



## Pension and Health Benefits Committee Agenda Item 4e

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December 20, 2016

**Item Name:** Implementation of Administrative Fee for the Replacement Benefit Plan

**Program:** Customer Services and Support

**Item Type:** Information Consent

### **Executive Summary**

Government Code Section 21757(b)<sup>1</sup> and California Code of Regulations (Regulation), title 2, section 589.7(b) requires the California Public Employees' Retirement System (CalPERS) to assess administrative fees to the participants of the Replacement Benefit Plan (RBP). The assessment will be effective with the February 2017, RBP benefit payment, issued in March 2017.

### **Strategic Plan**

This report supports Goal B of the CalPERS 2012-2017 Strategic Plan to actively manage business risks with an enterprise-wide view. The assessment of administrative costs from the RBP participants ensures that the costs are recovered by those members that directly benefit from the plan.

### **Background**

Section 415(b) of the Internal Revenue Code (IRC) places a dollar limit on the annual retirement benefit allowance that a member can receive from a tax-qualified pension plan. Members who exceed the annual limit are paid from both the Public Employee's Retirement Fund (PERF) and the Replacement Benefit Fund (RBF).

The purpose of the RBF, which is an agency fund (custodial), is to restore retirement benefits earned by CalPERS members that are limited by IRC Section 415(b). CalPERS invoices all prior employers of an RBP participant proportionately for the annual benefit in excess of the limit. Those employers must remit payment to CalPERS as the administrator of the plan. The RBF collects, holds, and disburses funds as prescribed in Sections 21750-21765, and California Code of Regulations, title 2, section 589 et seq. CalPERS establishes an RBF account for each participant and after CalPERS receives required payments from the employer, CalPERS pays the participant on the monthly RBF benefit roll process.

### **Analysis**

Administrative costs related to the RBF must be paid by the participants as required by the Section 21757 and Regulation section 589.7.

Previously, the interest earned from the Surplus Money Investment Fund (SMIF) was applied to help cover the administrative costs of the program. Due to decreases in interest earned by the

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<sup>1</sup> Unless noted otherwise, all further statutory references are to the Government Code.

SMIF, as well as, significant increases in plan participants resulting in a greater need for automation, the participants must now be charged directly for the program. There are approximately 900 participants currently in the plan.

CalPERS has implemented many enhancements to the RBP in recent years including faster access to benefits by converting payments from quarterly to monthly, once funds are available in the participant's account. In addition, the online member self-service functionality was enhanced. The planning stages for direct deposit of RBF payments have been initiated as well.

The cost recovery percentage is post-tax and will be systematically applied to each participant's (or other recipient's) gross dollar amount of the benefit paid from the RBF. At year end, any under/over administrative costs recoveries, as well as, earnings from assets in the RBF are incorporated into the new year's cost recovery percentage. RBP participants have been notified of this change via letter and will annually be notified prior to assessing an updated administrative fee.

### **Budget and Fiscal Impacts**

The RBP budget is part of the annual budget process. The Financial Office is responsible for ensuring the appropriate administrative costs are being captured and monitored. This includes establishing the annual percentage rate by November 1st for the next calendar year, which will be assessed to the RBP participants.

### **Benefits and Risks**

Implementation of the administrative fee complies with Section 21757, Regulations sections 589.5 and 589.7. Further, Section 21757 and Regulation section 589.7 states administrative costs will not be paid from the PERF and must not increase the benefit costs to the employer, member, or annuitant.

### **Attachments**

None.

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