SUMMARY OF CONFERENCE COMMITTEE REPORT
PENSION REFORM

- The comprehensive pension reform proposal that is contained in the Conference Committee Report is based on the Governor's 12-Point Pension Reform Plan. As Gov. Brown notes, it will save billions of dollars by capping benefits, increasing the retirement age, stopping abusive practices and requiring state employees to pay at least half their pension costs.

- The Conference Committee Report includes 10 of the 12 points included in the Governor's original plan. As an alternative to the hybrid plan proposed by the Governor, we have included a hard cap on the amount of compensation that can be used when calculating a retirement benefit. There are only two provisions of the 12-Point Plan that were not included and those were the changes to the CalPERS Board of Administration and the proposal to increase state retiree health care vesting. The Governor chose to drop the CalPERS Board issue, and, on health care vesting, state employee bargaining units have shown a willingness to bargain over this issue so the Conference Committee believed it should remain subject to collective bargaining.

- Additionally, in order to achieve our goal of comprehensive reform, we have included numerous pension reform changes that were included in bills going through the Legislature this session but were not included as part of the Governor's plan. Finally, the Report includes a number of other changes that are part of the comprehensive pension reform.

<u>Items Included from the Governor's 12-Point Plan:</u>

1. **Stop Spiking from Final Compensation:** Requires that final compensation be defined for all new employees as the highest average annual compensation over a three-year period. (This is similar to SB 526, Walters, from last year.)

2. **Stop Spiking from Special Compensation:** Requires that compensation for all new public sector employees be defined as the normal rate of regular, recurring pay, excluding special bonuses, unplanned overtime, payouts for unused vacation or sick leave, and other pay perks.

3. **Eliminate Double-Dipping:** Limits all non-safety employees who retire from public service from working more than 960 hours or 120 days per year for a public employer. Additionally, the Conference Committee Report requires a 180-day "sit-out" period before a retiree could return to work. A retiree would be allowed to return as an annuitant before 180 days if the appointment is approved by the governing body of the local agency in a public meeting and is necessary to fill a critically needed position. (This is similar to AB 344, Furutani, and SB 27, Simitian from last year.)

4. **Felons Forfeit Pension Benefits:** Requires public officials and employees to 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. (This is similar to numerous bills introduced this session, including AB 1433, Fuentes, AB 1649, Smyth, AB 1653, Cook, AB 1681, Smyth, and ACA 26, Smyth, and SB 1057, Huff.)

5. **Eliminate Retroactive Pension Increases:** Prohibits applying pension improvements to prior service. (This is similar to SB 526, Walters, from last year.)

6. **Eliminate "Pension Holidays":** Prohibits all employers from suspending employer and/or employee contributions necessary to fund annual pension costs. (This is similar to AB 1320, Allen, from last year.)

7. **Eliminate Airtime:** Ends the ability of a public employee to purchase nonqualified service or "airtime." (This is similar to SB 522, Walters, from last year.)

   AB 2224 and ACA 22, Smyth, and SB 1176 and SCA 18, Huff, also included provisions from the Governor's 12-point plan.

<u>Items included from the Governor's 12-Point Plan but Modified:</u>

1. **Equal Sharing of Pension Cost:** Requires all new employees and current state employees to contribute 50% of the normal cost of their pension benefits. Current local employees would be required to reach the 50% level through collective bargaining by January 1, 2018.

2. **Cap Eliminates $100k Club:** Requires all new public sector employees to participate in a retirement plan where the amount of compensation that can be used to determine a defined benefit plan is capped at the Social Security wage limit ($110,000) or 120% of that limit if they do not participate in Social Security.

3. **Increase Retirement Ages:** Implements a 2% at age 62 defined benefit component of the hybrid plan for all new non-safety employees and adjusts the retirement formulas to encourage members to retire at later ages. The earliest an employee would be eligible to retire is age 52 (increased from age 50) and the formula tops out at 2.5% at age 67 (increased from 63). Additionally, eliminates the 3% at age 50 safety retirement formulas and reduces the number of available retirement formulas for the defined benefit component of the hybrid plan for safety members to three – 2% at age 57; 2.5% at age 57; and, 2.7% at age 57.

<u>Legislative Pension Reforms Included in the Report:</u>

1. **AB 340, Furutani:** Prohibits certain cash payments for current employees from being counted as compensation earnable for retirement purposes in counties operating retirement systems pursuant to the County Employees' Retirement Law of 1937.

2. **AB 1184, Gatto:** Requires CalPERS to determine what constitutes excessive compensation paid by a public employer that creates a significant liability for a former employer (which may occur due to reciprocity when final compensation is applied to all years of service), and to develop a plan to assess that excess liability to the employer who paid the excessive compensation.

3. **AB 1184, Gatto:** Prohibits a retirement board from administering, and a public employer from offering, a benefit replacement plan for any new member who is subject to the IRC Section 415(b) benefit limit.

4. **AB 1874, Mansoor:** Prohibits newly elected statewide officers and legislative officers, such as the Chief Clerk of the Assembly and the Secretary of the Senate, from participating in the Legislators' Retirement System. They would continue to be optional members in CalPERS.

5. **AB 1639, Hill:** Requires all public retirement systems in California to adhere to the federal compensation limit under Internal Revenue Code (IRC) Section 401(a)(17) when calculating retirement benefits for members who first join the retirement system on or after January 1, 2013, and prohibits a public employer from making contributions to any qualified public retirement plan based on any portion of compensation that exceeds that amount. (This is similar to AB 89, Hill, from last year and, from this year.)

<u>Other Pension Reforms Included in the Report:</u>

1. Eliminate the ability of an employer to provide better health benefit vesting schedule to non-represented employees than it does for represented employees.

2. Prohibit local elected members from being eligible for salary reciprocity for elected service.

3. Require a public retiree appointed to a full time state board or commission to suspend their retirement allowance and or serve as a non-salaried member of the board or commission.