

**DRAFT****CalPERS Statement on Conference Committee  
Pension Reform Proposal**

*(The statement below is based on a preliminary analysis by CalPERS staff and their current understanding of the California Public Employees' Pension Reform Act Of 2013 as set forth in the Conference Report. This statement is not intended to address all issues that could arise if this bill becomes law.)*

For nearly 80 years, CalPERS has administered retirement benefits for public employees and their families in accordance with the California Public Employees' Retirement Law and the California and United States Constitutions.

Today, CalPERS manages retirement benefits for 1.6 million active and retired State, school and local government employees on behalf of more than 3,000 employers.

Over the past year many individuals and organizations have engaged in discussions about proposals to reform public employee pensions in our state. CalPERS has supported, and participated in, this dialogue between policy makers, our state and local employers, taxpayer advocates, public employee unions and retiree groups, the media, academics and other experts in public sector retirement systems and municipal finances. The California Legislature's Conference Committee on Public Employee Pensions has especially played a leadership role in hosting a series of hearings to examine these issues with leaders from across the state and nation. The challenge has been finding ways to lower pension costs while still keeping the promises made to those public servants who have dedicated their careers to serving millions of Californians every day and while also providing an adequate retirement to California's future public servants.

After a long and thoughtful process involving many stakeholders' efforts to strengthen and bring consistency to California's public pension plans, this week the Conference Committee on Public Employee Pensions passed sweeping reforms of current pension law. The next step is for the Legislature to act on the reforms. CalPERS applauds all who have worked hard to find fair solutions to these complicated problems. The bill passed by the Committee proposes significant reforms, and as with most changes of such dramatic size and scope, there will be very few people who will be pleased with all of the bill's details. Some will say it does not go far enough, and others will say it goes too far.

CalPERS believes that the proposal includes significant and much needed changes that will help to protect and ensure the sustainability of the retirement fund, reduce abuse and add protections, ease administration, and moderate pension costs over time. These include:

- The calculation of benefits to be based on regular, recurring pay

*Requires compensation defined as the normal rate of regular, recurring pay, excluding special bonuses, unplanned overtime, payouts for unused sick leave, and other special compensation*

- Three-year final compensation  
*Requires final compensation be defined as the highest average annual compensation during a consecutive 36 month period*
- Prohibit retroactive pension benefit enhancements  
*Prohibits public employers from granting any retroactive pension benefit enhancements that apply to service performed prior to the enhancement*
- Prohibit pension holidays  
*Requires the combined employer and employee contributions, in any fiscal year, to cover that year's normal cost*

Many of the remaining elements of the legislation related to the level of benefits are a matter for the Legislature to decide, consistent with the rules of collective bargaining where appropriate.

It is important to note that public employees have already made significant concessions over the last few years. Through collective bargaining agreements, most State employees are now paying 2 to 4 percent more from their paychecks toward pensions for a total of 8 to 11 percent of their compensation and thus saving the State nearly \$400 million annually. The Committee's proposals would return the benefit levels for all new public employees in California to pre-SB 400 levels from 1999.

Defined benefit pensions have played an important role in California. Pensions are part of employee compensation that enables successful recruitment and retention. Defined benefit plans also deliver the same level of retirement benefits at almost half the cost of other defined contribution plans and offer irreplaceable financial security for those public employees who are not even covered by Social Security. While a portion of defined benefit plans are funded by taxpayer dollars, they are a tremendous value to State and local governments because the majority of funding -- more than 66 cents of every dollar that CalPERS pays in retirement benefits -- comes from CalPERS investment earnings.

CalPERS remains committed to lend its expertise to the ongoing pension discussions to ensure that public employee retirement plans continue to be sustainable, secure and cost-effective.