

California School Boards Association
Analysis of Governor Brown’s Pension Reform Proposal

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

Proposal:

The Governor’s proposal would require all new and current employees to transition to a contribution level of at least 50 percent of the annual, normal cost of their pension benefits. Teachers’ contributions would increase from 8 percent to 8.86 percent of salary, while classified school employees’ contributions would increase from 7 percent to 7.05 percent.

These amounts reflect contributions that would be required currently and would fluctuate from year to year based on the actuarial needs of the plan.

CSBA Position:

Support – CSBA supports the equal sharing of pension costs between employers and employees, and reforms that ensure the long term sustainability of the Teachers Retirement Fund (CalSTRS) and the School Pool within the California Public Employees’ Retirement System (CalPERS).

2. “Hybrid” Risk-Sharing Pension Plan: New Employees Benefit Cap

Proposal:

The Governor’s proposal would place new employees in a hybrid pension plan that will combine a defined benefit (DB) plan, a defined contribution (DC) plan, and Social Security to replace approximately 75 percent of an employee’s pre-retirement salary. Teachers, who are ineligible for Social Security, would have two-thirds of 75 percent of their pre-retirement salary replaced by the DB plan, and one-third of 75 percent of their pre-retirement salary replaced by the DC plan.

The hybrid plan’s income replacement targets would be based on a “full career in public service,” defined as 35 years of service and a normal retirement age of 67 for non-safety employees.

Legislation implementing the Governor’s proposal specifies the hybrid pension plan shall target a cap on the combined defined benefit and the defined contribution benefit at the amount of the Social Security wage base for those receiving Social Security, or 120 percent of the Social Security wage for those not receiving Social Security benefits. For

those receiving Social Security, the benefit cap would be \$110,100 in 2012 and for those not receiving Social Security, the cap would be \$132,120.

CSBA Positions:

Support – Hybrid Plan

CSBA supports hybrid pension plans that combine defined benefit and defined contribution components. Hybrid plans balance the need to provide a guaranteed level of pension benefits, while also allowing employees to share some of the investment risk for their own retirement security. Hybrid plans are also more closely aligned with benefits offered in the private sector, where defined contribution plans have become common.

This proposal will also increase public confidence in public employee pension plans, and in doing so, improve sustainability.

Support if Amended – Retirement Age of 67

CSBA supports gradual increases in the retirement age, and a retirement age that is commensurate with the ability of employees to perform their jobs. An increase from 55 for classified employees and 60 for certificated employees to 67 may be too large. CSBA would support increasing the retirement age for classified employees from 55 to 60, and some increase beyond 60 for both classified and certificated.

3. Increase Retirement Ages: New Employees

Proposal:

The Governor proposes to increase the age at which employees qualify for full retirement benefits. For most new employees, the retirement age will be set at the Social Security retirement age, which is 67.

Comments:

For CalSTRS, the age factor is set at 2 percent at age 60. The age factor is decreased if the employee retires before age 60 and increased to a maximum of 2.4 percent at 63. For classified school employees who are members of CalPERS, the age factor is set at 2 percent at age 55.

Currently, the average age at retirement for CalSTRS members is 62 with 27 years of service. The average age at retirement for CalPERS school members is 61 with 16.9 years of service.

CSBA Position:

Support if Amended – CSBA supports gradual increases in the retirement age, and a retirement age that is commensurate with the ability of employees to perform their jobs. An increase from 55 for classified employees and 60 for certificated employees to 67 may be too large. CSBA would support increasing the retirement age for classified employees from 55 to 60, and some increase beyond 60 for both classified and certificated.

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

Proposal:

The Governor proposes to change the calculation of final compensation for all new employees so that it is determined by the highest average payrate over a three-year period.

Comments:

Currently, CalPERS calculates final compensation for school employees based on the final year of employment.

CalSTRS members who retire with 25 years or more of service credit have final compensation determined by their highest single year of salary. Those who retire with less than 25 years of service have their final compensation determined by the highest average compensation over a three-year period.

CSBA Position:

Support – CSBA supports reforms that will curtail pension “spiking,” and this proposal will likely have that effect. Moreover, we are unable to assess whether the 25-year incentive has been effective in keeping our best educators in the profession due to the shortcomings of our evaluation system.

This proposal will also increase public confidence in public employee pension plans, and in doing so, improve sustainability.

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

Proposal:

The Governor’s plan would define compensation, for the purpose of calculating pension benefits, as the normal rate of base pay. Bonuses, overtime, payouts for unused vacation or sick leave, and other pay prerequisites would be excluded.

CSBA Position:

Support – CSBA supports reforms that will curtail pension “spiking,” and this proposal would likely have that effect. Final compensation for the purposes of calculating pension benefits would be defined very narrowly.

This proposal will also increase public confidence in public employee pension plans, and in doing so, improve sustainability.

6. Limit Post-Retirement Employment: All Employees

Proposal:

The Governor’s plan would limit all employees who retire from public service to working 960 hours or 120 days per year for a public employer, or another equivalent limit.

Comments:

Currently, CalPERS limits employment of retirees to 960 hours per year. CalSTRS limits postretirement earnings of members who are over 60 years of age to \$31,020 per year.

CSBA Position:

Support if Amended – CSBA supports the ability of school employers to rehire retirees, subject to limitations that prevent abuse. CSBA would support this portion of the Governor’s proposal if it is amended to clarify that an “other equivalent limit” would include the current postretirement earnings limit of \$31,020 per year for CalSTRS members.

7. Felons Forfeit Pension Benefits: All Employees

Proposal:

The Governor proposes to 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. The public official would retain benefits earned prior to the date of the first commission of the felony for which he or she is convicted.

CSBA Position:

Support – This proposal would help to maintain public confidence in public retirement systems and reduce the cost of pension benefits that would otherwise be paid to felons.

8. Prohibit Retroactive Pension Increases: All Employees

Proposal:

The Governor proposes a ban on retroactive increases to pension benefits, or an increase in benefits for service already performed.

Comments:

This proposal appears reasonable as it would help to ensure the long term sustainability of retirement funds serving school employees. It would appear to have no effect on recruitment, as it would not affect new employees, and only a minimal effect on retention. The Legislative Analyst argues that retroactive benefit increases actually hurt retention as enhanced benefits could incentivize current employees to retire sooner.

CSBA Position:

Support – CSBA supports reforms that will ensure the long term sustainability of the Teachers Retirement Fund and the School Pool within the California Public Employees’ Retirement System.

9. Prohibit Pension Holidays: All Employees and Employers

Proposal:

The Governor’s proposal would prohibit all employers from suspending employer and/or employee contributions necessary to fund annual pension costs.

CSBA Position:

Support – CSBA supports reforms that will ensure the long term sustainability of the Teachers Retirement Fund and the School Pool within the California Public Employees’ Retirement System. This proposal would reduce the effect of market volatility on public retirement systems.

10. Prohibit Purchases of Service Credit: All Employees

Proposal:

The Governor proposes to eliminate “airtime,” or the purchase of additional retirement service credit for time not actually worked.

Comments:

Currently, CalPERS and CalSTRS members may enhance their retirement benefits by purchasing up to five years of additional service. According to CalSTRS officials, service credit is priced such that the member pays the entire cost of the increased benefit, based on the board's actuarial assumptions.

The Legislative Analyst disagrees with CalSTRS and argues it is too difficult to set the price for air time so that the employee pays for the full cost of the enhanced benefit. Thus, air time increases costs.

CSBA Position:

Support – CSBA supports elimination of air time because this benefit erodes public confidence in public retirement systems and is not available to employees in the private sector.

11. Increase Pension Board Independence and Expertise

Proposal:

The Governor proposes the addition of two independent, public members with financial expertise to the CalPERS Board of Administration. The Governor also proposes to replace the representative of the State Personnel Board with the Director of the Department of Finance.

CSBA Position:

Support – This proposal appears reasonable as increasing the level of financial expertise among board members, and providing a greater role for the Director of the Department of Finance, will likely improve the financial decisions of the board and strengthen the long term sustainability of the pension fund.

12. Reduce Retiree Health Care Costs: State Employees

Proposal:

The Governor proposes to increase the amount of service required of state employees in order to attain eligibility for partial payment, and the maximum state contribution to retiree healthcare premiums.

CSBA Position:

Neutral – This proposal would not affect school employees.