



Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 5

October 20, 2015

ITEM NAME: Retirement Options Simplification

PROGRAM: Pension

ITEM TYPE: Action

RECOMMEDATION

Staff recommend the Pension & Health Benefits Committee (PHBC) approve condensing the number of retirement payment options from 13 to 5. While the overall options would be reduced, the remaining options available to members would include a combination of existing and modified choices. Approval of this item will allow staff to pursue the necessary regulatory and legislative changes needed to implement the proposed retirement options.

EXECUTIVE SUMMARY

This item is a follow up to the information and recommendations provided to the PHBC in February 2015. This item describes the additional analysis the California Public Employees' Retirement System (CalPERS) staff conducted on the statutory retirement options.

STRATEGIC PLAN

The review of retirement options supports CalPERS Strategic Plan Goal B, to cultivate a high-performing, risk-intelligent, and innovative organization, as well as, CalPERS' Pension Belief that a retirement system must meet the needs of members and employers to be successful.

BACKGROUND

At the February 18, 2015, PHBC meeting, a recommendation was provided to the Board of Administration to eliminate and combine a group of retirement payment options. The recommendation was viewed favorably by the Committee and there was considerable interest in gathering additional data and analysis on other payment options that could lead to further simplifications.

ANALYSIS

Per the Committee's request, staff conducted an additional analysis of retirement payment options. In this latest analysis staff conducted an option comparison using retiree data to determine if a member selected the most beneficial option based on their outcome after retirement.

Staff analyzed the following data:

- Retirement date
- Option selected
- Member death date
- Beneficiary death date

Additional information on this latest analysis is included in Attachment 1.

Some key findings include:

1. When members chose a reduced retirement allowance in order to provide for a return of contributions if they passed away before those contributions were exhausted (approx. 11 years), 87 percent of the time the member did not benefit from choosing that option.
2. When members chose a reduced retirement allowance speculating their beneficiary would pass away before themselves, 60-70 percent of the time the member did not benefit from choosing that option.
3. The number of options and the varying monetary reductions available to members can be an overwhelming life decision.

Based on these findings, staff concluded the number and complexity of available options are most likely confusing to members and impact their retirement decisions. Staff also believe, condensing and consolidating CalPERS' retirement payment options will lead to better customer service. In addition, the analysis has provided expanded educational opportunities that can be delivered to our members as they consider their retirement options. The information below represents the 13 Retirement Options* and their recommended status:

Pursue simplifying the Retirement Options going forward to the following five options:

Retirement Option	Description
Unmodified	Member Only benefit - Highest Benefit Payable
Option 1	Highest Benefit Payable with Return of Contributions
Option 2W+1	100% Joint Lifetime Benefit with Return of Contributions
Option 3W+1	50% Joint Lifetime Benefit with Return of Contributions
Flexible Beneficiary Option	Joint Lifetime Benefit for Multiple Beneficiaries with choice of dollar amounts

The following retirement options would be combined with the five simplified retirement options:

Retirement Option	Description
Option 4 - Multiple Lifetime Beneficiaries	Combined into Flexible Beneficiary Option
Option 4 - Specific Percentage to a Beneficiary	Combined into Flexible Beneficiary Option
Option 4 - Specific Dollar Amount to a Beneficiary	Combined into Flexible Beneficiary Option
Option 4 – 2W+1	Combined with statutory Option 2W
Option 4 – 3W+1	Combined with statutory Option 3W

The following retirement options would be eliminated:

Retirement Option	Description
Option 4	Reduced Allowance for a Fixed Period of Time
Option 4	Reduction upon Death of Retiree or Named Beneficiary
Option 2	100% Joint Lifetime Benefit with increase to allowance if beneficiary dies first
Option 3	50% Joint Lifetime Benefit with increase to allowance if beneficiary dies first

* See attachments 2 and 3 for more detailed Retirement Option descriptions.

These recommendations were shared with multiple stakeholder groups during the February timeframe and again this Fall, including labor, employer, school associates and the CalPERS Stakeholder Engagement Group, which includes retiree organizations. These stakeholders responded favorably to our recommendations and are encouraged by the simplification efforts being pursued to meet the needs of our members.

BUDGET AND FISCAL IMPACTS

Revising the retirement payment options would result in one-time administrative costs to CalPERS. The one-time costs include revising publications, educational materials, training materials, and updating the CalPERS website and myCalPERS.

BENEFITS/RISKS

The benefits of eliminating and consolidating retirement options include reducing the complexity of our retirement options for members, improving the customer experience for our retiring members, mitigating member risk in selecting retirement options and simplifying our benefit payment processes, education activities and publications.

Potential risks include legislative and regulatory changes necessary to implement changes, updates to educational materials, temporary increased inquiries from members, and implementing system modifications necessary to accommodate revised options.

ATTACHMENTS

Attachment 1 – Retirement Options Simplification

Attachment 2 – Retirement Options Table 1- Current Statutory Options

Attachment 3 – Retirement Options Table 2- Current Option 4s

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