



Agenda Item 10a

November 17, 2015

ITEM NAME: Service Credit Installment Payment Resumption

PROGRAM: Financial Office and Customer Services and Support

ITEM TYPE: Information

EXECUTIVE SUMMARY

Staff discovered approximately 3 percent – or 2,257– of the California Public Employees' Retirement System's (CalPERS) 75,000 active Service Credit Purchase (SCP) accounts became delinquent due to a system error that resulted in discontinuance of installment payment deductions. Staff has developed a plan to notify impacted members and resume collection of their installment payments and measures have been put in place to prevent future delinquencies of this nature.

BACKGROUND

Eligible members may purchase service credit to increase their future retirement benefits. Members may pay for their service credit via lump-sum, make installment payments for up to 180 months, or make an initial partial payment followed by installment payments not exceeding 180 months. Many members elect to make installment payments, which typically occur through direct deduction from a member's payroll or retirement warrant. Due to a system defect, the direct deduction function did not work correctly on 2,257 SCP accounts, resulting in delinquencies.

ANALYSIS

Discovery of delinquent SCP accounts requires CalPERS to collect the arrearages after notifying impacted members. Given the volume of delinquent cases, a cost benefit analysis was performed showing that recoupment of additional interest would not be cost-effective. Collecting the delinquent payments restores all parties to where they would have been but for CalPERS error and staff will extend payment periods for the number of missed payments without recalculating interest.

Stakeholders were advised of the plan to resume SCP installment payments on the 2,257 cases at the November 12, 2015 Stakeholder Engagement Briefing. Work efforts are underway to validate each member's account balance and period of missed payments, after which customized letters to impacted members will be issued advising them of the error, indicating that payments will be restarted and explaining that their payment periods will be extended by the number of months payments were missed. Each letter will provide account details, including the number and total dollar amount of missed payments, and the new payment period.

BUDGET AND FISCAL IMPACTS

CalPERS would forgo charging approximately \$8.9 million in interest during the period of non-payment. This is offset by the approximately \$1.6 million in program staff costs anticipated to address inquiries, escalations, and appeals that could result if additional interest was charged. Additional staffing costs would be incurred by the Financial and Legal offices.

BENEFITS/RISKS

There are two principal benefits to the plan to resume collection of installment payments in delinquent SCP accounts. First, the fund will receive the original principal and interest payments expected from member purchases. Secondly, 2,257 members are not penalized by paying additional unanticipated interest due to a CalPERS error. Potential risks include member disagreement with the resumed collection of installment payments, but members' contractual agreement to pay for service credit purchased is indisputable.

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