



## Agenda Item 7

March 18, 2014

**ITEM NAME:** PEPRA Implementation Update on Reportable Compensation

**PROGRAM:** Pension

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

This informational item provides a status update on the initiation of the regulatory package defining reportable compensation.

### **STRATEGIC PLAN**

This item is presented in support of the California Public Employees' Retirement System (CalPERS) implementation of the Public Employees' Pension Reform Act (PEPRA) and in accordance with two of CalPERS Strategic Plan Goals. First, Goal A is to improve the long-term pension and health benefit sustainability. Second, Goal C is to engage in the State and national policy development to enhance the long-term sustainability and effectiveness of our programs. This item supports both goals by clarifying and communicating CalPERS interpretation of certain pension reform provisions, in addition to providing education and outreach to members, employers, and stakeholders to promote the uniform application of certain pension reform provisions.

### **BACKGROUND**

Until January 1, 2013, employers submitted reportable compensation on behalf of all their "classic" employees that are CalPERS members, under the guidance of Government Code section 20636 and 20636.1 and associated California Code of Regulations 571. On September 12, 2012, Governor Brown signed into law Assembly Bill (AB) 340, PEPRA of 2013. This legislation added, amended, and repealed numerous sections of the Government Code related to public employees' retirement. PEPRA now defines "Pensionable Compensation" for "new" members (generally those hired after January 1, 2013) and limits payments and compensation that may be used to calculate a defined benefit for new members and provides that this number shall be adjusted based on changes to the Consumer Price Index for All Urban Consumers. PEPRA also excludes some specific payments from being reportable compensation. Classic members remain unchanged under the original statutes and regulations.

## **ANALYSIS**

AB 340 provided a new term for reportable compensation for new members: Pensionable Compensation. In December 2012, CalPERS issued Circular Letter 200-062-12, listing the types of compensation that may be reported as “pensionable compensation” based on our initial interpretations and understanding of PEPRA. The list removed six items that are specifically excluded for new members.

- Bonus
- Value of Employer Paid Member Contributions
- Management Incentive Pay
- Off-Salary Schedule Pay
- Temporary Upgrade Pay
- Uniform Allowance

This initial interpretation, with the six above listed items removed, was established to provide direction to our public agencies and schools while we waited for additional direction from the legislature in Senate Bill (SB) 13. Unfortunately, while SB 13 provided both clarification and direction on multiple outstanding issues, no additional changes were made to the definition of Pensionable Compensation. However, one provision was included to allow the State and its employees to agree through collective bargaining that a pay item could be excluded from pensionable compensation.

Since the passage of AB 340, the project team has been working with our internal staff and external stakeholders to gather input and feedback on the development of Pensionable Compensation regulations. We have engaged with many of our key stakeholders on this topic, including the State administration, labor and employer groups, and other pension systems. These stakeholder meetings have occurred in different venues, both formally and informally.

The project team anticipates bringing forward draft regulations in April 2014. When the regulations are brought forward, the team will be seeking the Board of Administration’s (Board) approval to release the drafted regulatory language with Office of Administrative Law for public comment. We do anticipate significant public comment will be received from both employer and labor groups and anticipate utilizing the feedback provided during public comment to refine the drafted regulations so they may be brought forward to the Board for final approval in the late summer or fall of 2014.

## **BUDGET AND FISCAL IMPACTS**

Not applicable.

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RENEE OSTRANDER  
Assistant Division Chief  
Customer Account Services Division

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ANN BOYNTON  
Deputy Executive Officer  
Benefit Programs Policy and Planning