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HR/Benefits 2012-16

To: Benefits Officers
Associate Vice Presidents/Deans of Faculty
Human Resources Officers
Payroll Managers

From: Evelyn Nazario 
Associate Vice Chancellor
Human Resources Management & CO HR Services

Subject: Assembly Bill (AB) 340 – Implementation of the Public Employees Pension Reform Act (PEPRA)

Overview

Audience: Human Resources Officers, Payroll Managers, Benefit Officers and/or campus designees responsible for administering retirement benefits

Action Item: Information only

Affected Employee Groups/Units: Employees eligible for CalPERS retirement coverage

Summary

On September 12, 2012, Assembly Bill (AB) 340, referred to as the “Public Employees’ Pension Reform Act of 2013” (PEPRA), was signed into law by the Governor, and will become effective on January 1, 2013, which impacts new and existing California State University (CSU) employees. As a result of PEPRA, new employees hired on or after January 1, 2013 and who are also determined to be new CalPERS members will be subject to the following CalPERS retirement formulas:

- 2% at 62 Miscellaneous Tier 1 (Faculty and Staff employees, except Public Safety employees)
- 2% at 57 State Safety (E99 Intermittent Police/Peace Officers)
- 2.5% at 57 Police Officer/Fire Fighter (PO/FF) (MPP Public Safety Employees)
- 2.5% at 57 Police Officer/Fire Fighter (PO/FF) (Unit 8 Public Safety Employees)

Campus designee(s) responsible for administering retirement programs and/or payroll should review the remainder of this Technical Letter for further information.

On September 12, 2012, Assembly Bill (AB) 340, referred to as the “Public Employees’ Pension Reform Act of 2013” (PEPRA), was signed into law by the Governor, and will become effective on January 1, 2013. PEPRA provides various retirement-related changes that impact new, current and retired California State University (CSU) employees. CSU, CalPERS and the State Controller’s Office (SCO) staff are working together on PEPRA requirements, systems updates and interpretations as it pertains to CSU employees. This memorandum provides an overview of PEPRA impacts along with guidelines for campuses to consider regarding new hires, including:

Distribution:

CSU Chancellor
CSU Presidents
Vice Chancellor, Human Resources

Executive Vice Chancellor, CFO
All Campus Vice Presidents

- ✓ **Determination of whether or not a new hire is also a new CalPERS member;**
- ✓ **Applicable retirement benefit formulas for new CalPERS members;**
- ✓ **Applicable employee retirement contribution percentage(s);**
- ✓ **Other pertinent information related to retirement (i.e., compensation caps, final compensation and pensionable compensation).**

IMPACT TO NEW STATE EMPLOYEES WHO ARE NEW CALPERS MEMBERS

With the exception of a few provisions of PEPRA that are not applicable to CSU, the majority of the Pension Reform provisions become effective on January 1, 2013, with impact to employees that are hired by the CSU and who are also deemed to be a new CalPERS member on or after January 1, 2013. Therefore the determination of when and what public entity an employee attained CalPERS membership eligibility in accordance with the employee's actual hire date will become important factors in terms of certain PEPRA provisions that are applicable to an employee hired in 2013 or after.

DEFINITION OF A NEW MEMBER

A new member is defined in PEPRA as any of the following:

- A new hire who is deemed eligible for CalPERS membership for the first time on or after January 1, 2013, and who has no prior membership in any California public retirement system.
- A new hire who is deemed eligible for 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.
- A member who first established CalPERS membership prior to January 1, 2013, and who is rehired by a different CalPERS employer after a break in service of greater than six months.

The term "new member" also applies to a current employee who is not a CalPERS member, and later becomes eligible for CalPERS membership on or after January 1, 2013.

It is important to note that if a member has a break in service of more than six months but returns to service with the same employer, the member would not be considered a new member under PEPRA. All State agencies, including CSU, are treated as a single employer under PEPRA.

Effective January 1, 2013, CalPERS will apply the above criteria to every new enrollment, regardless of whether the enrollment is for a first-time CalPERS member or an existing CalPERS member. If the employee is determined to be an existing CalPERS member, CalPERS will refer to the employee as a "classic" member. Therefore, based on the criteria above, a new hire to the CSU does not automatically subject the employee to certain PEPRA provisions that are outlined in this Technical Letter because they may be considered a new hire and "classic" CalPERS member.

RETIREMENT BENEFIT FORMULAS

Employees that meet the definition of a new CalPERS member as indicated above will be enrolled in one of the following retirement plans based on the employee's classification. With the exception of Unit 8 employees, employees that meet the definition of a new CalPERS member are required to contribute 50% of the normal cost rate toward his/her retirement contribution as shown on the following page:

Retirement Benefit Formula	Employee Category	Employee Retirement Contribution Percentage
State Miscellaneous Tier 1 - 2%@62	All eligible employees except Public Safety employees (e.g., Unit 8, E99 Intermittent Police Officers or MPP Police Chiefs/Lieutenants)	6%
Police Officer/Firefighter (PO/FF) - 2.5%@57	Unit 8 employees	10.5%; however, the CSU will continue to pay this portion per the terms of the CBA
Police Officer/Firefighter (PO/FF) - 2.5%@57	MPP Police Chiefs/Lieutenants	10.5%
State Safety - 2%@57	Intermittent Police/Peace Officers (E99)	9%

The employer retirement contribution rates for FY2012/2013 announced in [HR/Benefits 2012-06](#) are also applicable to the new retirement formulas shown above.

COMPENSATION CAPS

Effective January 1, 2013, PEPRA caps the annual pensionable compensation that can be used to calculate final compensation for new CalPERS members. The new member cap for 2013 will be:

- **\$113,700** for CalPERS members that participate in Social Security (100% of the 2013 Social Security contribution and benefit base); or
- **\$136,440** for CalPERS employees that do not participate in Social Security (i.e., Public Safety employees) (120% of the 2013 Social Security contribution and benefit base).

The compensation cap limits are subject to annual adjustments based on the Consumer Price Index for All Urban Consumers.

Member contributions must stop when the member's actual earnings reach the contribution limits outlined above. However, the SCO will continue to report full pay rate and actual earnings to CalPERS for all CalPERS members. Please note: Reporting up to the compensation cap for new members will occur in the same manner it does currently for existing CalPERS members subject to the 401(a)(17) limit.

INCREASE OF MINIMUM RETIREMENT AGE REQUIREMENT

Employees subject to the new Miscellaneous Tier 1 retirement formula (2% at 62) will also be subject to an increased minimum age of fifty-two (52) with five (5) years of service. The minimum age requirement for Public Safety employees remains at age fifty (50) with five (5) years of service.

THREE-YEAR FINAL COMPENSATION

PEPRA requires that a three-year final compensation period be used to calculate the average final compensation for a retirement calculation for all new CalPERS members.

PENSIONABLE COMPENSATION

PEPRA introduces a new term "pensionable compensation" for the purposes of determining reportable compensation for new CalPERS members; however, it does not clearly identify which forms of pay fall within the scope of pensionable compensation. We are working closely with CalPERS to obtain the final analysis and will update campuses in a future communication.

Please note: Campuses are to continue utilizing current earnings IDs until further notice.

REPLACEMENT BENEFIT PLAN (RBP)

CalPERS currently administers the RBP for members who exceed the benefit limit provided under Internal Revenue Code Section 415. The RBP is eliminated for new members hired on and after January 1, 2013.

PAYROLL PROCESSING AND RETIREMENT CODES

Additional instructions on payroll processing along with new retirement codes will be released to campuses in a separate communication.

ADDITIONAL IMPACTS OF PEPRA APPLICABLE TO CURRENT, NEW, AND RETIRED STATE EMPLOYEES

The following is applicable to current, new, and retired state employees:

WORKING AFTER RETIREMENT (REHIRED ANNUITANTS)

Upon retirement, CSU employees will be required to wait 180-days from his/her retirement date before returning to work as a rehired annuitant unless the appointment is necessary to fill a critically needed position and has been approved/certified by the Board of Trustees or its authorized designee. If such an exception is granted, the campus must submit a copy of the approval to CalPERS. HRM will develop procedures for campuses to submit requests to waive the 180-day sit out period to fill a critically needed position and will distribute the information in a separate communication.

Faculty Early Retirement Program (FERP) and Public Safety employees (rehired in a Public Safety position) are exempted from the 180-day sit out period. Employees that retire in 2012 and are currently working as rehired annuitants in 2012 are also exempted from the 180-day sit out period.

As a reminder, retirees are prohibited from working in excess of 960 hours in a fiscal year.

PURCHASE OF ADDITIONAL SERVICE CREDIT (ALSO KNOWN AS "AIRTIME")

Currently CalPERS members have the option of purchasing up to five years of additional service credit. Effective January 1, 2013, this option will be eliminated. However, an official application received by CalPERS by December 31, 2012, will be accepted and processed as long as the employee is eligible to purchase service credit.

PROHIBITS RETROACTIVE BENEFIT INCREASES

The CSU cannot retroactively apply retirement benefit enhancements to service performed prior to the date of the enhancement.

FORFEITURE OF RETIREMENT BENEFITS

PEPRA implements a new felony provision that will apply to all public employees and elected officials. An individual who commits a job-related felony including felonies against or involving a minor may be subject to retirement benefit forfeiture.

EQUAL HEALTH VESTING SCHEDULE

PEPRA prohibits employers from providing a better health benefit vesting schedule to non-represented employees than it does for represented employees. The CSU is currently in compliance.

ADDITIONAL CALPERS INFORMATION

In order to assist CalPERS-covered employers, CalPERS has created a "[pension reform page](#)" on their website that provides additional information related to PEPRA along with "A Guide to Pension Reform," that includes Frequently Asked Questions (FAQ) and Answers.

CalPERS also released the following Pension Reform Circular Letter on its website for review: [200-055-12](#).

ADDITIONAL CSU INFORMATION

The CSU created Pension Reform webpages on the Systemwide Human Resources [internet](#) and CSYou [intranet](#) websites. The web pages include a link to the CSU Pension Reform FAQ document. Information regarding

Pension Reform will continue to be communicated by HRM-Benefits, and we anticipate updates regarding the interpretation of AB 340 continuing into 2013. Campuses can continue to forward questions regarding PEPRA to BenefitsInsider@calstate.edu.

CMS PROCESSING INSTRUCTIONS

The CMS Baseline application is being updated to provide a warning message if the person being appointed is within the 180 day sit out period from the employee's retirement date. Campuses will be required to document in Oracle/PeopleSoft when a rehired annuitant is appointed outside of the 180-day sit out period.

GENERAL INFORMATION

Questions regarding this Technical Letter may be directed to Human Resources Management at (562) 951-4411. This Technical Letter is also available on the Human Resources Management Web site at:

<http://www.calstate.edu/HRAdm/memos.shtml>

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