CITY OF GLENDALE, CALIFORNIA
REPORT TO THE:

Joint ☐ City Council ☒ Housing Authority ☐ Successor Agency ☐ Oversight Board ☐

February 10, 2015

AGENDA ITEM

Report: Informational Report Reviewing the City's Public Pension System Pre and Post Public Employee Pension Reform Act of 2013.

1. Motion to note and file.

COUNCIL ACTION

Public Hearing ☐ Ordinance ☐ Consent Calendar ☐ Action Item ☒ Report Only ☐

Approved for ____________________ calendar

ADMINISTRATIVE ACTION

Signature

Prepared by:
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Approved by:
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Reviewed by:
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Yasmin Beers, Assistant City Manager ____________________

Matt Doyle, Director of Human Resources ____________________

Bob Elliot, Director of Finance ____________________

RECOMMENDATION

Staff respectfully recommends that the City Council accept this informational report and adopt a motion to note and file.

BACKGROUND/ANALYSIS

PERS Historical Background

Discussion about providing for the retirement of California State employees began in 1921, but only in 1930 did California voters approve an amendment to the State Constitution to allow pensions to be paid to State workers, and only in 1931 was State law passed to establish a State worker retirement plan. In 1932, the "State Employees' Retirement System" (SERS) began operation and in 1939, the State Legislature passed a bill that allowed local public agencies (such as cities, counties, and school districts) to participate in SERS. Initially, SERS could invest only in bonds, but in 1953 a new State law allowed SERS to invest in real estate.

By 1967 SERS was contracting with 585 local public agencies for retirement benefits, resulting in the change of their name to the "Public Employees' Retirement System" (PERS). To avoid confusion with public employees' retirement systems in other states, the organization's name was changed again to "CalPERS" in 1992. Today, CalPERS administers health and retirement benefits on behalf of more than 3,000 public school, local agency, and State employers with more than 1.6 million members in the retirement system and more than 1.3 million in the health plans.

The legal authority under which CalPERS operates is derived from the constitution, laws, and regulations of the State of California, including:

- California Constitution, Article XVI, Section 17, under which (as amended by Proposition 162) "the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system".
- California Government Code, Title 2, Division 5, Parts 3-8 (Sections 20000-22970.89). Among other parts, Part 3 covers the administration of the retirement system including membership, contributions, and benefits; and Part 5 covers the Public Employees' Medical and Hospital Care Act on health benefits.
- California Code of Regulations, Title 2, Division 1, Chapter 2, Sections 550-559.554.

Who Manages CalPERS?

The CalPERS Board consists of 13 members who are elected, appointed, or hold office as ex-officio members. The Board composition is mandated by law and cannot be changed unless approved by a majority of the registered voters in the State. The specific Board composition is as follows:

Six elected members:

- Two elected by and from all CalPERS members;
- One elected by and from all active State members;
- One elected by and from all active CalPERS school members;
- One elected by and from all active CalPERS public agency members (employed by contracting public agencies); and
- One elected by and from the retired members of CalPERS.

Three appointed members:

- Two appointed by the Governor - an elected official of a local government and an official of a life insurer; and
- One public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee.

Four ex-officio members:

- The State Treasurer;
- The State Controller;
- The Director of the California Department of Human Resources; and
- A designee of the State Personnel Board.

What Exactly Does CalPERS Provide?

CalPERS offers a "defined benefit" (DB) plan which provides benefits to all full-time salaried employees who begin paying into the CalPERS system beginning with their first full day of employment, but do not become fully vested in the system until they have completed five years of employment. Similarly, hourly employees begin paying into the system once they have completed 1,000 hours of employment.

There are three types of retirement offered:

- Service retirement or "normal" retirement;
- Disability retirement for members who can no longer perform their jobs due to illness or injury; and
- Industrial disability retirement for safety members, or those members whose employer has contracted for industrial disability benefits, whose job-related injuries or illnesses resulted in disability, making them unable to continue working.

These retirement benefits are calculated using a "defined formula" which is calculated using a member's years of service credit, age at retirement, and final compensation, otherwise known as the benefit factor. Unlike 401(k) style defined contribution plans, member contributions and investment returns do not factor into the retirement benefit. More specific information and examples related to this are found later in this report.

There are a variety of retirement formulas that are determined by the member's employer (State, school, or local public agency); occupation [miscellaneous (general office and others), safety, industrial, or peace officer/firefighter]; and the specific provisions in the contract between CalPERS and the employer.

CalPERS also provides death benefits for active and retired members paid to eligible beneficiaries or survivors. In addition to these programs, CalPERS administers retirement benefits for the Legislators' Retirement System, Judges' Retirement System, and Judges' Retirement System II.

Benefit Formulas Available to Agencies (Pre-PEPRA and Post PEPRA)

On September 12, 2012, Governor Edmund Brown signed into law Assembly Bill 340 (Furutani), which has come to be known as the Public Employees’ Pension Reform Act of 2013 (PEPRA). To provide perspective on the emergence of this far-reaching effort to reform public employee pensions, it’s important to reflect upon the actions of the State legislature during Governor Gray Davis’ leadership in the 1990’s.

Under SB 400 passed by the California legislature in 1999, the legislature, in collaboration with CalPERS, paved the way for public safety employees to retire as early as age 50 with 3% of their highest annual salary. Furthermore, SB 400 retroactively placed employees in the more expensive pension system, which lowered the retirement age for all State workers. With respect to costs associated with this shift in the pension plan, public agencies were assured by CalPERS that no employer contribution increases would be required for these benefit improvements. The reason behind such statements was associated with the significant investment return rates which CalPERS was experiencing during this time period.

The passage of SB 400 immediately placed pressure on local agencies to provide these same new benefits. Inasmuch as CalPERS was "super-funded" at the time [where employer annual pension contributions equaled $0], agencies negotiated changes to their respective collective bargaining agreements in an effort to remain competitive in the labor market. Following the severe economic downturn that soon followed, CalPERS increased employer contribution rates to recoup their investment losses. In many cases, these increases to employer contributions resulted in significant rate implication to local agencies, leading to serious budgetary impacts on local budgets. While local agencies, specifically Glendale, identified and proactively worked with their respective bargaining units to mitigate these cost increases, the State legislature, under the leadership of Governor Brown, implemented PEPRA in 2013, changing the terms of pension plans for public sector employees. The impacts and implications of this legislation are discussed in further detail within this report.

Prior to the passage of PEPRA, agencies were free to choose from the following retirement options:

Miscellaneous Formulas
2% @ 60
2% @ 55
2.5% @ 55
2.7% @ 55
3% @ 60
Safety Formulas
2% @ 55
2% @ 50
3% @ 55
3% @ 50

Upon the passage of PEPRA, for all new miscellaneous members hired after 1/1/13, the new defined benefit formula is 2% @ 62, with an early retirement benefit factor of 1% @ 52 and a maximum benefit factor of 2.5% @ 67. The table below reflects the reduced benefit formulas compared to pre-PEPRA formulas.

Miscellaneous Formulas	
Pre-PEPRA Formula	**Post-PEPRA Formula**
1.5% @ 65	1.5% @ 65 (retain existing formula)
1.25% @ 65	1.25% @ 67
All others	2.0% @ 62
Safety Formulas	
Pre-PEPRA Formula	**Post-PEPRA Formula**
3% @ 50, 3% @ 55, 2% @ 50	2.7% @ 57
2.5% @ 55	2.5% @ 57
2% @ 55, 2.5% @ 60, 1/2 @ 55	2.0% @ 57

How Are PERS Retirement Benefits Calculated?

The City of Glendale has two categories of employees within the CalPERS system: safety employees and miscellaneous employees. Each group has a different pension formula depending on an employee's specific hire date, as reflected in the table below.

Glendale PERS Formulas

Employee Classification	Start Date	Category	PERS Formula
Miscellaneous Employees	Hired Prior to 1/1/11	Classic Member (1st Tier)	2.5% @ 55
Miscellaneous Employees	Hired After 1/1/11	Classic Member (2nd Tier)	2.0% @ 55
Miscellaneous Employees	Hired After 1/1/13	New Member (PEPRA)	2.0% @ 62
Sworn Fire Employees	Hired Prior to 1/1/11	Classic Member (1st Tier)	3.0% @ 50
Sworn Fire Employees	Hired After 1/1/11	Classic Member (2nd Tier)	3.0% @ 55
Sworn Fire Employees	Hired After 1/1/13	New Member (PEPRA)	2.7% @ 57
Sworn Police Employees	Hired Prior to 1/1/12	Classic Member (1st	3.0% @ 50
Sworn Police Employees	Hired After 1/1/12	Classic Member (2nd Tier)	3.0% @ 55
Sworn Police Employees	Hired After 1/1/13	New Member (PEPRA)	2.7% @ 57

As stated previously, retirement benefits are calculated using a member's years of service credit, age at retirement, and final compensation. As illustrated in the following table, the result is converted to a percentage and multiplied by the employee's final compensation to determine the final retirement benefit.

Classification	Avg. years of Service		Benefit Factor		% of Compensation		Monthly Comp. Rate		Retirement Benefit / month
Accountant (retiring at age 55)	25	X	2.5%	=	62.5%	=	$5,461	=	$3,413
Accountant (retiring at age 62)	25	X	2%	=	50%	=	$5,461	=	$2,730
Police Officer (retiring at age 50)	25	X	3%	=	75%	=	$8,212	=	$6,159
Police Officer (retiring at age 57)	25	X	2.7%	=	67.5%	=	$8,212	=	$5,543
Firefighter (retiring at age 50)	25	X	3%	=	75%	=	$7,882	=	$5,911
Firefighter (retiring at age 57)	25	X	2.7%	=	67.5%	=	$7,882	=	$5,320

Pension Reform in Glendale

The City of Glendale has long been at the forefront of pension reform efforts at the local level. Most CalPERS member agencies pay all or most of their employees' "employee contribution". Employer contribution rates are established and adjusted annually by the CalPERS Board of Administration. Rates are determined based on an actuarial valuation of CalPERS' liabilities and assets.

Since the 1980's, the City has worked with its bargaining groups to have employees pay the full "Employee Share" of the PERS contribution. Until most recently, most surrounding cities did not require any contribution by employees to the "employee contribution". Moreover, starting in 2001-2002, the City was successful in negotiating for employees to pay a portion of the "Employer Contribution" of the PERS contribution.

Over the past 10 years, this "Employer Contribution" has steadily increased. This sharp increase over the past three years is a direct result of losses CalPERS suffered in its investment portfolio due to ongoing turbulence in the financial markets. The "Employer Contribution" is a significant contributing factor to economic challenges facing municipal governments throughout California.
The amount current employees contribute toward the "Employer Contribution" are currently as follows:

Glendale's Total Cost-Sharing Percentages (Detail) (Exhibit 1)

Employee Group	City of Glendale Hire Date	CalPERS Membership	Retirement Formula	Member Contribution Employee Rate		Employer Rate		Total Rate (% of payroll)		Total PERS Rate (% of payroll)
Miscellaneous Employees				Employee	City	Paid by Employee (Cost-Sharing)	Paid by City	Employee	City	Employee + Employer Rates
GCEA (General Employees)	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	3.00%*	14.464%	11.00%	17.464%	28.464%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	3.00%*	14.464%	10.00%	17.464%	27.464%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	3.00%*	14.464%	9.75%	17.464%	27.214%
IBEW (International Brotherhood of Electrical Workers)	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	0.50%	16.964%	8.50%	17.464%	25.964%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	0.50%	16.964%	7.50%	17.464%	24.964%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	0.50%	16.964%	7.25%	17.464%	24.714%
GMA (General Managers)	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	3.00%	14.464%	11.00%	17.464%	28.464%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	3.00%	14.464%	10.00%	17.464%	27.464%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	3.00%	14.464%	9.75%	17.464%	27.214%
Executives	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	3.00%	14.464%	11.00%	17.464%	28.464%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	3.00%	14.464%	10.00%	17.464%	27.464%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	3.00%	14.464%	9.75%	17.464%	27.214%
Safety Employees (Sworn)										
GPOA (Police Association)	Hired before 1/1/2012	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired between 1/1/2012 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.468%	15.50%	34.968%	50.468%
GFFA (Fire Association)	Hired before 1/1/2011	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.968%	15.50%	35.468%	50.968%
GMA - Police (Police Management Association)	Hired before 1/1/2012	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired between 1/1/2012 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.468%	15.50%	34.968%	50.468%
GMA - Fire (Fire Management Association)	Hired before 1/1/2011	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.968%	15.50%	35.468%	50.968%

* As a result of a PERS contract amendment between the City of Glendale and the Glendale City Employees' Association (GCEA) adopted in January 2014, the 3% cost-share of the employer rate paid by the employee is reflected as a credit to the employee contribution on the employee's annual PERS statement.

Glendale's Total Cost-Sharing Percentages (Summary)

Employee Group	Pension Formula	Employee Contribution	Employer Contribution	Employee Cost Share of Employer Contribution	Total Employee PERS Contribution
Miscellaneous	2.5% @ 55	8.0%	17.46%	.5% ~ 3.0%	8.5% ~ 11%
Miscellaneous	2.0% @ 55	7.0%	17.46%	.5% ~ 3.0%	7.5% ~ 10%
Miscellaneous	2.5% @ 67	6.75%	17.46%	.5% ~ 3.0%	7.25% ~ 9.75%
Safety	3.0% @ 50	9.0%	30.3%	3.0% ~ 3.5%	12% ~ 12.5%
Safety	3.0% @ 55	9.0%	30.3%	3.0% ~ 3.5%	12% ~ 12.5%
Safety	2.7% @ 57	12.0%	30.3%	3.0% ~ 3.5%	15.0% ~ 15.5%

In the preceding table, the "Total Employee PERS Contribution" is represented by a range between 8.5% and 15.5%. This difference is representative of both an employee's date of hire as well as each bargaining group's negotiated cost sharing percentage as follows:

Employee Cost Sharing Percentage by Bargaining Group

IBEW	0.5%
GCEA	3.0%
GMA and Executives	3.0%
GFFA	3.5%
GPOA	3.5%

In addition to sharing of PERS employer contribution costs, Glendale employees have historically collaborated in helping navigate tough economic times. The following table illustrates some of the additional concessions achieved over the last several years as the City has faced serious cutbacks and restructuring efforts:

Salary & Pension Concessions Since 2008

Bargaining Group	Cost of Living Adjustment	Pay Reduction	Cost-Sharing & Other Concessions
Executives	**2008:** 0% COLA **2009:** 0% COLA **2010:** 0% COLA **2011:** 0% COLA **2012:** 0% COLA **2013:** 0% COLA **2014:** 0% COLA		**2010:** 1.5 pay reduction in take-home pay due to increased PERS cost-sharing **2010:** Increased medical benefit cost-sharing from 10%-50%. **2011:** 1.0% pay reduction in take-home pay due to increased PERS cost-sharing **2011:** Assumed 100% of medical premium increase **2012:** Went back to 50/50 split of medical premiums
GMA	**2008:** 3% COLA **2009:** 0% COLA **2010:** 0% COLA **2011:** 0% COLA **2012:** 0% COLA **2013:** 0% COLA **2014:** 0% COLA		**2009:** Agreed to forego a negotiated inequity pay increase affecting over 60 job classifications **2010:** 1.5% pay reduction in take-home pay due to increased PERS cost-sharing **2010:** Increased medical benefit cost-sharing from 10%-50% **2011:** 1.0% pay reduction in take-home pay due to increased PERS cost-sharing **2011:** Assumed 100% of medical premium increase **2012:** Went back to 50/50 split of medical premiums
GCEA	**2008:** 3.0% COLA **2009:** 0% COLA **2010:** -1.5% PAY **2011:** 0% COLA **2012:** 0% COLA **2013:** 1.5% COLA **2014:** 0% COLA	**2010:** 1.5% pay reduction **2013:** Reinstatement of 1.5% pay reduction	**2011:** 1% pay reduction in take-home pay due to increased PERS cost-sharing **2013:** 1.5% pay reduction reinstated but offset by a 1.5% increase in cost sharing for a total of 3% cost-sharing of employer PERS costs
IBEW	**2008:** 3% COLA **2009:** 0% COLA **2010:** 0% COLA **2011:** 0% COLA **2012:** 0% COLA 2013: -1.75% PAY **2014:** 0% COLA	**2010:** 1.5% pay reduction	**2013:** -1.75 Pay reduction imposed on IBEW effective 5/16/13
GPOA	**2008:** 5.0% COLA + 1.0% RHSP **2009:** 6.0% COLA **2010:** 5.0% COLA + 1% RHSP **2011:** -2.0% PAY **2012:** 0% COLA **2013:** 0% COLA **2014:** 0% COLA		**2011:** Considerable reduction in court-related overtime **2011:** Additional 2% reduction in take-home pay due to increased PERS cost-sharing **2011:** Assumed 100% of medical premium increase **2012:** Went back to 50/50 split of medical premiums
GFFA	**2008:** 4.0% COLA **2009:** 0% COLA (Deferred 4.5% COLA) **2010:** 0% COLA (Deferred same 4.5% COLA) **2011:** 0% COLA **2012:** 0% COLA (Reduced 4.5% COLA to 2.5% effective 7/13) **2013:** 2.5% COLA **2014:** 0% COLA		**2010:** 0.5% reduction in take-home pay due to increased PERS cost-sharing **2011:** Assumed 100% of medical premium increase **2012:** Additional 1.5% reduction in take-home pay due to increased PERS cost-sharing by 2015 **2012:** Went back to 50/50 split of medical premiums **2013:** 5% pay reduction in take-home pay due to increased PERS cost-sharing **2014:** .5% pay reduction in take-home pay due to increased PERS cost-sharing

As previously stated, the City of Glendale is far ahead of most other cities in enacting meaningful pension reform through its collective bargaining efforts with the respective employee associations. Prior to the passage of PEPRA, the City of Glendale had already established “second tier” retirement formulas and the “three year final compensation” provision for new hires, as well as extensive employee cost-sharing for existing employees. This includes movement from the “2.5% at 55” plan to the “2% at 55” formula for Miscellaneous employees hired after 1/1/11, and the shift from “3% at 50” to “3% at 55” for newly hired Police and Fire employees effective 1/1/12 and 1/1/11, respectively. Additionally, new hires will be subject to the “three year final compensation” retirement calculation, rather than the “single-highest year” plan. These past efforts by the City have made the transition to the State-mandated PEPRA provisions less sweeping than in other jurisdictions.

Further Pension Reform Impacts vis-a-vis PEPRA

PEPRA, which took effect January 1, 2013, is the most far-reaching effort to reform public employee pensions that has ever been proposed at the State level. The signing of this Bill came after extensive negotiations between the Governor and State legislative leaders. The Bill contains many of the provisions included in Governor Brown’s proposed Twelve-Point Pension Reform Plan issued in 2012 (Exhibit 2).

The primary emphasis of PEPRA was to reduce long-term costs and liabilities associated with traditional defined benefit pension plans available to State and local government employees. While many of the provisions of PEPRA affect current State and local government employees, the more far-reaching elements primarily impact new employees hired after January 1, 2013 as defined in the statute.

Major provisions of PEPRA include:

- *Reduced Benefit Formulas & Increased Retirement Ages for New Employees*
  New Miscellaneous employees are hired under a “2% at 62” formula. Members can retire as early as age 52 with a 1% formula, or as late as 67, where the formula will increase to 2.5%.

  New Safety employees are hired into one of three Safety retirement formulas as follows:
  - Basic Formula: “1.426% at 50” which increases to 1.836% at age 55 or a maximum of 2% at age 57.
  - Option 1 Plan: “2% at 50” which increases to 2.357% at age 55 or a maximum of 2.5% at age 57.
  - Option 2 Plan: “2% at 50” which increases to 2.5% at age 55 or a maximum of 2.7 at age 57.

  For the new Safety formulas, PEPRA requires local agencies to select the formula that is closest to what is currently offered, without going over. Because the current second tier plan for Glendale’s Safety sworn is “3% at 55,” the City provides Option 2 as set forth above.

- *Three Year Final Compensation*
  Requires final compensation for new employees be defined as the highest average annual final compensation during a consecutive 3-year period instead of a one-year period. This applies only to new employees.

- *Employee Cost-Sharing*
  Requires new employees to pay at least 50% of the “normal costs” and prohibits employers from paying this contribution on the employees’ behalf. Employers may bargain to have employees pay a greater portion of the cost; however, the employer may not use impasse procedures to impose a contribution higher than 50% of the normal cost until January 1, 2018, assuming they have collectively bargained in good faith, declared impasse, and participated in mediation and fact finding.

- *Compensation Cap*
  Establishes a cap on the amount of compensation used to calculate a retirement benefit equal to the Social Security wage index limit. The cap is subject to adjustment based on changes in the consumer price index (CPI). This is applicable only to new employees hired on or after January 1, 2013.

- *Base Pension on Regularly, Recurring Pay*
  As a means of reducing potential “spiking” of pensions, requires that pensionable compensation for new employees be defined as the normal, regularly recurring monthly rate of pay or base pay of the employees, excluding all bonuses, overtime, pay for additional services outside normal working hours and cash payouts for unused leaves. This is applicable only to new employees hired on or after January 1, 2013.

- *Elimination of Replacement Benefit Plans*
  Prohibits public employers from offering a benefit replacement plan for any employee who is subject to the federal limit on benefits established by Section 415 (b) of the Internal Revenue Code for a new employee, or to any group of employees that was not offered a benefits replacement plan prior to January 1, 2013.

- *Restrictions on Post-Retirement Employment*
  Requires a 180-day “sit-out” period before a retiree could return to work without reinstating from retirement, unless the City certifies to its governing board in an open meeting that the appointment is necessary to fulfill a “critically-needed” position. This is applicable to all existing employees and retirees.

- *Elimination of Air Time*
  Prohibits a public retirement system from allowing the purchase of unqualified service credit, more commonly known as “air time.” This is applicable to all existing employees.

- *Elimination of Retroactive Pension Increases*
  Requires that any future retirement enhancements to formulas or benefits must occur prospectively.

- *Elimination of Pension “Holidays”*
  Prohibits all employers from suspending employer and/or employee contributions necessary to fund annual pension normal costs.

- *Forfeiture of Pension Benefits Upon Felony Conviction*
  Requires public officials and employees to forfeit pension benefits if they are convicted of a felony related to the performance of official duties. Only pension benefits earned or accrued after the earliest date of the commission of the felony are subject to forfeiture. Benefits earned or accrued prior to the date are not subject to forfeiture. This is applicable to all existing employees and public officials.

How Does Glendale Compare to Other Agencies?

Second Tier Retirement Formula

Comparisons with the Labor Market Cities reveal that six of the eight did not implement a second tier retirement formula prior to the implementation of PEPRA. These cities include Anaheim, Burbank, Huntington Beach, Pasadena, Santa Ana, and Torrance.

Cost Sharing of Employee Contribution
The survey indicates that most agencies are moving toward having the employees pay the entire employee contribution to PERS. Many of the agencies surveyed began taking these steps as recent as 2013 or 2014 (Anaheim, Burbank, Long Beach). This often included multi-year contracts and salary increases to offset the increase in the PERS contribution. Yet other agencies (Huntington Beach, Pasadena) have negotiated this change prospectively.

For example, in order to have miscellaneous employees pay the full 8% PERS contribution, Anaheim recently negotiated a multi-year MOU which included roughly 9% in pay increases. The Anaheim POA negotiated a 12% salary increase in order to pay the full employee contribution of 9%, as well as 3% of the employer share.

Similarly, the City of Burbank recently negotiated multi-year MOUs with various bargaining units in an effort to have the employees pay the full member contribution of 8% or 9%. In exchange, employees received a cumulative COLA of 3% - 6% (depending on the bargaining unit).

Negotiations are still underway with some bargaining units in Huntington Beach in the movement toward employees paying the full member contribution. Management employees began paying the full 8% in April 2014. Since 2012, these employees have received COLAs to offset the increased contribution in 2014. Similar agreements were made with Fire where the employees received commensurate COLAs to offset their increased contributions. Fire employees began paying the full 9% effective 10/1/2014. General employees currently pay 4.25% while the City pays 3.75%.

In Long Beach and Inglewood, all employee groups now pay the full employee share with the exception of Inglewood Police and Police management where the increased contribution is spread over three years through 2016. Again, employees received COLAs to offset the cost-sharing on a dollar for dollar basis.

As of July 2014, the miscellaneous groups in Pasadena will pay the full 8% employee share compared to the previous 4.6%. In exchange, employees received a 2% COLA. Sworn Police employees will pay the full 9% by July 1, 2015 (they are currently paying 6%). In order to negotiate this increase, the employees will receive a 7.5% COLA over a multiple year agreement. Similarly, sworn Fire employees will pay their full 9% as well as an additional 3% in cost-sharing by 7/1/16 in exchange for a 10% COLA over the next two years.

The City of Torrance continues to pay the full 7% - 9% for employees hired prior to 7/1/10, which represents the majority of their workforce. Effective FY 2010-11, the City requires only new hires to pay the full 7% - 9%. The City has not negotiated any cost sharing of the *employer share*.

As stated earlier, since the 1980's, the City has worked with its bargaining groups to have employees pay the full "Employee Share" of the PERS contribution. Until most recently, most surrounding cities did not require any contribution by employees to the "employee contribution". Moreover, between 2001 and 2002, the City was successful in negotiating for employees to pay a portion of the "Employer Contribution" of the PERS contribution.

Cost Sharing of Employer Contribution
Half of the agencies surveyed (Anaheim, Inglewood, Santa Ana, and Pasadena) have negotiated cost sharing of the *employer share*. Anaheim's police officers negotiated a multi-year contract which includes 3% cost-sharing over the term of the contract. Inglewood's cost-sharing ranges between 2%-3%. Santa Ana's cost sharing ranges between 8% - 10.5%; however, the City pays the full 8% - 9% of the member contribution. Pasadena recently negotiated cost-sharing of the employer's share with the sworn firefighters in the amount of 3% which will be implemented in 2016. It should be noted that with the exception of Santa Ana, all agencies provided COLAs to offset the increase in cost-

sharing on a dollar for dollar basis. Employees in Burbank, Huntington Beach, Long Beach and Torrance do not contribute toward the employer share of the PERS contribution.
It is important to note that when the City of Glendale negotiated increased cost-sharing of the employer rate, such increases were not offset by commensurate salary increases as opposed to what other agencies have done.

CalPERS Comparison Survey July 2014 (Exhibit 3)

	Employee Rate		Employer Rate														
	Employee Portion of Member Contribution	City Portion of Member Contribution	Employee Cost Share toward Employer Contribution	Total Percentage of PERS paid by Employee	Cost Sharing Offset by Increases in Pay?	Misc PERS Formula	Misc 2nd -Tier?	Effective date of 2nd Tier - Misc	Police Safety PERS Formula	Police Safety 2nd Tier?	Effective date of Multi Tier - Police Safety	Fire Safety PERS Formula	Fire Safety 2nd Tier?	Effective date of 2nd Tier - Fire Safety	Defined Contribution Plan?	Social Security?	Hybrid Plan?
ANAHEIM	8% - 9%	0%	3%	8% - 12%	Yes	2.7% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 50	2.0% @ 50	12/19/2012	No	No	No
BURBANK	4% - 9%	0%	0%	4% - 9%	Yes	2.5% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 55	No	N/A	No	No	No
HUNTINGTON BEACH	2.25% - 6.75%	1.25% - 6.75%	0%	2.25% - 6.75%	Yes	2.5% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 50	No	N/A	No	No	No
INGLEWOOD	8% - 9%	0%	2% - 3%	10% - 12%	Yes	3.0% @ 60	2.5% @ 55	12/1/2010	3.0% @ 50	3.0% @ 55	12/1/2010	Contract Out			No	No	No
LONG BEACH	8% - 9%	0%	0%	8% - 9%	Yes	2.7% @ 55	2.5% @ 55	9/1/2006	3.0% @ 50	2.0% @ 50	9/1/2011	3.0% @ 50	2.0% @ 50	11/1/2011	No	No	No
PASADENA	8% - 9%	0%	3% (Fire by 2016)	8% - 12%	Yes	2.5% @ 55	No	N/A	3.0% @ 55	No	N/A	3.0% @ 55	No	N/A	No	No	No
SANTA ANA	0%	8% - 9%	8% - 10.5%	8% - 10.5%	No	2.7% @ 55	No	N/A	3.0% @ 50	No	N/A	Contract Out			No	No	No
TORRANCE	0%*	7% - 9%	0%	0%	No	2.5% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 50	No	N/A	No	No	No
GLENDALE	**8.5% - 12.5%**	**0%**	**3%**	**8.5% - 12.5%**	**No**	2.5% @ 55	2.0% @ 55	1/1/2011	3.0% @ 50	3.0% @ 55	1/1/2012	3.0% @ 50	3.0% @ 55	1/1/2011	**No**	**No**	**No**

*Effecive FY 2010-11 - implemented cost sharing for new hires - 9% for safety and 7% for misc.

Recent Negotiations

For the 2014/2015 fiscal year, the City came to terms on new Memoranda of Understanding (MOU) with three employee bargaining units. The salary and benefit-related adjustments are modest and will have a negligible effect on the City's pension costs. Efforts were made to put forth proposals that were substantive and fair, yet would not substantially increase pension costs. The primary cost components of those three agreements are as follows:

Glendale Police Officers' Association (GPOA)

- Retention of 5% Assignment Pay: For certain "specialty" assignments, the officers now retain the 5% assignment pay following the completion of the assignment as a means of acknowledging their expertise in a particular area of law enforcement and continued use of that knowledge and expertise for the benefit of the Police Department. The officers are required to maintain up-to-date training and education in the specialty area and continue to be a resource to the Department when expertise is needed in that specialty area.

- The standardization of the Code 7 policy for officers, which affirms that the meal break be compensated, has indirect costs to the organization, but does not increase the take-home pay and thus has no effect on pensionable compensation.

- The increasing of the officers' ability to cash-out unused holiday leave from 32 to 42 hours could affect officers' pensionable compensation, as floating holiday cash-out hours are compensable under PERS regulations.

Glendale City Employees' Association (GCEA)

- The three year agreement provides a 1% salary adjustment effective July 1, 2015 and a 3% adjustment (offset by an additional 1% employee contribution to the PERS Employer Share) effective July 1, 2016.

- The establishment of a $25 per month contribution toward employees' Retiree Health Savings Plan (RHSP) and increasing of said contribution by $25 per month in the third year of the MOU agreement has no effect on pensionable compensation.

- The conversion of the $150 per year health and fitness program from a reimbursement to a flat dollar payment is far less labor-intensive, and has no effect on pensionable compensation.

- The establishment of assignment pays for Forensic/DNA employees within the Police Department, and certain Public Works and Fire employees who are certified by the International Code Council (ICC) to perform underground storage tank designated operator duties will cause an increase to approximately a dozen employees' pensionable income. The increase in Water Department certification pay of 1.5% for the four affected employees will have a similar minor impact in pensionable compensation.

- A provision involving extended shift and Sunday overtime will have no effect on pensionable compensation.

Glendale Management Association (General & Police Sworn Managers)

- The three year agreement for General Managers provides a 1% salary adjustment effective July 1, 2015 and a 3% adjustment (offset by an additional 1% employee contribution to the PERS Employer Share) effective July 1, 2016. For the Police Sworn segment of GMA, salary adjustments for the Police Lieutenant classification (10 employees), which amount to approximately 4% over the course of the multi-year MOU, will have an impact on pensionable compensation.

- The increase in POST incentive pays for Police Sworn Managers (13 employees total) of $150 per month will have an effect on pensionable income.

- The $25 per month increased contribution toward employees' Retiree Health Savings Plan (RHSP) for General Managers and further increase of said contribution by $25 per month in the second year of the MOU agreement has no effect pensionable compensation. Similarly, the $125 per month RHSP increase for Police Sworn Managers has no effect on pensionable compensation.

- The conversion of the $450 per year health, fitness and professional development program from a reimbursement to a flat dollar payment has no effect on pensionable compensation.

- Standby Assignment Pay granted to one mid-manager of the Information Services Department assigned to the Police Department will have no effect on pensionable compensation, as Standby Pay is specifically excluded from PERSable income by statute.

On December 18, 2014, all salaried employees and certain hourly employees were granted a one percent lump sum Gain Share incentive for having met specific targeted goals and productivity measures over the course of the 2013/2014 fiscal year. The Gain Share program is non-PERSable and based on financial savings made during the preceding fiscal year. Similar to many of the items addressed with our employee bargaining groups this year, a concerted effort was made in this regard to provide an incentive that would have a negligible impact on pension obligations.

Other Post-Employment Benefits

Other Post-Employment Benefits, or “OPEB”, are benefits that an employee will begin to receive at the start of retirement. This does not include pension benefits paid to the retired employee. In the context of the City of Glendale, the OPEB provided to our employees is in the form of a subsidized medical insurance premium. Instead of rating our retirees in a separate group, they are “blended” with active employees when determining medical insurance premiums. This results in a lower medical premium for retirees than they would otherwise pay if they were rated separate (un-blended) from the City’s plan. The difference between the subsidized medical premium and the un-blended premium is referred to as an implied subsidy which creates the OPEB liability.

It should be noted that the City does not pay medical premiums or provide any direct assistance (i.e. cash payments) to our retirees for payment of their medical insurance premium. The benefit provided is in the form of a reduced medical insurance premium.

As of the last valuation, the City’s OPEB liability is approximately $214 million, of which $124 million is attributable to active employees and $90 million is attributable to retirees. This liability is disclosed in the City’s Comprehensive Annual Financial Report as required by the Governmental Accounting Standards. Starting in FY 2016-17, the City will be required to record (“book”) the OPEB liability in the financial statements. For the General Fund and Special Revenue Funds, the liability will be recorded at the government wide level and for enterprise funds, the liability will be recorded within the fund.

Given that this liability will impact the unrestricted fund balance at the entity-wide level and within each enterprise fund, the City is aggressively trying to reduce, if not eliminate, its OPEB liability. Unlike pension benefits, the blending of medical insurance premiums is not a vested benefit. The City has the option through the meet and confer process with the various labor groups to un-blend medical insurance premiums. If the subsidy is removed via an un-blending of premiums, the OPEB liability would be significantly reduced. If, for example, the City un-blended medical premiums for all active employees effective January 1, 2016, anyone who retired on or after this date would no longer receive a subsidized rate. This would effectively eliminate $124 million of the OPEB liability. In regards to retirees, the City has several options to manage the remaining liability of $90 million, one of which is to begin a phasing-out of blended premiums over a period of time.

Within the next several years and through the meet and confer process, the City will strive to either eliminate the OPEB liability or sufficiently reduce it to a manageable level. The City recognizes that the OPEB liability may not be entirely eliminated and has provided a funding mechanism in the General Fund Forecast of approximately 1% of payroll (~$800k) in FY 2015-16 with modest increases up to 1.75% (~$1.5 million) in FY 2019-20. If the City is successful in un-blending its medical premiums within the next several years, this placeholder in the forecast could be reprogrammed to other critical programs and services.

General Implications of Closing a PERS Plan

The retirement plan administered by CalPERS is a defined benefit (DB) plan which guarantees a lifetime pension benefit to retirees. In recent years, questions regarding the impact of closing the DB plan and replacing it with a defined contribution (DC) plan or a hybrid plan have come to light. A DC plan is essentially a deferred compensation plan such as a 401(k) or 403(b) plan, or a hybrid plan which combines a DC component and a more modest DB plan than the existing pension plan. DC proponents prefer DC plans because of their perceived portability, predictable employer costs, employee control over their investments, and the shift of the investment risk from the employer to the employee. Some DC proponents also say that DC plans offer greater transparency because the employee selects their own investments, eliminating potential conflicts of interest in investment decisions by public retirement boards.

Providing employee benefits through any retirement plan is a complex policy decision. Before making policy decisions regarding the choice of using a DB plan, a DC plan, or a hybrid plan to provide retirement benefits, a thorough cost-benefit analysis should be conducted, including both potential short and long term cost savings.

General implications associated with closing (eliminating) a DB plan include:

- The cost of administering two plans for both current and future employees;
- Higher DC plan administrative costs;
- Impact to Asset Allocation and Investment Return advantages of a DB plan;
- Liquidity requirements of a DB plan;
- Accounting Impact - frozen DB plan expenses must be amortized over a decreasing payroll which will lead to front-loaded expenses;
- Social Security - would have to add employees that currently do not participate;
- Loss of a recruitment and retention tool;
- Disability and survivor benefits not offered in a DC plan; and
- Longevity risk and leakage in DC plans.

When a plan administrator closes a DB plan, often the administrator opens a fixed-rate DC plan. Closing a DB plan does not eliminate the administrative costs of the DB plan however. The DB plan must be administered until the last participant quits working, retires, <u>and</u> dies.

In the first year of a DC plan, there are significant start-up costs. Individual accounts need to be created for new participants and those accounts must be maintained. Until the final DB plan participant dies, two plans must be maintained and two plans cost more than one. Additionally, the economic efficiencies embedded in DB plans are substantial.

The biggest drivers of the cost advantages in DB plans are longevity pooling and enhanced investment returns that derive from reduced expenses and professional management of assets. When mature, a DB plan has a balanced mixture of young, middle-age, and retired members. This balance gives DB plans the ability to diversify their portfolio over a broader investment horizon, working to stabilize investment returns. However, as a closed DB plan ages, fewer contributions being made due to fewer active members [relative to retiree benefit payments] increases the need for more liquid assets. This creates a need to shift assets to investments that have a more predictable cash flow such as bonds. Doing so generally has a negative impact on the fund and results in lower investment income. This lost investment income therefore needs to be covered by additional employer contributions.

From an account perspective, in order for an employer's financial statement to be compliant with accounting standards set by the Governmental Accounting Standards Board (GASB), certain rules must be followed. Under GASB, the DB plan's unfunded liability must be amortized over a period no greater than 30 years. In addition, the unfunded liability must be amortized in level dollar amounts, or as a level percent of the projected payroll. For an open DB plan, projected payroll can be expected to grow as new hires are expected to replace retiring employees, and average pay generally increases each year. As a result, payment schedules can see dollar amounts increase at the same rate as the payroll. However, once a DB plan is frozen and closed to new entrants, payroll will decline over time. Therefore, under governmental accounting standards, a frozen plan must be amortized over a decreasing payroll or as a level dollar amount. In practice, this causes the pension expense of a frozen plan to be front-loaded, as compared to an open plan that can spread these costs over a growing payroll base. Because CalPERS plans are currently subject to an amortization schedule as a level percentage of an increasing payroll, closing the DB plan would result in a change to a level dollar amortization for accounting purposes. By converting to a level dollar amortization, the percentage increase in short term amortization of the unfunded liability will be about 30 to 40 percent, increasing the pension expense in the short term.

As illustrated in the State of California example below, if the DB plan was closed to new hires, the State would be required to front load the pension expense to pay off the unfunded liability. Expenses would be greater for the first 10 years and be lower afterward.

Sample State Accounting Impact on Pension Expense
Fiscal Years 2010-2011 through 2019-2020

Fiscal Year	Current Amortization of Unfunded Liability (in millions)	Amortization of Unfunded Liability if DB Plan is Closed (in millions)	Difference (in millions)
2010-11	$1,663.8	$2,192.8	$529.0
2011-12	$1,712.6	$2,192.8	$480.2
2012-13	$1,763.0	$2,192.8	$429.8
2013-14	$1,814.9	$2,192.8	$377.9
2014-15	$1,868.4	$2,192.8	$324.4
2015-16	$1,923.6	$2,192.8	$269.2
2016-17	$1,980.5	$2,192.8	$212.3
2017-18	$2,039.1	$2,192.8	$153.7
2018-19	$2,099.6	$2,192.8	$93.2
2019-20	$2,161.9	$2,192.8	$30.9

The preceding table merely illustrates one component of increased expenses related to closing a DB plan. Another expense often overlooked is the issue of Social Security. Employers are required to participate in Social Security unless they provide an alternate minimum level of retirement benefits. Many public employees, most notably safety members, do not participate in Social Security. Closing the DB plan for employees who do not participate in Social Security would force the employer into Social Security unless a mandatory DC plan was established to provide a minimum allocation of 7.5 percent of salary. The cost of Social Security is 12.4 percent, shared equally by the employee and employer. As a result, freezing the DB plan would increase costs by an additional 6.2 percent, above the City's current obligations.

Finally, a retirement system such as CalPERS has been a very effective recruitment and retention tool. A recent study by the Alaskan Public Pension Coalition found that Alaska is investing significant resources in hiring and training young public employees only to have them leave the state with their training, experience, and DC account balances only to go work for employers with DB plans. The National Institute on Retirement Security (NIRS) published the issue brief "*Look Before You Leap: The Unintended Consequences of Pension Freezes"* in October 2008. One key finding was that switching from a DB to DC plan can worsen retirement insecurity, potentially damaging recruitment and retention efforts. The effects are more severe under a DB to DC switch than if benefits in the existing DB plan are reduced. Some state retirement systems, such as West Virginia, who made the DB to DC switch, have converted back to the DB plan.

General Impacts of Closing Glendale's PERS Plan?

Based upon existing California law, any agency with common law [full-time] employees which holds a contract with PERS, must have their entire employee base enrolled with PERS. The only way around this is by implementing a "hard freeze", which stops future service accruals for all (current and future) employees. Prior to the passage of PEPRA, Government Code Section 20502 may have allowed an agency to implement a "soft freeze", which would have closed the DB plan to new hires, but retained the plan for current members. In the event of a soft freeze, another retirement plan, such as a DC or hybrid plan, would likely have been established and offered to future employees. However, attempting to implement such a plan would have required the requesting agency to seek approval by PERS, which may have been unlikely given PERS' dependence on new member contributions to cover benefits for retired members. If PERS had denied the appeal, the requesting agency could have appealed the decision to the PERS Board – again, with questionable chances of gaining approval. Based upon research conducted thus far, it is not clear whether any California member agency has implemented a "soft freeze" in the last several decades.

Following the passage of PEPRA, the implementation of a "soft freeze" is no longer an option. In short, a PERS member agency is either "all in" or "all out". It is not possible to retain the existing PERS retirement system for existing employees and offer a different pension plan for all new incoming employees on a moving forward basis. The only option would be to implement a "hard freeze", which would require an agency to pay the termination liability to PERS, where such funds would be placed into the PERS Termination Fund, in order to pay benefits until Glendale's last PERS member quits working, retires, <u>and</u> dies.

In recent years, there has been much speculation regarding the CalPERS Retirement System and whether it is prudent, or even possible, to replace Glendale's current system with Social Security and a "Defined Contribution" plan similar to a 401(k). Inasmuch as this has been a topic of discussion, staff has performed a cost analysis associated with the City exiting PERS entirely in exchange for a Social Security based retirement system and implementation of a 401(k) Plan. It is important to note that in addition to the legal, statutory, political, and operational implications associated with such an action, any level of separation from PERS would require an amendment of the City's Charter, extensive meet and confer efforts with the City's bargaining groups, long term bond financing to pay accrued liability, emergence of inequity amongst employees, and would result in a severe disadvantage in the labor market related to retention and recruitment of qualified public sector professionals.

In performing the cost analysis, the following information/assumptions were utilized:

1. PERS Unfunded Termination Liability is estimated at $1.425 billion as of the June 30, 2013 valuation ($755.5 million for Miscellaneous and $669.5 million for Safety).
2. PERS assumes a discount rate of 3.72%, which is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS)
3. 2015 Net Pension Expense - $29,166,261
4. Pension Obligation Bond Financing Term – 30 years
5. Pension Obligation Bond Finance Rate – 5%
6. Annual debt service is $92,698,523/year for 30 years
7. City would replace PERS with Social Security and 401(k) match of 5% vs. 10%

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The following tables illustrate FY 2015 salary expenses in each Salary Fund and the associated costs for Social Security, 401(k) option, and debt service payment for pension liability.

Fund Type	2015 Salary Expense	Social Security	401(k) Match: 2 Options		Debt Service for Existing Pension Liability
		6.20%	10%	5%	
General Fund	$76,268,706	$4,728,660	$7,626,871	$3,813,435	$54,962,749
Special Revenue	$6,299,197	$390,550	$629,920	$314,960	$4,539,492
Capital Projects	$546,624	$33,891	$54,662	$27,331	$393,922
Enterprise	$37,019,746	$2,295,224	$3,701,975	$1,850,987	$26,678,137
Internal Service	$7,877,104	$488,380	$787,710	$393,855	$5,676,605
RORF	$621,134	$38,510	$62,113	$31,057	$447,618
Grand Total	**$128,632,511**	**$7,975,216**	**$12,863,251**	**$6,431,626**	**$92,698,523**

The following table illustrates the cost differences between the City's FY 2015 net pension expenses and the expenses if a separation from PERS were to come to fruition.

Fund Type	Net Pension Expense	SS + 10% 401(k) + Debt Service	SS + 5% 401(k) + Debt Service
General Fund	$20,092,380	$67,318,279	$63,504,844
Special Revenue	$1,533,818	$5,559,962	$5,245,002
Capital Projects	$171,789	$482,476	$455,144
Enterprise	$5,998,776	$32,675,336	$30,824,349
Internal Service	$1,279,659	$6,952,695	$6,558,840
RORF	$89,839	$548,242	$517,185
Grand Total	**$29,166,261**	**$113,536,990**	**$107,105,364**

Based on the latest PERS Actuarial Valuation, the City's "Hypothetical Termination Liability" was estimated at $1.425 billion. Given this large upfront cost requirement, it would be necessary to issue pension obligation bonds, amortized over an extended period of time (30 years), in order to pay off this liability. The debt service necessary to pay off the pension obligation bonds would equal approximately $93M per year for the next 30 years, assuming an interest rate of 5%.

Additionally, if the City were to replace PERS with Social Security, it would bear an additional ongoing annual expense equal to approximately 6.2% of payroll expenses. In FY 2015, this amounts to approximately $8 million. Finally, assuming the City would offer some variation of a 401(k) plan contribution equal to 5% to 10% of salary, the commensurate FY 2015 cost would increase by an additional $6.4 to $12.8 million, respectively.

In short, terminating the City's current PERS agreement and substituting the plan with Social Security and a 401(k) plan variant would cost between $78 to $84 million more per year for the next 30 years, above that which the City pays PERS today.

Once the debt service is paid off in 30 years (assuming the same assumptions), the ongoing Social Security/401(k) plan costs will equal between $14 and $21 million per year compared to today's $29 million (assuming that PERS' 15 year rate smoothing efforts don't result in stabilized lower employer contribution rates).

Based on these figures, the City would spend approximately $2.8 billion to exit PERS in order to save between $8 and $15 million per year 30 years from now. The return on investment for this action would be 158 years if the City implemented a 5% 401(k) match plan and 304 years with a 10% 401(k) match.

Pension Plan Reforms in the News

Over the last two years, the media has reported on a number of different cities in relation to their public pension systems and attempts to modify retirement plans. Cities including San Diego, San Jose, and Stockton have stood out. In each of these cases, the impetus for far-reaching reform efforts have emanated from these cities identifying ever-increasing short and long term financial liabilities stemming from personnel expenses and investment losses in their retirement plan portfolios. This undoubtedly placed significant economic strain in the wake of the great recession beginning in 2007.

The primary focus behind some of these cities' efforts have been on enacting laws that would allow the city to better manage excessive pension costs and decrease unfunded pension liabilities in order to avoid cutting services, laying off workers and potentially filing for bankruptcy. More specifically, the measures in San Diego and San Jose attempted to modify retirement benefits for city employees and retirees by increasing employee contributions, establishing a voluntary reduced pension plan for current employees, establishing pension cost and benefit limitations for new employees, modifying disability retirement procedures, temporarily suspending retiree COLAs during emergencies, and requiring voter approval for increases in future pension benefits.

To date, despite the passage of both San Diego's and San Jose's ballot measures and Charter amendments in 2012, there is little case law to support the practicality of such efforts inasmuch as both ballot initiatives, despite their passage by voters, are currently pending court decisions. Therefore, it's unclear whether similar legislative changes could materialize in other cities throughout California. However, assuming either of the reforms is upheld by the Courts and other PERS member agencies such as Glendale attempt to terminate their PERS agreements, these cities would still face unsurmountable PERS termination liability expenses as described earlier in this report. Therefore, the practicality of such a development is questionable at best.

In the case of both San Diego and San Jose, each city maintained their own individually self-funded plan – meaning the pension plans were directly funded, operated and administered by the City utilizing a similar structure to that used by CalPERS wherein both employees and the employer make contributions to the pension fund. Additionally, with the exception of a handful of unrepresented elected officials in San Jose who participate in PERS, neither had a significant membership in the statewide pension system. Further, neither agency has proposed terminating their self-funded plans, as they would still be liable for all the promised benefits; rather, they are attempting to modify their existing plans through the ballot initiative process, thereby reducing their long term liabilities. As a result, neither faces an up-front termination liability that any other PERS agency would. Finally, it's important to note that since the passage of San Diego's and San Jose's pension reform ballot initiatives, the statewide implementation of PEPRA has legislatively addressed many of the items originally targeted by reform advocates.

In Stockton's case, the City found itself in an insolvent state and as part of their restructuring efforts, was sued by a creditor seeking to limit and/or impair the City's pensions through the bankruptcy proceedings. The City, employee unions, and PERS each contended that the pension benefits were a vested right under the State Constitution and therefore could not be impaired. Initially, the federal judge overseeing the bankruptcy proceedings informally opined that CalPERS pension contracts could be overturned in bankruptcy, but later outlined the difficulty of cutting pensions while approving Stockton's plan to exit bankruptcy with pensions intact. In his final ruling, Judge Christopher Klein stated “We have a triangle of bilateral relations in the law.” First, the contract between the city and its employees for pay and pensions is “the basic pension contract.” A second contract is between the city and CalPERS. Finally, the third leg of the triangle is the relationship between CalPERS and the city employees, who are “third-party beneficiaries” under the law with rights enforceable as contracts.

The judge further stated that to cut pensions, the city would have to reject its contract with CalPERS and “more importantly” its contract with employees. Pensions are part of total pay, and while in bankruptcy, Stockton negotiated contracts with its unions. Since employees agreed to pay cuts during the negotiations with the understanding that pensions would not be cut, all of the concessions were “made on the direct income side not the pension side.” So to cut pensions, the city would have to reject a collective bargaining agreement. A U.S. Supreme Court decision (Bildisco 1984) set a high standard for rejecting a collective bargaining agreement. In the case of Stockton, the package of pay concessions would have to be reopened, which according to the Judge would be difficult to accomplish as a matter of practicality. Therefore, the bankruptcy plan was approved as proposed by the City of Stockton.

Conclusion

Staff’s research and analysis of the regional pension trends over the last decade has shown that not only has the City of Glendale implemented many of the best practices in public pension and compensation models, but it has done so by being at the forefront of many of those efforts even prior to the passage of PEPRA. At a time when some of Glendale’s comparable cities had either not begun or are just now beginning to implement 2nd tier retirement systems or sharing of pension and medical expenses with their employees, Glendale remains at the forefront of these efforts.

While an exit from PERS is possible, much has to be taken into consideration aside from the cost for doing so. Amongst these considerations should include the legal, statutory, political, and operational implications associated with such an action. Any level of separation from PERS would also require an amendment of the City’s Charter, extensive meet and confer efforts with the City’s bargaining groups, long term bond financing to pay accrued liability, emergence of inequity amongst employees, and would result in a severe disadvantage in the labor market related to retention and recruitment of qualified public sector professionals. Short of a change in legislation and amendment to the State’s Constitution, the implementation of hybrid pension plans is currently not an available option. If it were, the financial analysis for implementing such a plan prospectively would have to be recalculated using an actuarial analysis.

FISCAL IMPACT

None

ALTERNATIVES

Alternative 1: The City Council may choose to note and file this report of consider any other alternative not proposed by staff.

CAMPAIGN DISCLOSURE

Not Applicable

EXHIBITS

Exhibit 1: Glendale's Total Cost-Sharing Percentages

Exhibit 2: Governor's Twelve Point Pension Reform Plan

Exhibit 3: CalPERS Comparison Survey July 2014

Exhibit 4: PEPRA Pension Reform Summary

EXHIBIT ONE

City of Glendale
Fy 2014/2015 - CalPERS Rates

Glendale's Total Cost-Sharing Percentages

Employee Group	City of Glendale Hire Date	CalPERS Membership	Retirement Formula	Member Contribution Employee Rate		Employer Rate		Total Rate (% of payroll)		Total PERS Rate (% of payroll)
Miscellaneous Employees				Employee	City	Paid by Employee (Cost-Sharing)	Paid by City	Employee	City	Employee + Employer Rates
GCEA (General Employees)	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	3.00%*	14.464%	11.00%	17.464%	28.464%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	3.00%*	14.464%	10.00%	17.464%	27.464%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	3.00%*	14.464%	9.75%	17.464%	27.214%
IBEW (International Brotherhood of Electrical Workers)	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	0.50%	16.964%	8.50%	17.464%	25.964%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	0.50%	16.964%	7.50%	17.464%	24.964%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	0.50%	16.964%	7.25%	17.464%	24.714%
GMA (General Managers)	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	3.00%	14.464%	11.00%	17.464%	28.464%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	3.00%	14.464%	10.00%	17.464%	27.464%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	3.00%	14.464%	9.75%	17.464%	27.214%
Executives	Hired before 1/1/2011	Classic	2.5% @ 55	8.00%	0.00%	3.00%	14.464%	11.00%	17.464%	28.464%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	2.0% @ 55	7.00%	0.00%	3.00%	14.464%	10.00%	17.464%	27.464%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.5% @ 67	6.75%	0.00%	3.00%	14.464%	9.75%	17.464%	27.214%
Safety Employees (Sworn)										
GPOA (Police Association)	Hired before 1/1/2012	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired between 1/1/2012 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.468%	15.50%	34.968%	50.468%
GFFA (Fire Association)	Hired before 1/1/2011	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.968%	15.50%	35.468%	50.968%
GMA - Police (Police Management Association)	Hired before 1/1/2012	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired between 1/1/2012 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.468%	12.50%	34.968%	47.468%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.468%	15.50%	34.968%	50.468%
GMA - Fire (Fire Management Association)	Hired before 1/1/2011	Classic	3.0% @ 50	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired between 1/1/2011 and 12/31/2012	Classic (2nd Tier)	3.0% @ 55	9.00%	0.00%	3.50%	31.968%	12.50%	35.468%	47.968%
	Hired on or after 1/1/2013	PEPRA (3rd Tier)	2.7% @ 57	12.00%	0.00%	3.50%	31.968%	15.50%	35.468%	50.968%

* As a result of a PERS contract amendment between the City of Glendale and the Glendale City Employees' Association (GCEA) adopted in January 2014, the 3% cost-share of the employer rate paid by the employee is reflected as a credit to the employee contribution on the employee's annual PERS statement.

*Effective 1/1/2015, GFFA and GMA (Fire) Cost-Sharing will be 3.5%

EXHIBIT TWO

Twelve Point Pension Reform Plan

October 27, 2011

The pension reform plan I am proposing will apply to all California state, local, school and other public employers, new public employees, and current employees as legally permissible. It also will begin to reduce the taxpayer burden for state retiree health care costs and will put California on a more sustainable path to providing fair public retirement benefits.

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

While many public employees make some contribution to their retirement – state employees contribute at least 8 percent of their salaries – some make none. Their employers pay the full amount of the annual cost of their pension benefits. The funding of annual normal pension costs should be shared equally by employees and employers.

My 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.

Regardless of pacing, this change delivers real near-term savings to public employers, who will see their share of annual employee pension costs decline.

2. "Hybrid" Risk-Sharing Pension Plan: New Employees

Most public employers provide employees with a defined benefit 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 defined contribution plans that place the entire risk of loss on investments on employees and deliver no guaranteed benefit.

I believe that all public employees should have a pension plan that strikes a fair balance between a guaranteed benefit and a benefit subject to investment risk. The "hybrid" plan I am proposing will include a reduced defined benefit component and a defined contribution component that will be managed professionally to reduce the risk of employee investment loss. The hybrid plan will combine those two components with Social Security and envisions payment of an annual retirement benefit that replaces 75 percent of an employee's salary. 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. 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.

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.

3. Increase Retirement Ages: New Employees

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. As a consequence, employers have been required to pay for benefits over longer and longer periods of time.

The retirement age for non-safety workers in 1932, when the state created its retirement system, was 65. The retirement age for a state highway patrol officer in 1935 was 60. The life expectancy of a twenty-year old who began working at that time was mid-to-late 60s, meaning that life expectancy beyond retirement was a relatively short period of time. Now with a growing life expectancy, pensions will pay out not just for a few years, but for several decades, requiring public employers to pay pension benefits over much longer periods of time. Under current conditions, many years can separate retirement age from the age when an employee actually stops working. No one anticipated that retirement benefits would be paid to those working second careers.

We have to align retirement ages with actual working years and life expectancy. Under my plan, all new public employees will work to a later age to qualify for full retirement benefits. 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.

Raising the retirement age will reduce the amount of time retirement benefits must be paid and will significantly reduce retiree health care premium costs. Employees will have fewer, if any, years between retirement and reaching the age of Medicare eligibility, when a substantial portion of retiree health care costs shift to the federal government under Medicare.

4. Require Three-Year Final Compensation to Stop Spiking: New Employees

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. My plan will require that final compensation be defined, as it is now for new state employees, as the highest average annual compensation over a three-year period.

5. Calculate Benefits Based on Regular, Recurring Pay to Stop Spiking: New Employees

Where not controlled, pension benefits can be manipulated by supplementing salaries with special bonuses, unused vacation time, excessive overtime and other pay perks. My plan will require that compensation 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.

6. Limit Post-Retirement Employment: All Employees

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, though, so striking a 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.

7. Felons Forfeit Pension Benefits: All Employees

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. My 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.

8. Prohibit Retroactive Pension Increases: All Employees

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. My plan will ban this irresponsible practice.

9. Prohibit Pension Holidays: All Employees and Employers

During the boom years on Wall Street, when unsustainable investment returns supported "fully-funded" pension plans, many public employers stopped making annual pension contributions and gave employees a similar pass. The failure to make annual contributions left pension plans in a significantly weakened position following the recent market collapse. My plan will prohibit all employers from suspending employer and/or employee contributions necessary to fund annual pension costs.

10. Prohibit Purchases of Service Credit: All Employees

Many pension systems allow employees to buy "airtime," additional retirement service credit for time not actually worked. When an employee buys airtime, the public employer assumes the full risk of delivering retirement income based on those years of purchased service credit. 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. My plan will prohibit them.

11. Increase Pension Board Independence and Expertise

In the past, the lack of independence and financial sophistication on public retirement boards has contributed to unaffordable pension benefit increases. Retirement boards need members with real independence and sophistication to ensure that retirement funds deliver promised retirement benefits over the long haul without exposing taxpayers to large unfunded liabilities.

As a starting point, my plan will add two independent, public members with financial expertise to the CalPERS Board. "Independence" means that neither the board member nor anyone in the board member's family, who is a CalPERS member, is eligible to receive a pension from the CalPERS system, is a member of an organization that represents employees eligible to or who receive a pension from the CalPERS system, or has any material financial interest in an entity that contracts with CalPERS. My plan also will replace the State Personnel Board representative on the CalPERS board with the Director of the California Department of Finance.

True independence and expertise may require more. And while my plan starts with changes to the CalPERS board, government entities that control other public retirement boards should make similar changes to those boards to achieve greater independence and greater sophistication.

12. Reduce Retiree Health Care Costs: State Employees

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 approach has to change.

My 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. My plan also will change the anomaly of retirees paying less for health care premiums than current employees.

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.

Local governments should make similar changes.

EXHIBIT THREE

CalPERS Comparison Survey July 2014

	Employee Rate		Employer Rate														
	Employee Portion of Member Contribution	City Portion of Member Contribution	Employee Cost Share toward Employer Contribution	Total Percentage of PERS paid by Employee	Cost Sharing Offset by Increases in Pay?	Misc PERS Formula	Misc 2nd -Tier?	Effective date of 2nd Tier - Misc	Police Safety PERS Formula	Police Safety 2nd Tier?	Effective date of Multi Tier - Police Safety	Fire Safety PERS Formula	Fire Safety 2nd Tier?	Effective date of 2nd Tier - Fire Safety	Defined Contribution Plan?	Social Security?	Hybrid Plan?
ANAHEIM	8% - 9%	0%	3%	8% - 12%	Yes	2.7% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 50	2.0% @ 50	12/19/2012	No	No	No
BURBANK	4% - 9%	0%	0%	4% - 9%	Yes	2.5% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 55	No	N/A	No	No	No
HUNTINGTON BEACH	2.25% - 6.75%	1.25% - 6.75%	0%	2.25% - 6.75%	Yes	2.5% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 50	No	N/A	No	No	No
INGLEWOOD	8% - 9%	0%	2% - 3%	10% - 12%	Yes	3.0% @ 60	2.5% @ 55	12/1/2010	3.0% @ 50	3.0% @ 55	12/1/2010	Contract Out			No	No	No
LONG BEACH	8% - 9%	0%	0%	8% - 9%	Yes	2.7% @ 55	2.5% @ 55	9/1/2006	3.0% @ 50	2.0% @ 50	9/1/2011	3.0% @ 50	2.0% @ 50	11/1/2011	No	No	No
PASADENA	8% - 9%	0%	3% (Fire by 2016)	8% - 12%	Yes	2.5% @ 55	No	N/A	3.0% @ 55	No	N/A	3.0% @ 55	No	N/A	No	No	No
SANTA ANA	0%	8% - 9%	8% - 10.5%	8% - 10.5%	No	2.7% @ 55	No	N/A	3.0% @ 50	No	N/A	N/A			No	No	No
TORRANCE	0%*	7% - 9%	0%	0%	No	2.5% @ 55	No	N/A	3.0% @ 50	No	N/A	3.0% @ 50	No	N/A	No	No	No
GLENDALE	**8.5% - 12.5%**	**0%**	**3%**	**8.5% - 12.5%**	**No**	2.5% @ 55	2.0% @ 55	1/1/2011	3.0% @ 50	3.0% @ 55	1/1/2012	3.0% @ 50	3.0% @ 55	1/1/2011	**No**	**No**	**No**

***Effecive FY 2010-11 - implemented cost sharing for new hires - 9% for safety and 7% for misc.**

EXHIBIT FOUR

Summary of Public Employees' Pension Reform Act of 2013 and Related Changes to the Public Employees' Retirement Law

This summary is not intended to provide a comprehensive discussion of the Public Employees' Pension Reform Act of 2013 (PEPRA). This summary includes CalPERS current interpretations of the key areas of the law. CalPERS pension reform team continues to analyze PEPRA and the related changes to the Public Employees' Retirement Law (PERL) and, as such, this summary may be revised.

Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
Definition of a New Member A new member includes: (1) A new hire who is brought into CalPERS membership for the first time on or after January 1, 2013, and who has no prior membership in any other California public retirement system. (2) A new hire who is brought into CalPERS membership for the first time on or after January 1, 2013, and who is not eligible for reciprocity with another California public retirement system. (3) A member who established CalPERS membership prior to January 1, 2013, and who is hired by a different CalPERS employer after January 1, 2013, after a break in service of greater than six months. All State agencies are considered the same employer, as are all school employers. CalPERS refers to all members that do not fit the definition of a "new member" as	**7522.04(f)**	**X**[1]	**X**

[1] Classic members may be impacted where they change employers and/or change retirement systems and do not meet the statutory requirements related to reciprocity or where there is break in service of more than six months.

* Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

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Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
"classic members."			
Reduced Benefit Formulas & Increased Retirement Ages Creates a new defined benefit formula of 2% at age 62 for all new miscellaneous (non-safety) members with an early retirement age of 52 and a maximum benefit factor of 2.5% at age 67. Creates three new defined benefit formulas for new safety members with a normal retirement age at 50 and a maximum benefit factor at age 57. Also requires that new safety members be provided with the new formula that is the closest to the formula offered to classic members of the same classification and that provides a lower benefit at 55 years of age than the formula offered to classic members. Normal Ret Age / Maximum Benefit Factor Basic Formula: 1.426% at Age 50 / 2% at Age 57 and older Option Plan 1: 2% at Age 50 / 2.5% at Age 57 and older Option Plan 2: 2% at Age 50 / 2.7% at Age 57 and older	**7522.15** **7522.20** **7522.25**		**X**

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Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
An employer and its employees may agree by MOU to place new employees (hired after the date of the MOU) in a lower tier of safety benefits, but this change cannot be imposed through impasse procedures.			
Pensionable Compensation Cap Caps the annual salary that can be used to calculate final compensation for all new members, excluding judges, at $113,700 (2013 Social Security Contribution and Benefit Base) for employees that participate in Social Security or $136,440 (120% of the 2013 Contribution and Benefit Base) for those employees that do not participate in Social Security. Adjustments to the caps are permitted annually based on changes to the CPI for All Urban Consumers.	**7522.10**		**X**
Replacement Benefit Plans Prohibits a public employer from offering a plan of replacement benefits for new employees who are subject to the federal benefit limitations under Internal Revenue Code section 415(b). Also prohibits a public employer from offering a replacement benefit plan for any employee if the employer does not offer a plan of replacement	**7522.43**	*****	**X**

* Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
benefits prior to January 1, 2013, or to any additional employee group that was not covered by an existing plan prior to January 1, 2013.			
Industrial Disability Retirement (IDR) Benefits for Public Safety Members In addition to the current calculation options for the IDR benefit for a safety member, this provision adds a calculation for a safety member who qualifies for an IDR that may result in a higher benefit than 50% of salary. This section remains in effect only until January 1, 2018. After that date, the new IDR provisions will not apply unless the date is extended by statute.	**7522.66** **21400**	**X**	**X**
Equal Sharing of Normal Cost • For public agencies, schools employers, the CSU, and the judicial branch, a new member's initial contribution rate[2] will be at least 50% of the total normal cost rate or the current contribution rate of similarly situated employees, whichever is greater, except where it would cause an existing Memorandum of Understanding (MOU) to be impaired. Once the impaired MOU is amended, extended, renewed, or expires, the new requirements will apply. CalPERS has interpreted "similarly situated	**7522.30** **20516.5** **20683.2**	**X**	**X**

[2] CalPERS has interpreted this provision to apply to new members rather than new employees.

Summary of Public Employees' Pension Reform Act of 2013 and Related Changes to the Public Employees' Retirement Law

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Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
employees" to mean those employees that are in the same benefit group (meaning those employees with the same benefit formula). • Employer Paid Member Contributions (EPMC) are also prohibited for new members employed by public agencies, school employers, the judicial branch or CSU. An exception to this prohibition exists where the employer's Memorandum of Understanding (MOU) would be impaired by the prohibition. If an employer determines that an existing MOU is impaired and communicates that decision to CalPERS, then any stated EPMC agreements will apply to new members through the duration of the MOU. Once the impaired MOU is amended, extended, renewed or expires, employers will no longer be able to report EPMC for new members. • For classic members of a public agency or school employer, the member contribution rate is not required to change. In addition, EPMC can continue to be reported as it is today for classic members pursuant to existing PERL provisions. • State employees (excluding new CSU members and new judicial branch members) will pay the contribution rates determined through bargaining and/or as provided by statute. For certain State employees, contribution rates will increase by a fixed			

* Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

Summary of Public Employees' Pension Reform Act of 2013 and Related Changes to the Public Employees' Retirement Law

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Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
percentage at specific dates beginning July 1, 2013. Rates increase and vary by bargaining unit and by classification. • Beginning on January 1, 2018, public agency and school employers that have collectively bargained in good faith and have completed impasse procedures, including mediation and fact finding, have the ability to unilaterally require classic members to pay up to 50% of the total normal cost of their pension benefit. However, the employee contribution may only be increased up to an 8% contribution rate for miscellaneous members, a 12% contribution rate for local police officers, local firefighters, and county peace officers, or an 11% contribution rate for all other local safety members.			
Cost Sharing of Employer Contributions Permits public agencies and their employees to agree to share the cost of the <u>employer</u> contribution with or without a change in benefit. These contributions are paid in addition to the member contribution rate. Allows cost-sharing agreements to differ by bargaining unit or for classifications of employees subject to different benefit levels as agreed to in an MOU. Also permits cost sharing of the employer costs for non-represented	**20516**	**X**	**X**

* Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
employees as approved in a resolution passed by the public agency.			
Close Legislators' Retirement System (LRS) to New Members Prohibits new members from participating in the LRS. However, new statewide constitutional and legislative statutory officers would still be eligible for optional membership in CalPERS.	**9355.4 9355.41 9355.45**		**X**
Equal Health Benefit Vesting Schedule for Non-Represented and Represented Employees Generally prohibits employers from providing a more advantageous health benefit vesting schedule to certain individuals (namely a public employee who is elected or appointed, a trustee, excluded from collective bargaining, exempt from civil service, or a manager) than it does for other public employees, including represented employees, of the same public employer who are in related retirement membership classifications.	**7522.40**	**X**	**X**
Prohibits Purchase of Additional Retirement Service Credit (ARSC) Prohibits the purchase of nonqualified service credit on or after January 1, 2013. This prohibition will not apply if an official application is received by CalPERS on or before December 31, 2012. Only applications from individuals who qualify to purchase ARSC	**7522.46**	**X**	**X**

* Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
on or before December 31, 2012, will be accepted. CalPERS is reviewing whether other types of nonqualified service credit may be impacted by this prohibition.			
Prohibits Retroactive Pension Benefit Enhancements Prohibits public employers from granting retroactive pension benefit enhancements that would apply to service performed prior to the date of the enhancement. In addition, if a change in a member's membership classification or employment results in a benefit enhancement, that enhancement can only be applied to service performed on or after the operative date of the change. This provision applies to both classic and new members. Annual cost-of-living adjustments are excluded from this prohibition.	**7522.44**	**X**	**X**
Prohibits Pension Holidays Requires that the combined employer and member contributions, in any fiscal year, not be lower than the total year's normal cost.	**7522.52**	**X**	**X**
Pensionable Compensation PEPRA uses the term "pensionable compensation" for the purpose of determining reportable compensation for new members. Pensionable compensation for new members is defined as "the normal monthly rate of pay or base pay of the member paid	**7522.34**		**X**

* Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

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This summary is not intended to provide a comprehensive discussion of the Public Employees' Pension Reform Act of 2013 (PEPRA). This summary includes CalPERS current interpretations of the key areas of the law. CalPERS pension reform team continues to analyze PEPRA and the related changes to the Public Employees' Retirement Law (PERL) and, as such, this summary may be revised.

Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules." Also specifically excludes certain types of pay from being reported as pensionable compensation, including, bonuses, overtime, pay for additional services outside normal working hours, cash payouts for unused leave (vacation, annual, sick leave, CTO, etc.,), and severance pay, among others. Also excludes any compensation determined by the retirement board to have been paid to increase a member's retirement benefit and any other form of compensation determined to be inconsistent with the statutory definition. CalPERS continues to evaluate what compensation can be reported by employers and will update employers once additional information is available. Existing compensation earnable provisions continue to apply for classic members.			
Requires Three-Year Final Compensation For new members, provides that final compensation means the highest average annual pensionable compensation earned by a member during a period of at least 36	7522.32	*	X

* Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

CalPERS

Summary of Public Employees' Pension Reform Act of 2013 and Related Changes to the Public Employees' Retirement Law

This summary is not intended to provide a comprehensive discussion of the Public Employees' Pension Reform Act of 2013 (PEPRA). This summary includes CalPERS current interpretations of the key areas of the law. CalPERS pension reform team continues to analyze PEPRA and the related changes to the Public Employees' Retirement Law (PERL) and, as such, this summary may be revised.

Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
consecutive months, or three school years, as applicable. Also prohibits a public employer from adopting a final compensation period of less than three years for classic members who are currently subject to a three-year final compensation period.			
Felons Forfeit Pension Benefits 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, in seeking an elected office or appointment, or in connection with obtaining salary or pension benefits, subject to certain requirements.	**7522.72** **7522.74**	**X**	**X**
Limits Post-Retirement Public Employment • Provides that a CalPERS retiree cannot serve, be employed by or be employed through a contract directly by a CaPERS employer unless he or she either reinstates or his or her employment satisfies the following conditions: o The person is appointed either during an emergency to prevent stoppage of public business or because the retired person has skills needed to perform work of limited duration; o The appointment does not exceed a total for all CalPERS employers of 960	**7522.56** **7522.57**	**X**	**X**

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Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
hours, or other equivalent limit, per fiscal year; and o The person's pay rate must be within the range paid by the employer to other employees performing comparable duties. • In addition, requires a 180-day waiting period before the retiree can return to work for a CalPERS employer without reinstating from retirement, except under certain specified circumstances. The 180-day waiting period generally does not apply to public safety officers or firefighters. However, the 180-day waiting period provision applies without exception to retirees who receive either a golden handshake or some other employer incentive to retire. • The 180-day waiting period starts on the date of retirement. Retired annuitants already employed before January 1, 2013, are not impacted by the 180-day waiting period. • A retiree who accepts an appointment after receiving unemployment insurance compensation must terminate that employment and will not be eligible for reappointment thereafter for 12 months. • Any public retiree appointed to a full-time position on a State board or commission on			

Brief Summary	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
or after January 1, 2013, will be required to suspend his or her retirement allowance and become an active member of CalPERS, unless the appointment is non-salaried.			
Contracting Agency Liability for Excessive Compensation Requires CalPERS (for plans it administers) to define a "significant increase" in actuarial liability due to increased compensation paid to a non-represented employee and further directs the Board to implement program changes to ensure that a public agency that creates a significant increase in actuarial liability bears the increased cost associated with that liability. CalPERS is working to develop the program changes and definitions necessary to administer these provisions.	**20791**	**X**	**X**
Alternate Retirement Program (ARP) ARP, a retirement savings program that certain State employees are automatically enrolled in for two years from their initial hire date, will be closed to new members effective July 1, 2013.	**20281.5**		**X**

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