



## Pension and Health Benefits Committee Agenda Item 4b

February 13, 2018

**Item Name:** Member Request for Additional Form of Retirement Option 4

**Program:** Retirement Benefits

**Item Type:** Action Consent

**Recommendation**

Deny member's request for a new form of Option Settlement 4.

**Executive Summary**

California Public Employees' Retirement System (CalPERS) member Donald Hom retired December 31, 2017, and requested the System adopt a new form of Retirement Optional Settlement (Option) 4 which is a combination of two existing Option 4 types. The Benefit Services Division recommends the Committee deny Mr. Hom's request for a new type of Option 4 because the request fails to comply with applicable federal, state and administrative requirements based on the criterion in California Code of Regulations (CCR) section 585. Mr. Hom is receiving a retirement allowance for the closest Option 4 settlement type until this matter is resolved.

**Strategic Plan**

This item 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**

Government Code section 21458 establishes Option 4 and CCR 585 defines the current Option 4 allowance types and provides criteria for evaluating new and existing Option 4's. Any Option 4 amendments require regulatory revisions, and if necessary, statutory revisions (*see attachment 1 – Retirement Optional Settlement 4*).

These sections of law apply to members who retire prior to January 1, 2018. The passage of legislation (Assembly Bill (AB) 2404, Cooley), also known as the Retirement Option Simplification, eliminated and consolidated current retirement options for members who retire, on or after, January 1, 2018. There is no provision in the law to allow for any other forms of Option 4.

**Analysis**

Mr. Hom is requesting that for the first year of his retirement he receive 25 percent of his retirement allowance naming his daughter as beneficiary upon his death. In the second year after retirement, and thereafter, Mr. Hom is requesting to designate his beneficiary to receive a fixed amount of \$3,000 per month upon his death.

Currently, Mr. Hom is retired with Option 4 – Specific Dollar to Beneficiary. He is receiving \$8,700.04 per month and upon his death, \$3,000.00 per month will be paid to his beneficiary.

His request is to receive 25 percent for his first year of retirement, estimated to be \$2,400 per month from December 31, 2017, through December 31, 2018. Effective January 1, 2019, and thereafter, Mr. Hom would receive approximately \$9,170 per month. If Mr. Hom pre-deceases the beneficiary before the initial allowance expiration date of December 31, 2018, the beneficiary would receive the lesser allowance of approximately \$2,400 per month upon his death. If the member pre-deceases the beneficiary after December 31, 2018, the beneficiary will receive \$3,000.00 per month upon his death.

Administrative requirements of CCR section 585 require there to be no existing option or Option 4 type that could be used to accomplish substantially the same results and that it is reasonable to expect at least 100 members will elect the option within two years of the date the option first became available.

Mr. Hom's request to receive a minimum pension through a specified period and then a specific dollar amount upon his death is not substantially different from his current Option 4 choice. Additionally, with the passage of AB 2404, there can be no expectation that at least 100 members would elect the new option type within the first two years it becomes available, because this would not be an option available to future retirees.

For these reasons, we recommend the Committee deny Mr. Hom's request for a new type of Option 4.

### **Budget and Fiscal Impacts**

Adding this new Option 4 type results in costs associated with the actuarial calculation of the benefit and further manual intervention and monitoring required each time there is a change to the allowance up through the member and beneficiary's death. Potential resources needed to implement necessary regulatory changes as a result of the change.

### **Benefits and Risks**

Approving this new Option 4 type would satisfy the member's request.

Potential risks include errors in the member's or beneficiary's benefit payment due to the need for manual intervention and monitoring of events throughout the life of this benefit.

### **Attachments**

Attachment 1 – Retirement Optional Settlement 4

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