

GOVERNOR'S PENSION REFORM AND ACCCA RESPONSE

GOVERNOR'S PROPOSAL	ACCCA RESPONSE
<p data-bbox="142 194 844 259"><u>Equal Sharing of Pension Costs: All Employees and Employers (D)*</u></p> <p data-bbox="142 324 844 568">This plan will require that all new and current employees transition to a contribution level of at least 50 percent of the annual cost of their pension benefits. Given the different levels of employee contributions, the move to a contribution level of at least 50 percent will be phased in at a pace that takes into account current contribution levels, current contracts and the collective bargaining process.</p> <p data-bbox="193 600 856 633"><i>*D indicates Democratic and R indicates Republican origin</i></p>	<p data-bbox="892 227 1680 324"><i>ACCCA can support the employee contribution toward their pension benefits of at least 50% provided other employee contributions such as Social Security payments are factored into the employee share.</i></p>

<p><u><i>“Hybrid” Risk-Sharing Pension Plan: New Employees (D/R)</i></u></p> <p>Most public employers provide employees with a <u>defined benefit</u> pension plan. The employer (and ultimately the taxpayer) guarantees annual pension benefits and bears all of the risk of investment losses under those plans. Most private sector employers, and some public employers, offer only 401(k)-type <u>defined contribution</u> plans that place the entire risk of loss on investments on employees and deliver no guaranteed benefit.</p> <p>The hybrid plan will combine those two components with Social Security That 75 percent target will be based on a full career of 30 years for safety employees, and 35 years for non-safety employees. The defined benefit component, the defined contribution component, and Social Security should make up roughly equal portions of the targeted retirement income level.</p> <p>For employees who don’t participate in Social Security, the goal will be that the defined benefit component will make up two-thirds, and the defined contribution component will make up the remaining one-third, of the targeted retirement benefit.</p> <p>The State Department of Finance will study and design hybrid plans for safety and non-safety employees, and will fashion a cap on the defined benefit portion of the plans to ensure that employers do not bear an unreasonable liability for high-income earners.</p>	<p><i>ACCCA can support maintaining a defined benefit program, changes to eliminate spiking, and a three year average computation on Base Salary. ACCCA will consider support of the hybrid plan provided:</i></p> <ul style="list-style-type: none"> • <i>Social Security payments in the PERS Plan do not change Social Security rights at the federal level; and</i> • <i>Any cap on earnings for high income retirees would apply to the defined benefits program only and be based on the earning restriction of IRS 415.</i>
<p><u><i>Pension Cap: (R)</i></u></p> <p>Cap the amount of pay pensionable for employees taking into consideration those employees who participate in social security and those that do not. Employees participating in social security cap at \$106 k and those that do not, cap at \$119 k (allow for COLA adjustments)</p>	<p><i>ACCCA will consider support of a pension cap if pension computations are:</i></p> <ul style="list-style-type: none"> • <i>based on Base Salary;</i> • <i>if other creditable compensation is removed as part of the calculation;</i> • <i>if there is retention credit for unused sick leave;</i> • <i>if the cap on earnings for high income retirees is applied to defined benefits program only and based on the earning restriction of IRS 415.</i>
<p><u><i>Increase Retirement Ages: New Employees (D)</i></u></p>	

<p>Over time, enriched retirement formulas have allowed employees to retire at ever-earlier ages. Many non-safety employees may now retire at age 55, and many safety employees may retire at age 50, with full retirement benefits.</p> <p>The State has to align retirement ages with actual working years and life expectancy. Under this plan, <u>all new public employees</u> will work to a later age to qualify for full retirement benefits.</p> <p>For most new employees, retirement ages will be set at the Social Security retirement age, which is now 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.</p>	<p><i>ACCCA can support a change in retirement age consistent with changes in the federal social security rules.</i></p>
<p><u>Prohibit Purchases of Service Credit: All Employees (D/R)</u></p> <p>Many pension systems allow employees to buy "airtime," additional retirement service credit for time not actually worked. Pensions are intended to provide retirement stability for time actually worked. Employers, and ultimately taxpayers, should not bear the burden of guaranteeing the additional employee investment risk that comes with airtime purchases.</p>	<p><i>ACCCA can support the elimination of service credit purchase in both STRS and PERS.</i></p>
<p><u>Prohibit Pension Holidays: All Employees and Employers (D/R)</u></p> <p>During the boom years public employers were allowed to stop making annual pension contributions and gave employees a similar pass. This plan will prohibit all employers from suspending employer and/or employee contributions necessary to fund annual pension costs.</p>	<p><i>With clarification of the Governor's intent, ACCCA can support the prohibition of "Pension Holidays."</i></p>
<p><u>Prohibit Retroactive Pension Increases: All Employees (D/R)</u></p>	<p><i>ACCCA takes a "Watch" position on this aspect of the Governor's proposal.</i></p>

<p>In the past, a number of public employers applied pension benefit enhancements like earlier retirement and increased benefit amounts to work already performed by current employees and retirees. Of course, neither employee nor employer pension contributions for those past years of work accounted for those increased benefits. As a result, billions of dollars in unfunded liabilities continue to plague the system.</p>	
<p><u>Prohibit Pension Spiking: Define Compensation as Only Regular, Non-recurring Pay. (D/R)</u></p> <p>Compensation means normal rate of pay or base pay. (RN 14777) (Note Simitian, SB 27, would exclude from defined benefit changes in compensation principally for the purpose of enhancing benefits; would place stricter limits on creditable compensation)</p> <p>Where not controlled, pension benefits can be manipulated by supplementing salaries with special bonuses, unused vacation time, excessive overtime and other pay perks.</p>	<p><i>ACCCA can support the prevention of spiking and the elimination of Creditable Compensation as currently defined.</i></p>
<p><u>Require Three-Year Final Compensation to Stop Spiking: New Employees (D/R)</u></p> <p>Pension benefits for some public employees are still calculated based on a single year of "final compensation." That one-year rule encourages games and gimmicks in the last year of employment that artificially increase the compensation used to determine pension benefits. This plan will require that final compensation be defined as the highest average annual compensation over a three-year period.</p>	<p><i>ACCCA can support the three year calculation of base pay but opposes a five year computation.</i></p>
<p><u>Limit Post-Retirement Employment: All Employees (D/R)</u></p> <p>Retirement with a pension should not translate into retiring on a Friday, returning to full-time work the following Monday, and collecting a pension and a salary. Retired employees often have experience that can deliver real value to public employers striking a</p>	<p><i>ACCCA will oppose any legislation that prohibits working within STRS after retirement, however ACCCA can support maintaining the current earning limits provided:</i></p> <ul style="list-style-type: none"> • <i>No earning cap once a retiree has been out of the system for 12 months with no sunset date;</i> • <i>They allow retirees to work as part-time faculty and other support positions as part of an early retirement plan; and</i>

<p>reasonable balance in limiting post-retirement employment is appropriate. Most employees who retire from state service, and from other CalPERS member agencies, are currently limited to working 960 hours per year for a public employer, and do not earn any additional retirement benefits for that work. My plan will limit all employees who retire from public service to working 960 hours or 120 days per year for a public employer. It also will prohibit all retired employees who serve on public boards and commissions from earning any retirement benefits for that service.</p>	<ul style="list-style-type: none"> • <i>There is a continuation of emergency waivers to accommodate management needs when a vacancy occurs.</i> • <i>A prohibition on any retirement benefits for anyone who serves on public boards and commissions .</i>
<p><u>Felony Convictions</u> - <i>Felons Forfeit Pension Benefits: All Employees (D/R)</i></p> <p>Although infrequent, recent examples of public officials committing crimes in the course of their public duties have exposed the difficulty of cutting off pension benefits those officials earned during the course of that criminal conduct. This plan will 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.</p>	<p><i>ACCCA can support this position.</i></p>
<p><u>Reduces Unfunded Liabilities:</u> (R)</p> <p>Require current employees to contribute more of their salaries towards reducing unfunded pension liabilities, and they will pay more for health care costs both during employment and post-retirement (could be done through Collective Bargaining). Future employees will be required to pay more for their healthcare.</p>	<p><i>ACCCA has taken a "watch" position on this provision.</i></p>

<p><u>Reduce Retiree Health Care Costs: State Employees (D/R)</u></p> <p>The state and the nation have seen the costs of health care skyrocket. The state's retiree health care premium costs have increased by more than 60 percent in the last five years and will almost double over ten years. This plan will reduce the taxpayer burden for health care premium costs by requiring more state service to become eligible for health care benefits at retirement. New state employees will be required to work for 15 years to become eligible for the state to pay a portion of their retiree health care premiums. They will be required to work for 25 years to become eligible for the maximum state contribution to those premiums. This plan also will change the anomaly of retirees paying less for health care premiums than current employees.</p> <p>Contrary to current practice, rules requiring all retirees to look to Medicare to the fullest extent possible when they become eligible will be fully enforced</p>	<p><i>ACCCA would oppose this provision in the proposal. Health care is a negotiable issue with bargaining units and should not be included as part of this reform.</i></p> <p><i>I would recommend a watch position.. This refers to negotiated health benefit coverage and even though it is negotiated, legislation has already been imposed in the past to reduce the impact of the liability to employer agencies.</i></p>
<p><u>Applicability: (R)</u></p> <p>Applies to all California public employers - state, local, special districts University of California and the California State Teachers Retirement System (do we need to include STRS?).</p>	<p><i>ACCCA can support this provision within the proposal assuming that any changes made to public employee pension plans include all employee groups.</i></p>
<p><u>Prohibit Employers from Making Employee Pension Contributions</u></p> <p>All California public agencies would be prohibited from making employee contributions that fund the normal cost of employee retirement benefits in whole or in part. (RN 14777)</p>	<p><i>ACCCA can support this provision within the proposal.</i></p>

INITIATIVE PROPOSALS UNDER CONSIDERATION

<p>Tax Public Pensions Over \$100,000 Act</p>	<p>Proposes a tax of 15% above the current 11% state tax on all public retirement plans paying over \$100,000 per year.</p> <p>Proposes a tax rate of 25% above the current 11% state tax on all public retirement pensions paying over \$149,000</p>	<p>ACCCA opposes this recommendation on the basis that is selective to one class of retiree.</p> <p>Requires 807,615 valid signatures by February 3, 2012, to qualify</p>
<p>Raise Public Retirement Age Act</p>	<p>This initiative would establish the minimum age for retirement at full pay at 65 and the retirement age for public safety officers for full pay at 58.</p>	<p>ACCCA takes a Watch Position on this legislation.</p> <p>Requires 807,615 valid signatures by February 3, 2012, to qualify</p>
<p>Pension Solvency Act</p>	<p>This Act creates a receivership for pension funds that are insolvent that control the funds until such time as the fund is solvent and provides for significant control over pension costs during such receivership.</p> <p>Under the Act the following rules will apply:</p> <ul style="list-style-type: none"> • Retirement will be computed only on base pay. • No other creditable compensation will be included in the retirement computation. • Special payments can resume on solvency of the fund, but may not be retroactive. • In the event of insolvency of a fund the legislated COLA will be paid at 50% and shall not be returned to 100% until the fund is solvent. • Upon passage members of the retirement fund will be informed of the retirement amount based on base pay for that year. • Retirement payments under the act shall be subject to the First Year Solvency Index and shall apply to retirees regardless 	<p>ACCCA takes a Watch Position on this legislation.</p> <p>Requires 504,760 valid signatures by February 10, 2012, to qualify</p>

	<p>of the State of residence</p> <ul style="list-style-type: none"> • Each public pension fund shall stand alone and corrections shall apply separately to that fund. • The most recent mortality rate shall be calculated as of June 1 of each year and shall apply to that fund • The minimum retirement age for retirees while the fund is managed under the act shall be 59.5 years. • There is a special provision for continuing services under the Cal PERS medical plan. • There are various provisions for declaring the insolvency of the fund and for the continued administration of the fund. • California Supreme Court Judges retirement system is excluded from the act on the basis of a conflict of interest. • An Investigation shall be instituted on the management of the funds for fraud and corruption in the operation of the act. • An investigation will be instituted on all public retirees earning in excess of \$250,000 in retirement and the Boards that approved the payments to ensure that fraud or corruption was not involved in the setting of the pension rate. • If fraud is determined the funds shall be reimbursed to the fund and penalties can be assessed up to \$1,000,000. • The Act sets a cap on retirees of \$100,000 per year • The base pay Cap of \$100,000 shall be subject to the annual COLA. • No other payments to the employee other than base pay shall be used to calculate the retirement rate. • Any collective bargaining agreement 	
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	<p>found to be in violation of the Act shall be declared insolvent and the terms of the contract will have to be renegotiated.</p> <ul style="list-style-type: none"> • This is where the Act gets complicated because it creates a new entity entitled Cal SPERS and operated under Cal PERS. There are new limits created under the Act that create a cap of earnings of \$100,000. • The COLA is established as 2% at age 63 • Retirement calculations will be based on 60 month average • Non salaried members will be calculated on the basis of all years of service. • Non salaried member's contributions will be calculated on the first \$150,000 of annual income. • COLA adjustments for this group will be made every 19 years. • A buy-in of up to five years of service shall be available to all military personnel under the Act. • Members that work 20 hours a week or more are eligible to join the Cal SPERS system • You must be a legal resident of the United States <p>Various provisions are made for contributions to 403b , 457, and 401K programs but the program will remain a "Defined Benefit " program</p>	
<p>Fair and Proportional Retirement for Public Officials Act of 2012</p>	<p>would limit the pension and other postemployment benefits of elected public officials and/or appointed government administrators to the most restrictive rules and the lowest retirement compensation and benefits for a subordinate employee group within that public entity</p>	<p>Requires 504,760 valid signatures by March 8, 2012, to qualify</p>

<p>Government Employee Pension Reform Act of 2012 – Version #1</p>	<p>would prohibit unfunded pension liabilities from being accumulated for new employees, limit the employer contributions to retirement plans, implement a three-year final compensation calculation for employees retiring after June 30, 2016, among other provisions</p>	<p>Requires 807,615 valid signatures by June 7, 2012, to qualify</p>
<p>Government Employee Pension Reform Act of 2012 – Version #2”</p>	<p>is similar to #11-0063, but incorporates some of the Governor’s Twelve-Point Plan</p>	<p>Requires 807,615 valid signatures by June 7, 2012, to qualify</p>