of the normal cost of benefits, but allows employee contributions to remain at the bargaining table if employers want employees to pay an even greater share of the cost. The Reform Act says the goal should be equal sharing of normal costs between public employers and public employees, with employees paying at least 50 percent of normal contributions.

Existing Member Contributions: While the intent is for the 50/50 cost sharing agreement to apply to existing employees as well, how that will be implemented isn't clear. After the expiration of an existing MOU, employers may bargain to have employees pay 50 percent of the normal cost or higher. It appears as though public agency employers may impose a 50 percent employee contribution rate on January 1, 2018 after going through collective bargaining process and reaching impasse. If imposed, the 50 percent employee contribution rate cannot exceed 8 percent of pay for local miscellaneous members, 12 percent of pay for local safety members. All Ross Valley Fire employees currently pay 3% of the employee contribution.

Calculating Final Compensation: All new employees must be subject to at least a 3-year final compensation period, meaning the average of the highest three years of earnings. Current employees have 1-year final compensation.

Pensionable Compensation: For new employees, many forms of special compensation will be excluded from final compensation. There will be a new cap on earnings that may be included in pensionable compensation. For Ross Valley Fire that would currently be $136,440 (because we are not in Social Security).

Defined Contribution Plans: The Reform Act states that employers can provide a defined contribution plan in addition to its defined benefit plan for compensation in excess of the cap, provided it doesn't exceed the federal limit.

Elimination of Air Time: Existing law allows PERS to offer members the opportunity to purchase up to five years of service credit. The legislation eliminates that opportunity.

Working After Retirement: A retiree is limited to working 960 hours per year for a public agency and only if the retired person has specialized skills to perform work of limited duration or during an emergency. There must be a 180 day break in service following retirement, but Safety employees are generally excepted from that requirement. This generally mirrors the current rules on working after retirement.

Retroactive Benefit Enhancements: The Reform Act prohibits public employers from granting retroactive pension enhancements that would apply to service performed prior to the date of enhancement. This applies to current and new members. This is a change to past rules.

Contribution Holiday: No longer may agencies take a holiday from paying their required contributions.

Forfeiture upon Felony Conviction: The Reform Act 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.

Contracting Agency Liability for Excessive Compensation: Requires CalPERS to define a "significant increase" in actuarial liability for a former employer caused by increased compensation paid to a non represented 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.

CONCLUSION:

This analysis of the California Public Employees' Pension Reform Act of 2013 has been prepared utilizing information contained in the PERS Public Agency Coalition newsletter, The Alert, dated September 15, 2012 and CalPERS Education Forum, A Guide to Pension Reform, October 2012.