

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
SUBJECT: PUBLIC EMPLOYEE PENSION REFORM ACT  
STAFF PRESENTER: FRAN ELM, DIRECTOR, HUMAN RESOURCES  
AGENDA ACTION: STUDY SESSION

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ISSUE(S)

The City Council will receive an overview of the Public Employee Pension Reform Act (PEPRA) that will go into effect on January 1, 2013.



COUNCIL GOALS AND STRATEGIES

This item relates to Council goal 2 and the specific strategic objective: Contain labor and pension costs.

BACKGROUND

1. The Public Employee Pension Reform Act (PEPRA) was recently passed by the California Legislature.
2. PEPRA provisions become effective January 1, 2013.

ANALYSIS

This staff report reflects what is known to date about PEPRA. CalPERS is still working out the many details of the implementation.

1. The majority of the changes apply to “new members.” New members are defined as:
  - Employees hired on/after January 1, 2013 who have never been a member of CalPERS or a reciprocal agency.
  - Employees hired on/after January 1, 2013 who have had a six month (or more) break in service from reciprocal public agencies.

2. Under PEPRRA the following retirement formulas will apply to new members:

- Miscellaneous: 2%@62
- Public Safety: 2.7%@57

All formulas applied to new members will have a three year average final compensation.

3. Impact to the City: Effective January 1, 2013 the City will have three tiers of retirement for both Miscellaneous and Public Safety:

Miscellaneous Tiers:

Tier One	Tier Two	Tier Three
3%@60	<a href="#">2.5%@55</a>	2%@62
Single highest year final compensation	Single highest year final compensation	Three year average final compensation
Hired before July 8, 2012	Hired on/after July 8, 2012 or worked for a PERS (or reciprocal) agency within the last six months	New members hired on/after January 1, 2013

Public Safety Tiers:

Tier One	Tier Two	Tier Three
3%@50	<a href="#">3%@55</a>	2.7%@57
Single highest year final compensation	Three year average final compensation	Three year average final compensation
Hired before July 8, 2012	Hired on/after July 8, 2012 or worked for a PERS (or reciprocal) agency within the last six months	New members hired on/after January 1, 2013

4. Additional areas addressed by PEPRRA that impact new members only, include:

- A cap on compensation that counts toward pension benefits – This caps the annual salary that counts toward final compensation for new members at \$132,000 and adjusts annually based on CPI.

- Equal sharing of the normal cost – New members will contribute 50% of the total normal cost of pension benefits (with no cap). This contribution could change if the normal cost changes by a full percentage point. According to the City's PERS Valuation, the normal cost of retirement benefits in FY 13-14 for current employees will be:
  - 25.613% for Fire
  - 28.051% for Police
  - 18.966% for Miscellaneous

The City has not yet received the PERS valuation containing the normal cost for employees that will have the new formulas.

- No new defined benefit plans – No new defined benefit plans can be offered after December 31, 2012.
- Employer paid member contributions (EPMC) are not permitted for new members.

5. Additional areas addressed by PEPR that impact current and new employees, include:

- Equal sharing of the normal cost for current employees – PEPR allows the City to negotiate with current employees to share in the normal cost of up to 8% for Miscellaneous employees and 12% for Public Safety employees. If the City is not successful in negotiating this change, PEPR provides the Council the latitude to impose it in January 2018.
- Changing the calculation of industrial disability benefits for Public Safety – When a Public Safety member has a disability retirement, he/she will receive the greater of a service or disability retirement benefit regardless of whether the employee meets the age requirement for a service retirement, as calculated by CalPERS.
- Limits on post-retirement employment – Public retirees will be subject to a 180 day sit-out period before returning to work. The sit-out period does not apply to Public Safety.
- The amount of cost-sharing of the City's pension cost is not limited by a cap – Previously cost-sharing of the City's pension cost was limited to the cost of optional benefits. In the past, the City could not negotiate for cost-sharing that exceeded that cap. PEPR eliminates the cap, however, cost-sharing the City pension costs remains subject to negotiations and cannot be imposed.

- No retroactive pension increases, pension holidays or purchases of air time.
- Felons forfeit pension benefits if the crime was committed while carrying out their job responsibilities.

## 6. Impact of PEPRA on the City of Santa Rosa

Staff anticipates the following consequences for the specific areas below:

- Cap on compensation counting toward pension
  - Places a cap on future unfunded liability.
  - May have implications for attracting and retaining Public Safety and Technical/Professional employees.
- Equal sharing of the normal cost
  - New members and current employees could end up paying different percentages of the normal cost.
  - The City can negotiate for payment of the normal cost over the maximum.
- Cost-sharing the City's cost of pensions
  - Cost-sharing can be done on a unit by unit basis with different bargaining units paying different amounts.
- No new defined benefit plans
  - Other agencies who currently offer defined benefit plans in addition to a CalPERS may have an advantage in recruiting new employees.

## 7. RECOMMENDATION

This report is provided as information only.

Author: Chris Sliz, Employee Relations Manager

Attachments: None