



## Pension & Health Benefits Committee

California Public Employees' Retirement System

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### Agenda Item 8

February 18, 2015

**ITEM NAME:** Retirement Options Simplification

**PROGRAM:** Pension

**ITEM TYPE:** Information

#### **EXECUTIVE SUMMARY**

The California Public Employees' Retirement System (CalPERS) is committed to achieving the highest level of performance in administering pension and health benefits. By reviewing the services we offer our members we are able to identify opportunities to improve efficiency. This informational item describes the results of a study CalPERS staff conducted on the ways in which reducing the complexity of retirement options would affect our members and impact CalPERS administratively.

#### **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**

CalPERS participates in the *Cost Effectiveness Measurement Benchmarking, Inc. (CEM) Defined Benefit Administration Benchmarking Analysis*. In its latest analysis from Fiscal Year (FY) 2012-13, CEM determined CalPERS has the most complicated set of pension payment options in our peer group of retirement systems. The number of retirement benefit payment options we offer to our members contributes to this high score; CalPERS offers members 13 options at retirement. Furthermore, the number and complexity of available options may be confusing to members and beneficiaries and negatively impact CalPERS' customer service and educational efforts.

CalPERS retirement options are established in Government Code (GC) sections 21455-21459<sup>1</sup> and California Code of Regulations (CCR) section 585<sup>2</sup>. The GC sections 21350-21370 establish the Unmodified Allowance for each benefit formula, GC sections 21455-21457 establish Options 1, 2, and 3, and GC section 21459 establishes the waiver provision members may elect when selecting Options 2 or 3.

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<sup>1</sup> California Legislature. *California Public Employees' Retirement Law*. 1 Jan. 2014: 463-467. Print.

<sup>2</sup> *California Public Employees' Retirement Law*. 1 Jan. 2014: 883-885. Print

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Any amendments to those Options require statutory revisions. The GC section 21458 establishes Option 4 and CCR 585(c) defines Option 4 allowances. Any Option 4 amendments require regulatory revisions, and if necessary, statutory revisions. Attachment 1 describes the six statutory Options available to CalPERS members.

Option 4s are CalPERS Board of Administration (Board) approved benefits that are the actuarial equivalent of the member's retirement allowance. In 2004, CalPERS staff recommended and the Board approved CCR 585. The CCR 585 defines the current Option 4 allowances and provides criteria for evaluating new and existing Option 4s. CalPERS evaluates new and existing Option 4s against the criteria to determine whether to approve a new Option 4 or continue providing an existing Option 4. The CCR 585 authorizes the Board, on a prospective basis, to terminate any current Option 4(s) not meeting the criteria. Attachment 2 describes the seven Option 4s available to CalPERS members.

### **ANALYSIS**

Staff considered the following when evaluating each Option:

- Option election frequency
- Option election similarities
- Administrative and CalPERS staff impact
- Member and beneficiary impact
- Legislative and regulatory impact

#### Option Election Frequency

The CCR 585 provides criteria for evaluating existing Option 4s. Staff evaluated the existing Option 4s continued relevance and necessity against the following criterion, CCR 585(a)(9): "it is reasonable to expect that at least 100 members will elect the option within two years of the date that the option first becomes available."<sup>3</sup>

Table 1 summarizes the Option 4 election frequency from 1990 through 2013. While none of the Option 4s reached 100 elections in the first two years, all of the Option 4s have now exceeded 100 elections, except two – the "Reduced Allowance for a Fixed Period of Time" and "Reduction upon Death of Retiree or Named Beneficiary."

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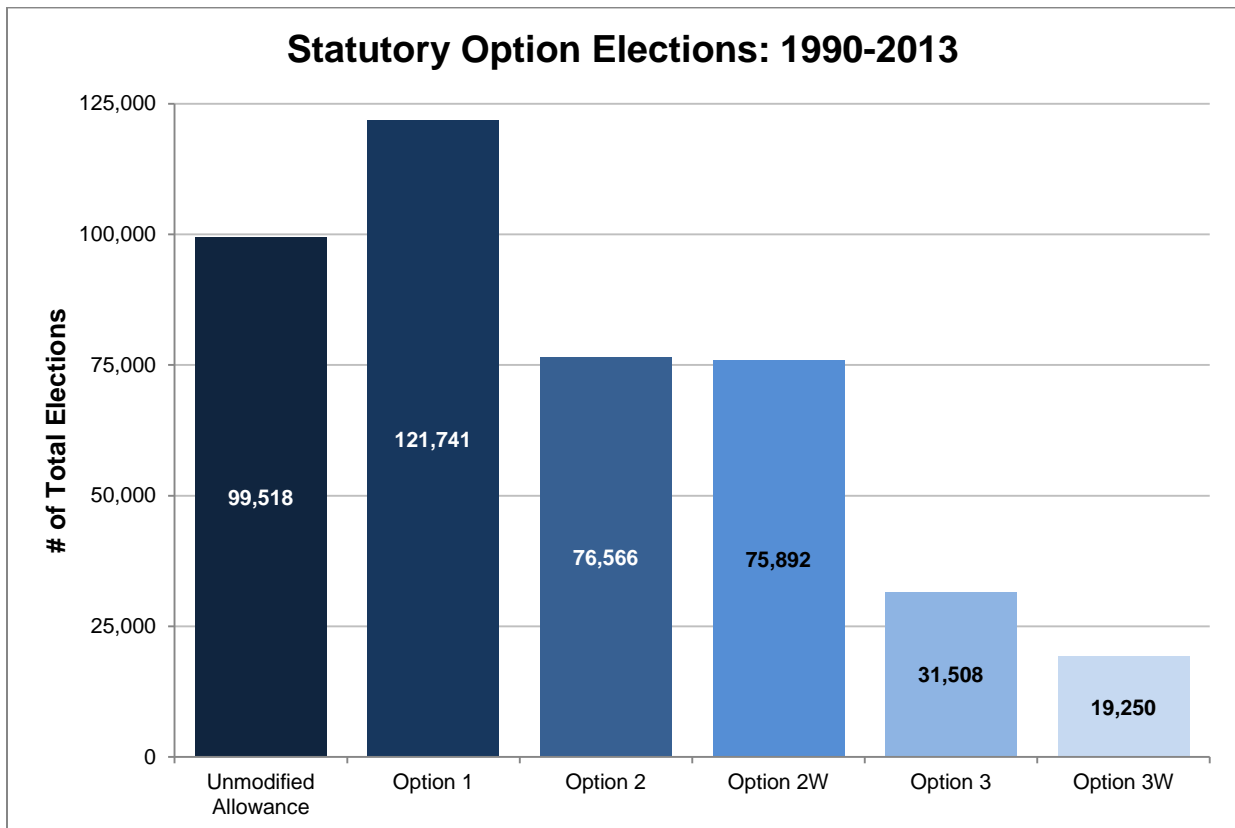
<sup>3</sup> *California Public Employees' Retirement Law*. 1 Jan. 2014: 883. Print

**Table 1: Option 4 Election Frequency**

<b>Option Type</b>	<b>Total Elections in First Two Years of Option Existence</b>	<b>Total Option 4s Elected 1990- 2013</b>
Reduction upon Death of Retiree or Named Beneficiary	3	19
Reduced Allowance for a Fixed Period of Time	4	95
Specific Percentage to a Beneficiary	4	451
Specific Dollar Amount to a Beneficiary	19	946
Multiple Lifetime Beneficiaries	4	3,495
Option 3W and Option 1 Combined (3W and 1)	1	8,724
Option 2W and Option 1 Combined (2W and 1)	10	46,688

Although the criterion is specifically for evaluating proposed and existing Option 4s, applying the criterion to the statutory Options is also valuable in considering their relevance.

The following graph shows total Option elections for the statutory Options from 1990 through 2013.



Option Election Similarities

Staff analyzed the similarities between the Options to determine if there were opportunities to reduce complexity.

Option 4 – “Multiple Lifetime Beneficiaries” allows a member to provide a specific dollar amount or percentage to two or more beneficiaries. Option 4s – “Specific Dollar Amount to a Beneficiary” and “Specific Percentage to a Beneficiary” allow a member to provide a specific dollar amount or percentage to one beneficiary. These three Options provide the same benefit using different language, providing an opportunity to streamline the options by using consistent language.

Staff also identified similarities between Option 2, Option 2W, and Option 4 – “2W and 1” and Option 3, Option 3W, and Option 4 – “3W and 1.”

Tables 2 and 3 summarize the similarities between the Options and the charts show the elections per year.

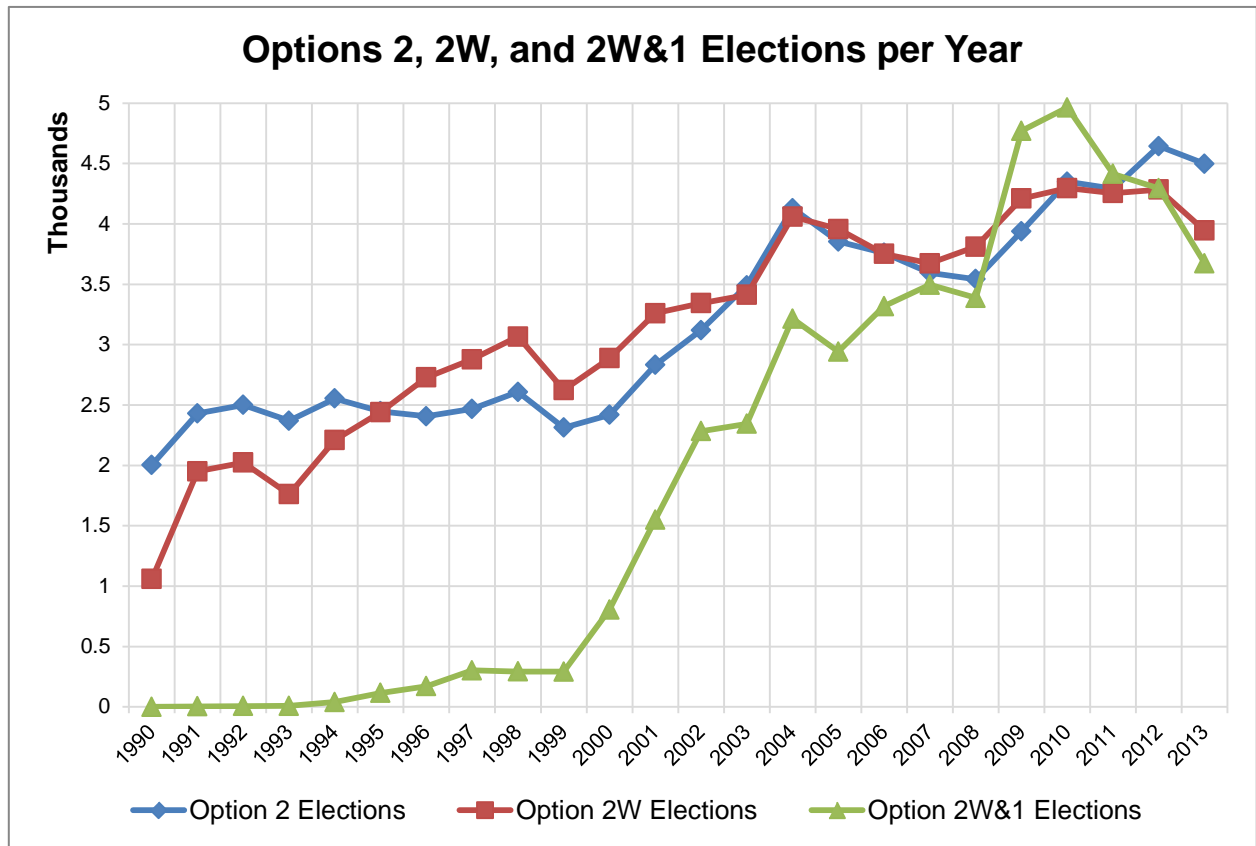
**Table 2: Option 2, Option 2W, and Option 4 – “2W and 1” Comparison**

	<b>Option 2</b>	<b>Option 2W</b>	<b>Option 4 – 2W and 1</b>
<b>Continuing Percent of Benefit to Beneficiary<sup>4</sup></b>	100%	100%	100%
<b>Pop-up Option<sup>5</sup></b>	Yes	No	No
<b>Automatic Return of Contributions<sup>6</sup></b>	No	No	Yes
<b>Total Elections (1990-2013)</b>	76,566	75,892	46,688

<sup>4</sup> This Option provides a continuing lifetime benefit of 100 percent of the member’s allowance to a member’s beneficiary.

<sup>5</sup> Per GC section 21456, if the member’s beneficiary predeceases the member, the member’s monthly allowance will increase to the Unmodified Allowance.

<sup>6</sup> Upon the member and member’s beneficiary’s death, CalPERS pays any remaining contributions to the member’s secondary beneficiary(ies).



Between 1990 and 1999, members elected Option 4 – “2W and 1” significantly less than Option 2 and Option 2W. Over the last five years, however, members have elected Option 4 – “2W and 1,” Option 2, and Option 2W with similar frequency.

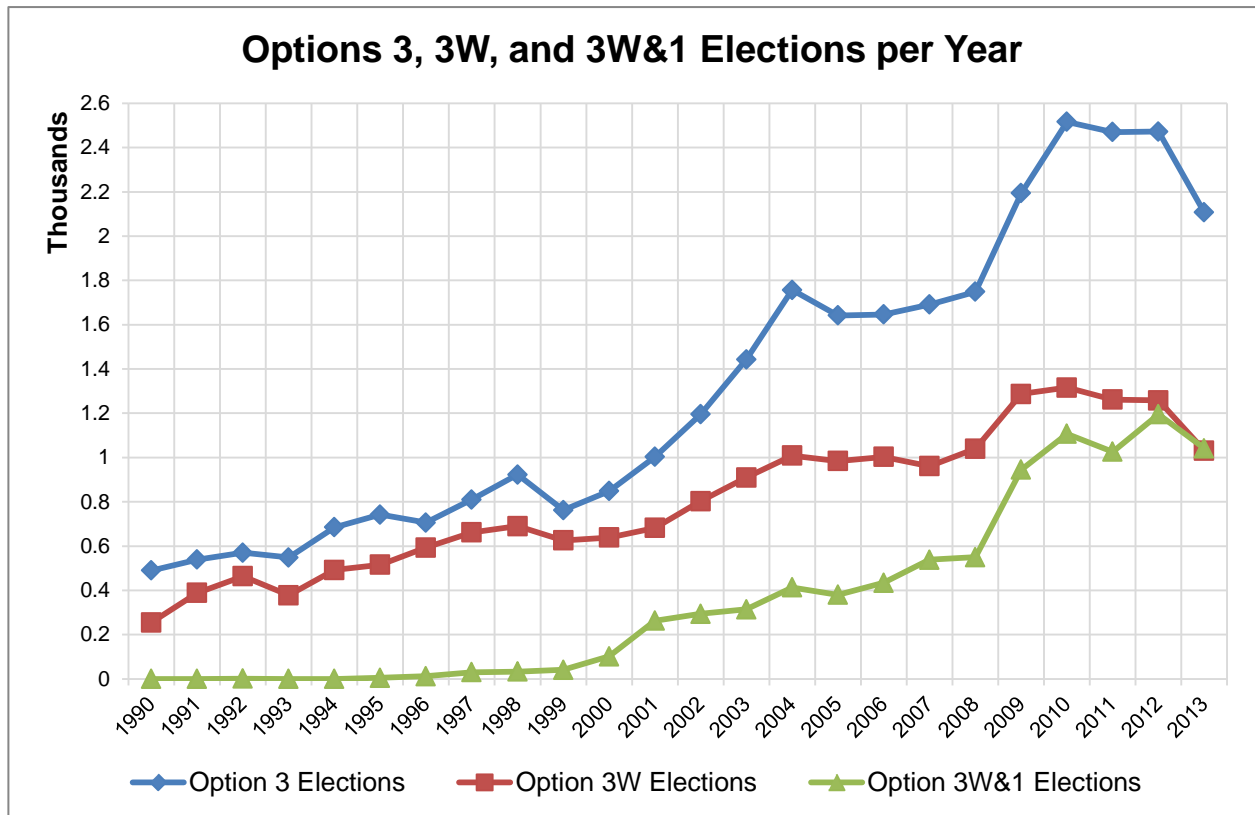
**Table 3: Option 3, Option 3W, and Option 4 – “3W and 1” Comparison**

	Option 3	Option 3W	Option 4 – 3W and 1
<b>Continuing Percent of Benefit to Beneficiary<sup>7</sup></b>	50%	50%	50%
<b>Pop-up Option<sup>8</sup></b>	Yes	No	No
<b>Automatic Return of Contributions<sup>9</sup></b>	No	No	Yes
<b>Total Elections (1990-2013)</b>	31,508	19,250	8,724

<sup>7</sup> This Option provides a continuing lifetime benefit of 50 percent of the member’s allowance to a member’s beneficiary.

<sup>8</sup> Per GC 21457, if the member’s beneficiary predeceases the member, the member’s monthly allowance will increase to the Unmodified Allowance.

<sup>9</sup> Upon the member and member’s beneficiary’s death, CalPERS pays any remaining contributions to the member’s secondary beneficiary(ies).



Members have consistently elected Option 3 more frequently than Option 3W and Option 4 – “3W and 1.” Over the last five years, members elected Option 3W and Option 4 – “3W and 1” with similar frequency.

Changing Options: Administrative and CalPERS Staff Impact

Changing any Option would require staff to update myCalPERS, including Member Self Service, update member publications, update the CalPERS website, and receive additional training. CalPERS updates the member publications annually and would coordinate changes with the annual update cycle. CalPERS would also streamline the plan design and the member training and education sessions.

Option 4 – “Reduced Allowance for a Fixed Period of Time” requires the Actuarial Office (ACTO) to manually calculate and validate retirement estimates. MyCalPERS calculates and the Benefit Services Division (BNSD) validates retirement estimates for Option 4 – “Reduction upon Death of a Retiree or Named Beneficiary.” For complex estimates, ACTO validates the Option 4 – “Reduction upon Death of a Retiree or Named Beneficiary” calculations. BNSD receives approximately five estimate requests per month for Option 4 – “Reduced Allowance for a Fixed Period of Time” and less than five requests per month for Option 4 – “Reduction upon Death of a Retiree or Named Beneficiary.” Generally, it takes 30 to 60 minutes to process an estimate.

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Eliminating Option 4s – “Reduced Allowance for a Fixed Period of Time” and “Reduction upon Death of a Retiree or Named Beneficiary” would improve administrative efficiency, because BNSD and ACTO would no longer need to perform manual calculations and validations. The election frequency for these two Options does not justify the administrative cost of manual calculations. Eliminating these two Option 4s would require staff to deactivate the myCalPERS calculation function to prevent members from selecting these Options in the future.

Consolidating the three Option 4s, “Multiple Lifetime Beneficiaries,” “Specific Dollar Amount to a Beneficiary,” and “Specific Percentage to a Beneficiary,” would improve administrative efficiency by streamlining BNSD and Customer Services Outreach Division (CSOD) education sessions. The BNSD and CSOD staff would be able to explain the benefit option once, instead of explaining the same benefit option three different ways. Since myCalPERS currently calculates these three Options, myCalPERS would require minimal changes to create a consolidated Option functionality.

#### Eliminating Options: Member and Beneficiary Impact

Eliminating any of the Options would impact members and beneficiaries to varying degrees. Members are more likely to oppose eliminating any of the statutory Options, as the election frequencies remain high. Members are less likely to oppose eliminating the two Option 4s – “Reduced Allowance for a Fixed Period of Time” and “Reduction upon Death of a Retiree or Named Beneficiary,” as those Option 4s are not frequently elected. Members can request new or eliminated Option 4s if the request meets the administrative requirements set forth in CCR 585(a). Eliminating Option 4s – “Reduced Allowance for a Fixed Period of Time” and “Reduction upon Death of a Retiree or Named Beneficiary” would improve customer service by streamlining the plan design and eliminate manual calculations resulting in quicker retirement estimate processing.

Consolidating three Option 4s, “Multiple Lifetime Beneficiaries,” “Specific Dollar Amount to a Beneficiary,” and “Specific Percentage to a Beneficiary,” would simplify the plan design without reducing the Options available to members.

#### Legislative Impact

Eliminating Option 4s – “Reduced Allowance for a Fixed Period of Time” and “Reduction upon Death of a Retiree or Named Beneficiary,” and consolidating the three Option 4s, “Multiple Lifetime Beneficiaries,” “Specific Dollar Amount to a Beneficiary,” and “Specific Percentage to a Beneficiary,” require regulatory changes.

### Summary

In analyzing the various retirement options against the criteria, the frequency, similarities, and administrative, member and legislative impacts indicate the elimination of two of the Option 4s and the consolidation of three of the Option 4s into one should be highly considered. Data analyzed on the other statutory and regulatory options has been reviewed and provides additional alternatives for consideration of elimination or consolidation. Staff are further analyzing the additional options and will bring recommendations in an action agenda item to the March Pension and Health Benefits Committee.

### **BUDGET AND FISCAL IMPACTS**

Eliminating Option 4s – “Reduced Allowance for a Fixed Period of Time” and “Reduction upon Death of a Retiree or Named Beneficiary,” and consolidating the three Option 4s, “Multiple Lifetime Beneficiaries,” “Specific Dollar Amount to a Beneficiary,” and “Specific Percentage to a Beneficiary,” would result in one-time costs to CalPERS. The one-time costs include revising publications, educational materials, and training materials, and updating the CalPERS website and my|CalPERS.

### **BENEFITS/RISKS**

The benefits of eliminating and consolidating retirement options include simplification of administering benefit payments and lower complexity in our benefit payment processes, education activities, and publications.

Potential risks include opposition from members and an undefined level of effort required to implement changes in my|CalPERS and administratively.

### **ATTACHMENTS**

Attachment 1 – Retirement Options Table 1 – Current Statutory Options  
Attachment 2 – Retirement Options Table 2 – Current Option 4s

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## Retirement Options Table 1

### Current Statutory Options<sup>1</sup>

Option	GC Section	Description
Unmodified Allowance	21350 – 21370	Highest monthly allowance payable to the member; does not provide for a continuing monthly allowance to a beneficiary after the member's death; the only benefit payable is the lump sum death benefit
1	21455	Upon the member's death, pays the unused member contributions to specified beneficiary(ies) in a lump sum; does not provide for a continuing monthly allowance to a beneficiary after the member's death
2	21456	Upon the member's death, pays the same monthly allowance to the member's beneficiary for life and if the member's beneficiary predeceases the member, the member's monthly allowance increases to the Unmodified Allowance
2W	21459	Upon the member's death, pays the same monthly allowance to the member's beneficiary for life and if the member's beneficiary predeceases the member, the member's monthly allowance remains the same
3	21457	Upon the member's death, pays the member's beneficiary half the member's monthly allowance for life and if the member's beneficiary predeceases the member, the member's monthly allowance increases to the Unmodified Allowance
3W	21459	Upon the member's death, pays the member's beneficiary half the member's monthly allowance for life and if the member's beneficiary predeceases the member, the member's monthly allowance remains the same

<sup>1</sup> Option descriptions are from CalPERS, Benefit Services Division *Benefit Estimate Letter (PERS)*.



## Retirement Options Table 2

### Current Option 4s<sup>1</sup>

Option	GC Section	Description
4 – Specific Dollar Amount to a Beneficiary	CCR 585(c)(1)	Upon the member’s death, pays the member’s beneficiary a specified dollar amount of the member’s unmodified allowance
4 – Specific Percentage to a Beneficiary	CCR 585(c)(2)	Upon the member’s death, pays the member’s beneficiary a specified percentage of the member’s unmodified allowance
4 – Option 2W and Option 1 Combined	CCR 585(c)(3)	Upon the member’s death, pays the same monthly allowance to the member’s beneficiary for life; upon the member and the member’s beneficiary’s death, pays any remaining contributions to the member’s secondary beneficiary(ies)
4 – Reduced Allowance for Fixed Period of Time	CCR 585(c)(4)	Pays a specified dollar or percentage of the member’s unmodified allowance to the member for a specified time period and after the specified time period, the member receives an increased allowance based on the actuarial equivalent of their remaining benefit
4 – Multiple Lifetime Beneficiaries	CCR 585(c)(5)	Upon the member’s death, pays a specified dollar or percentage of the member’s unmodified allowance to more than one beneficiary
4 – Option 3W and Option 1 Combined	CCR 585(c)(6)	Upon the member’s death, pays the member’s beneficiary half the member’s monthly allowance for life; upon the member and member’s beneficiary’s death, pays any remaining contributions to the member’s secondary beneficiary(ies)
4 – Reduction upon Death of Retiree or Named Beneficiary	CCR 585(c)(7)	The member specifies a reduction to their unmodified allowance (at least \$1) to provide the highest allowance possible while both the member and the member’s beneficiary are living; upon either the member or member’s beneficiary’s death, the survivor’s continuing allowance is reduced

<sup>1</sup> Option descriptions are from CalPERS, Benefit Services Division *Benefit Estimate Letter (PERS)*.