



CalPERS - California Public Employees' Pension Reform Act of 2013 (PEPRA)

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Agenda

- AB 340
- Membership (CalPERS)
- Benefit Formula
- Employer and System Impact
- Employer and Member Contributions (EE/ER)
- Pensionable Compensation Cap
- Employer and System Impact
- Final Compensation (PEPRA)
- Working After Retirement (PEPRA)
- Important Dates
- Questions

Assembly Bill 340



- Assembly Bill 340 - California Public Employees' Pension Reform Act of 2013 (PEPRA)
- August 31, 2012 – adopted by Legislature
- September 12, 2012 – signed by Governor Brown
- January 1, 2013 – AB 340 takes effect

NOTE: This bill affects all state and local public retirement systems and their participating employers

CalPERS Membership (PEPRA)



Classic CalPERS Members

- All existing CalPERS members as of December 31, 2012
- A member that has a break in service of more than six months but returns to service with the same employer
- All members that do not fit within the definition of a new member

Note: All state agencies, including CSU, are treated as a single employer under PEPRA, as are all school employers

New CalPERS Members

- A new hire who has no prior membership in any California public retirement system prior to January 1, 2013
- A new hire who is not eligible for reciprocity with another California public retirement system
- A member who first established CalPERS membership prior to January 1, 2013, and who is rehired by a different CalPERS employer after a break in service of greater than six months
- Any person changing retirement systems that did not have prior membership e.g. (STRS to PERS) etc.

Benefit Formulas (PEPRA)



CalPERS Classic Members

School Members Formula

- ❖ 2% @ 55
- ❖ Max benefit 2.5% at Age 63
- ❖ Min benefit 1.10% at Age 50 with 5 years vested service
- ❖ **7% Employee contribution**
- ❖ **11.417% Employer contribution**

CalPERS New Members

School Members Formula

- ❖ 2% @ 62
- ❖ Max benefit 2.5% at Age 67
- ❖ Min benefit 1.10% at Age 52 with 5 years vested service
- ❖ **6% Employee contribution**
- ❖ **11.417% Employer contribution**

Note: Reduced benefit formulas and increased retirement age provisions under PEPRA create new defined benefit formulas for all new miscellaneous (non-safety) and safety members.

Employer and System Impact



Benefit Formulas (PEPRA)

- CalPERS will work with employers to update the employers' contract(s) either at the time of a future amendment or as soon as practicable. It will take approx. two years to complete the update process for all employers.

- 2018 districts will be able to negotiate employee rate to maximum % equal to 50% of total contributions (i.e. 8.4% employee and employer contribution)
 - Employer Rate 11.417%
 - Employer Reduction Rate 1.603%
 - Employee Rate 7% - Classic Member
 - Employee Rate 6% - New Member

Pensionable Compensation Cap - (PEPRA)



CalPERS Classic Members

- Compensation Cap for members hired after January 1, 1996 is set by the Internal Revenue Service and is referred to as the 401(a)(17) limit. CalPERS will continue to cap contributions for affected classic members at the 401(a)(17) limit.
- Currently, CalPERS does not cap employer contributions at the 401(a)(17) limit and does not intend to cap employer contributions at the **PEPRA limits** for at least the next two years.

CalPERS New Members

- Members that participate in Social Security for 2013 will have a cap of \$113,700 (100% of the 2013 Social Security contribution and benefit base)
 - Employees that do not participate in Social Security will have a cap of \$136,440 (120% of the 2013 contribution and benefit base)
 - Adjustments to the caps are permitted annually based on changes to the Consumer Price Index for All Urban Consumers
- Note:** Cap applies to highest Pensionable Compensation for New Members in a calendar year.

Employer and System Impact



Classic and New CalPERS Members Compensation Cap

- Employers will report full pay rate and actual earnings for all members in my CalPERS and the system will flag and notify the employer when the contribution limit has been reached for that calendar year. Member contributions must stop when the member's actual earnings reach the contribution limits outlined.
- CalPERS is still researching special compensation. CalPERS will provide a circular letter at a later date.
- Cap applies to Pensionable Compensation only.

Final Compensation (PEPRA)



CalPERS Classic Members

- Will continue to be eligible for one year final compensation

CalPERS New Members

- PEPRA requires that a three-year final compensation period be used to calculate the average final compensation for a retirement calculation (goes by highest pensionable compensation)

Working After Retirement (PEPRA)



All Members Requirements

- All employees who retire from public service will be prohibited from working more than 960 hours per calendar or fiscal year for any public employer in the same public retirement system that the individual is retired from without reinstating from retirement.
- CalPERS retirees who are hired as independent contractors or consultants with a direct relationship, for purposes of this section, are considered retired annuitants and must also be reported and tracked in my CalPERS

Sit-out period

- A 180 day waiting period is required for all employees who retire from a public employer before a retiree can return to work without reinstating from retirement, except under certain specified circumstances. The 180 day waiting period starts from the date of retirement.

Note: 180 day waiting period applies to all members (Classic or New), retired on January 1, 2013 or later.

Important Dates



- December 31, 2012
 - Application requests for nonqualified service credit, or “airtime” must be submitted and stamped as received by CalPERS on or before December 31, 2012. Only applications from individuals who qualify to purchase ARSC on or before December 31, 2012 will be accepted. **(Service credit purchases for qualified military service will still be allowed)**
 - Members should have a membership date established and in place prior to or no later than December 31, 2012 to fall under the existing benefit structure.

- January 1, 2013
 - AB 340 goes into effect
 - Non-qualified service or airtime will be eliminated

Questions





CalSTRS - California Public Employees' Pension Reform Act of 2013

Public Employees Pension Reform Act of 2013



Agenda

- AB 340
- Membership (CalSTRS)
- Creditable Compensation
- Compensation not Creditable
- Creditable Compensation Cap
- Impact on Employer Reporting
- Equal Sharing of Pension Cost
- Impact on Employer Reporting
- Limit Posts Retirement Employment
- Change Age Factors and Eliminations
- Three Year Final Compensation
- Employer and System impacts (Wage Types)
- Changes That Do Not Affect Employer Reporting
- Retirement Contribution Questionnaire
- Important Dates to remember
- Questions

Assembly Bill 340



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Membership (CalSTRS)



Current CalSTRS Members – (2% at 60)

- Any person hired to perform creditable service prior to January 1, 2013
- Referred to as CalSTRS 2% at 60

Note: The 2% at 60 and 2% at 62 designation DOES NOT create a separate class of employees

New CalSTRS Members - (2% at 62)

- Any person hired to perform creditable service on or after January 1, 2013
- Referred to as CalSTRS 2% at 62

Note: The 2% at 62 and 2% at 60 designation DOES NOT create a separate class of employees

Creditable Compensation (CalSTRS)



Current CalSTRS Members – (2% at 60)

- Creditable compensation remains the same (No Changes)
- Continue to report special compensation e.g. (bonuses, stipends, or other compensation not included in an employee's base pay)

New CalSTRS Members – (2% at 62)

- Only compensation that is part of a members base salary is credited to the Defined Benefit Program
- New members having more than one year of service credit in a school year due to overtime or working additional assignments, the compensation will be credited to the Defined Benefit Supplemental Program

Note: Compensation can not exceed the compensation cap

Compensation Not Creditable (CalSTRS)



Current CalSTRS Members – (2% at 60)

- All earnings are creditable (no changes)

New CalSTRS Members - (2% at 62)

- Compensation that is not regularly payable and not based on a salary schedule
- Bonuses and allowances, cash in lieu, compensation determined to have been paid for the purposes of enhancing a benefit

Creditable Compensation Cap (CalSTRS)



Current CalSTRS Members – (2% at 60)

- Members hired prior to July 1, 1996, do not have a cap
- Members hired between July 1, 1996, and December 31, 2012 the cap limit is \$250,000

New CalSTRS Members – (2% at 62)

- Maximum compensation earnable is 120% of 2013 limit which Social Security wage base are determined and Social Security payroll taxes are paid
- 2013 Cap = \$136,440
- Cap for future years will be adjusted annually for changes in the Consumer Price Index for All Urban Consumers

Impact on Employer Reporting



New CalSTRS Members (2% at 62)

Calculate Benefits Based on Normal Monthly Rate of Pay or Base Pay Impact:

- Employers must only report compensation based on the normal monthly rate of pay, base pay or back pay. Bonuses, stipends, or other compensation not included in employees' base pay is not reportable to CalSTRS.

Example: A lottery bonus paid to a class of employees is not reportable for those employees hired on or after January 1, 2013 but is reportable for those hired prior to that date.

Action Required by Employer:

- Employers should only report compensation based on salary or back pay and not report special compensation (contribution code 6).

Cap on Compensation Impact:

- Employers will report the actual pay rate and earnings. Once a member's earnings reach the cap, contributions are no longer due. However, employers must continue to report the actual pay rates and earnings without contributions. (This is necessary for CalSTRS to properly calculate service credit for the member).

Example: A member meets the contribution cap, report normal pay rate and earnings but report contributions as blank or zero.

Action Required by Employer:

- Employers must report contribution amount data and remit the appropriate contributions relative to the compensation cap.

CalSTRS (SEW):

- New enforced Defined Benefit edits will monitor contributions reported. Edits will allow zero contributions if member has met the cap. There will be a new field on REAP to identify the contributions reported for the fiscal year.

Equal Sharing of Pension Cost



Current CalSTRS Members – (2% at 60)

- Ed Codes remain:
8% Employee
8.25% Employer

New CalSTRS Members – (2% at 62)

- Members pay at least 50% of the normal, ongoing cost of benefits or the current contribution rate
- Employer contribution rate is at least the normal cost minus the member contribution rate
- Teachers' Retirement Board must establish the normal cost of the new benefit plan and thereby determine the contribution rates

Note: No changes to contribution rates until the STRS Board takes further action. Rates will remain 8% Employee and 8.25% Employer

Impact on Employer Reporting (CalSTRS)



New CalSTRS Members (2% at 62)

Equal Sharing of pension costs Impact:

- There will be no impact on the employer reporting at this time, contribution rates will not change for the 2012/2013 fiscal year.

Action required by employer:

- None at this time, however, employer payroll systems must be modified to report contribution lines based on contribution rates in effect for a given fiscal year. In addition, calculation of contributions due must reflect the contribution rates in effect for the given fiscal year.

Limit Posts Retirement Employment



Applies to all CalSTRS members

- Zero dollar earnings limit for first 180 calendar days following retirement after January 1, 2013 regardless of age
- Earnings limit 2012-2013 - \$40,011
- Earnings limit 2013-2014 - ? Will come out in May 2013
- Does not affect Employer reporting

Change Age Factors (CalSTRS)



Current CalSTRS Members – (2% at 60)

- Normal retirement age 60 with a 2% age factor
- Minimum retirement age 52 with a 1.22% age factor
- Age for maximum age factor 63 with a 2.4% age factor

New CalSTRS Members – (2% at 62)

- Normal retirement age increases to age 62 with a 2% age factor
- Minimum retirement age increases to age 55 with a 1.16% age factor
- Age for maximum age factor increases to 65 with a 2.4% age factor

Note: Eliminates career factor and Replacement Benefits Program

Three Year Final Compensation (CalSTRS)



Current CalSTRS Members – (2% at 60)

- Will continue to be eligible for one year final compensation if they meet the 25-year service credit requirement at the time of retirement

New CalSTRS Members – (2% at 62)

- Will receive a retirement benefit based on the average of their highest salary rate over three consecutive school years, not to exceed the compensation cap
- Eliminates one year final compensation for 25 years of service credit
- Eliminates one year final compensation paid for by employer

Employer and CalSTRS System Impacts



CalSTRS File Format

- No changes to file length or file layout and no new fields

Match File Response File

- New field to identify accounts as 2% at 60 or 2% at 62 (information will be at the end of the response file)

Changes that may impact employers' system

- Future contribution rate changes for 2% at 62 members
- Prevent contribution code 6 and Assignment code 71 reporting for 2% at 62 members

Changes That (Do Not) Affect CalSTRS Employer Reporting



Pension Reform changes that do not affect employer reporting

- Limit Posts Retirement Employment (all CalSTRS members)
- Change Age Factors and Eliminate Career Factor (2% at 62)
- Three Year Final Compensation (2% at 62)
- Eliminate Replacement Benefit Program (2% to 62)
- Prohibit Retroactive Benefit Increase (all members)
- Prohibit Pension Holidays (all members)
- Prohibit Purchase of Nonqualified Service (all members)

Retirement Contribution Questionnaire



- To assist us in being in compliance with AB 340, please make sure that this questionnaire is included in each hiring packet for all employees'. This will assist us in making sure they are enrolled into the correct status for membership.
 - Self Certification Form

Important Dates



- **December 31, 2012**
 - Application requests for nonqualified service credit, or “airtime” must be received prior to 5:00p.m. on December 31,2012
 - Members should have a membership date established and in place prior to or no later than December 31, 2012 to fall under the existing benefit structure.
- **January 1, 2013 –AB 340 goes into effect**

Questions

