

# Summary of Public Employees' Pension Reform Act (PEPRA) and Related Changes to the Public Employees' Retirement Law (PERL)

This summary includes CalPERS' current interpretations of key areas of the law ([AB-340 Public Employees' Retirement](#)) and is not intended to provide a comprehensive discussion of PEPRA. CalPERS continues to analyze PEPRA and the related changes to the PERL and, as such, this summary may be revised.

BRIEF SUMMARY	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
<p><b>Definition of a New Member</b></p> <p>As defined by PEPRA, a new member includes a:</p> <ul style="list-style-type: none"> <li>• New hire who joined CalPERS for the first time on or after January 1, 2013, and <b>has no prior membership</b> in another California public retirement system.</li> <li>• New hire who joins CalPERS for the first time on or after January 1, 2013, and who was a member of another California public retirement system prior to that date, but <b>is not subject to reciprocity</b> upon joining CalPERS.</li> <li>• Member who joined CalPERS prior to January 1, 2013, who, on or after January 1, 2013, is hired by a different CalPERS employer following a break in service of more than six months.               <ul style="list-style-type: none"> <li>○ All State of California departments, including California State Universities, are considered the same state employer.</li> <li>○ All school county offices and districts are considered the same school employer.</li> <li>○ Each public agency is considered a separate employer.</li> </ul> </li> </ul> <p>Any members who don't fall into the definitions above are considered classic members and will retain the existing benefit enrollment levels for future service with the same employer.</p>	7522.04(f)	X <sup>1</sup>	X

<sup>1</sup> Classic members may be impacted where they change employers and/or change retirement systems and do not meet the statutory requirements related to reciprocity or where there is break in service of more than six months.

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<p><b>Reduced Benefit Formulas and Increased Retirement Ages</b></p> <p>Created a new defined benefit formula (2% at 62) for all new miscellaneous (non-safety) members with an early retirement age of 52 and a maximum benefit factor of 2.5% at 67.</p> <p>Created three new defined benefit formulas for new safety members with a normal retirement age of 50 and a maximum benefit factor at age 57. Also required new safety members be provided with the new formula closest to the formula offered to classic members of the same classification, and one that provides a lower benefit at age 55 than the formula offered to classic members.</p> <table border="1" data-bbox="134 639 1182 886"> <thead> <tr> <th></th> <th>Normal Retirement Age</th> <th>Maximum Benefit Factor</th> </tr> </thead> <tbody> <tr> <td>Basic Formula</td> <td>1.426% at Age 50</td> <td>2% at Age 57 and older</td> </tr> <tr> <td>Option Plan 1</td> <td>2% at Age 50</td> <td>2.5% at Age 57 and older</td> </tr> <tr> <td>Option Plan 2</td> <td>2% at Age 50</td> <td>2.7% at Age 57 and older</td> </tr> </tbody> </table> <p>An employer and its employees may agree by Memorandum of Understanding (MOU) to place new employees (hired after the date of the MOU) in a lower tier of safety benefits, but this change cannot be imposed through impasse procedures.</p>		Normal Retirement Age	Maximum Benefit Factor	Basic Formula	1.426% at Age 50	2% at Age 57 and older	Option Plan 1	2% at Age 50	2.5% at Age 57 and older	Option Plan 2	2% at Age 50	2.7% at Age 57 and older	<p>7522.15 7522.20 7522.25</p>		<p>X</p>
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<p><b>Pensionable Compensation Cap</b></p> <p>Caps the annual salary used to calculate final compensation for all new members, excluding judges. Adjustments to the caps are permitted annually based on changes to the Consumer Price Index (CPI) for All Urban Consumers. Compensation limits are announced via Circular Letter. Current and previous year compensation limits can be found on our <a href="#">Circular Letters</a> webpage by searching 'compensation limits.'</p>	<p>7522.10</p>		<p>X</p>												

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<p><b>Replacement Benefit Plans</b></p> <p>Prohibits public employers from offering:</p> <ul style="list-style-type: none"> <li>• A plan of replacement benefits for new employees who are subject to the federal benefit limitations under Internal Revenue Code section 415(b).</li> <li>• A replacement benefit plan for any employee if the employer does not offer a plan of replacement benefits prior to January 1, 2013, or to any additional employee group not covered by an existing plan prior to January 1, 2013.</li> </ul>	7522.43	*	X
<p><b>Industrial Disability Retirement (IDR) Benefits for Public Safety Members</b></p> <p><i>This provision ended on January 1, 2018.</i></p> <p>Added a calculation for a safety member who qualifies for an IDR that may result in a benefit higher than 50% of salary.</p>	7522.66 21400	X	X
<p><b>Prohibits Pension Holidays</b></p> <p>Requires the combined employer and member contributions, in any fiscal year, not be lower than the total year's normal cost.</p>	7522.52	X	X

\*Currently, these provisions do not impact classic members directly. However, they prohibit public employers from offering such a benefit or option to classic members in the future.

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<p><b>Equal Sharing of Normal Cost</b></p> <ul style="list-style-type: none"> <li>For public agencies, school employers, the CSU, and judicial branch, a new member’s initial contribution rate<sup>2</sup> will be at least 50% of the total normal cost rate or the current contribution rate of similarly situated employees, whichever is greater, except where it would cause an existing MOU to be impaired. Once the impaired MOU is amended, extended, renewed, or expires, the new requirements will apply. CalPERS has interpreted “similarly situated employees” to mean those employees that are in the same benefit group (employees with the same benefit formula).</li> <li>Employer Paid Member Contributions (EPMC) are also prohibited for new members employed by public agencies, school employers, the CSU, or judicial branch.  <u>Exception:</u> If an employer determines an existing MOU is impaired and communicates that decision to CalPERS, then any stated EPMC agreements will apply to new members through the duration of the MOU. Once the impaired MOU is amended, extended, renewed, or expires, employers will no longer be able to report EPMC for new members.</li> <li>For classic members of a public agency or school employer, the member contribution rate is not required to change. In addition, EPMC can continue to be reported as it is today for classic members pursuant to existing PERL provisions.</li> <li>State employees (excluding new CSU members and new judicial branch members) will pay the contribution rates determined through bargaining and/or as provided by statute. Rates increase and vary by bargaining unit and by classification. Current and previous year contribution rates can be found on our <a href="#">Circular Letters</a> webpage by searching ‘state employer and employee contribution rates.’</li> </ul>	<p>7522.30 20516.5 20683.2</p>	<p>X</p>	<p>X</p>

<sup>2</sup> CalPERS has interpreted this provision to apply to new members rather than new employees.

BRIEF SUMMARY	SECTIONS	IMPACTS CLASSIC MEMBERS	IMPACTS NEW MEMBERS
<p><b>Equal Sharing of Normal Cost (cont.)</b></p> <ul style="list-style-type: none"> <li>• Beginning January 1, 2018, public agency and school employers that have collectively bargained in good faith and have completed impasse procedures, including mediation and fact finding, can unilaterally require classic members to pay up to 50% of the total normal cost of their pension benefit. However, the employee contribution may only be increased up to: <ul style="list-style-type: none"> <li>○ 8% contribution rate for miscellaneous members</li> <li>○ 12% contribution rate for local police officers, local firefighters, and county peace officers</li> <li>○ 11% contribution rate for all other local safety members</li> </ul> </li> </ul>			
<p><b>Cost Sharing of Employer Contributions</b></p> <p>Permits public agencies and their employees to agree to share the cost of the employer contribution with or without a change in benefit. These contributions are paid in addition to the member contribution rate. This allows cost-sharing agreements to differ by bargaining unit or for classifications of employees subject to different benefit levels as agreed to in an MOU. It also permits cost sharing of the employer costs for non-represented employees as approved in a resolution passed by the public agency.</p>	20516	X	X
<p><b>Close Legislators' Retirement System (LRS) to New Members</b></p> <p>Prohibits new members from participating in LRS. However, new statewide constitutional and legislative statutory officers would still be eligible for optional membership in CalPERS.</p>	9355.4 9355.41 9355.45		X
<p><b>Equal Health Benefit Vesting Schedule for Non-Represented and Represented Employees</b></p> <p>Prohibits employers from providing a more advantageous health benefit vesting schedule to certain individuals (e.g., elected or appointed public employees, trustees, excluded from collective bargaining, exempt from civil service, managers, etc.) than it does for other public employees, including represented employees, of the same public employer who are in related retirement membership classifications.</p>	7522.40	X	X

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<p><b>Prohibits Purchase of Additional Retirement Service Credit (ARSC)</b></p> <p>Prohibits the purchase of nonqualified service credit (also known as "air time") on or after January 1, 2013.</p>	7522.46	X	X
<p><b>Prohibits Retroactive Pension Benefit Enhancements</b></p> <p>Prohibits public employers from granting retroactive pension benefit enhancements that would apply to service performed prior to the date of the enhancement. In addition, if a change in a member's membership classification or employment results in a benefit enhancement, that enhancement can only be applied to service performed on or after the operative date of the change. Annual cost-of-living adjustments are excluded from this prohibition.</p>	7522.44	X	X
<p><b>Pensionable Compensation</b></p> <p>PEPRA uses the term "pensionable compensation" for the purpose of determining reportable compensation for new members. Pensionable compensation for new members is defined as "the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules." It also specifically excludes certain types of pay from being reported as pensionable compensation, including, bonuses, overtime, pay for additional services outside normal working hours, cash payouts for unused leave (e.g., vacation, annual, sick leave, CTO, etc.), severance pay, etc. Also excluded is any compensation determined by the retirement board to have been paid to increase a member's retirement benefit and any other form of compensation determined to be inconsistent with the statutory definition.</p> <p>Existing compensation earnable provisions continue to apply for classic members.</p>	7522.34		X

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<p><b>Requires Three-Year Final Compensation</b></p> <p>For new members, defines final compensation as the highest average annual pensionable compensation earned by a member during a period of at least 36 consecutive months, or three school years, as applicable.</p> <p>Prohibits public employers from adopting a final compensation period of less than three years for classic members who are currently subject to a three-year final compensation period.</p>	7522.32	*	X
<p><b>Felons Forfeit Pension Benefits</b></p> <p>Requires both current and future public officials and employees to forfeit certain specified pension and related benefits if convicted of a felony in carrying out their official duties, in seeking an elected office or appointment, or in connection with obtaining salary or pension benefits, subject to certain requirements.</p>	7522.72 7522.74	X	X
<p><b>Contracting Agency Liability for Excessive Compensation</b></p> <p>Requires CalPERS plans it administers to define a “significant increase” in actuarial liability due to increased compensation paid to a non-represented employee and further directs the Board to implement program changes to ensure a public agency that creates a significant increase in actuarial liability bears the increased cost associated with that liability.</p>	20791	X	X
<p><b>Alternate Retirement Program (ARP)</b></p> <p>ARP has been closed to new members effective July 1, 2013. For more information on ARP, refer to <a href="#">PUB 10 (PDF)</a>.</p>	20281.5		X

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<p><b>Limits on Post-Retirement Public Employment</b></p> <p>CalPERS retirees are subject to specific restrictions when returning to work for a CalPERS employer. A retiree may not serve, be employed by, or be employed through a contract directly with a CalPERS employer unless they either reinstate from retirement or their employment meets all the following conditions:</p> <ol style="list-style-type: none"> <li>1. <b>960-Hour Rule</b> The appointment must not exceed a total of 960 hours (or other equivalent limit) for all CalPERS employers combined within a fiscal year.</li> <li>2. <b>Compensation</b> The retired annuitant's (RAs) pay rate must fall within the salary range for the assigned position, as listed on a publicly available salary schedule. Compensation must be consistent with what is paid to other employees performing comparable duties.</li> <li>3. <b>Bona Fide Separation</b> A retiree may not work as an RA if they retire before reaching normal retirement age unless both of the following conditions are met: <ul style="list-style-type: none"> <li>• There is no prearranged agreement (written or verbal) to return to work prior to retirement.</li> <li>• The retiree observes a 60-day separation period before returning to work.</li> </ul> </li> <li>4. <b>Additional Benefits</b> RAs may only receive an hourly rate within the established wage range. They are not eligible for any additional benefits, incentives, compensation in lieu of benefits, or other forms of compensation beyond the hourly pay rate.</li> </ol>	<p>7522.56 7522.57</p>	<p>X</p>	<p>X</p>

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<p><b>Limits on Post-Retirement Public Employment (cont.)</b></p> <p>5. <b>180-Day Waiting Period</b> RAs must observe a 180-day waiting period before returning to work, unless they qualify for one of the following exemptions:</p> <ul style="list-style-type: none"> <li>• The appointment is to fill a critically needed position, approved as an action item (not on the consent calendar) by the governing body.</li> <li>• The retiree is enrolled in the California State University Faculty Early Retirement Program.</li> <li>• The retiree is from a safety classification and returns to a safety classification.</li> <li>• The retiree is a CalSTRS retiree subject to Education Code section 24212, 24214.5, or 26812.</li> </ul> <p><b>Note:</b> RAs who received a retirement incentive are not eligible for 180-day exemptions.</p> <p>6. <b>Unemployment Insurance Compensation</b> An RA cannot be hired if they have received unemployment insurance payments resulting from a previous RA appointment within the 12 months prior to the new appointment's start date. If a retiree accepts an appointment after receiving such compensation, they must terminate employment no later than the last day of the current pay period and will be ineligible for reappointment for 12 months.</p> <p>7. <b>Limited Duration</b> RA appointments are temporary and may be used to:</p> <ul style="list-style-type: none"> <li>• Address a backlog of work or complete a specialized project</li> <li>• Respond to an emergency to prevent business interruption</li> </ul> <p>RAs may not be employed in regular staff positions (e.g., seasonal, permanent, intermittent, etc.).</p>	<p>7522.56 7522.57</p>	<p>X</p>	<p>X</p>

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<p><b>Limits on Post-Retirement Public Employment (cont.)</b></p> <p><b>8. RA Appointment Types</b></p> <p><u>Extra Help:</u></p> <ul style="list-style-type: none"> <li>• Appointments made during emergencies to prevent the stoppage of public business or when specialized skills are required for work of limited duration.</li> <li>• The position is not permanent or regular staff.</li> <li>• The duration is defined by the specific task or project, as determined by organizational needs.</li> </ul> <p><u>Interim Vacant (Executive Level Singular Positions):</u></p> <ul style="list-style-type: none"> <li>• Applicable only to contracting agencies.</li> <li>• Must comply with the rules for the relevant appointment type: <ul style="list-style-type: none"> <li>○ Government Code 21221(h): <ul style="list-style-type: none"> <li>» Applies to a vacant position with active recruitment established prior to the appointment.</li> <li>» The appointment lasts only as long as the position remains vacant and under active recruitment.</li> <li>» An RA may be appointed to the position only once.</li> <li>» The appointment must terminate once the position is filled.</li> </ul> </li> <li>○ Government Code 21221(g): <ul style="list-style-type: none"> <li>» Applies to temporary vacancies due to an employee’s approved leave of absence.</li> <li>» The appointment must be approved by the governing body via resolution.</li> <li>» The leave of absence may not exceed 12 months.</li> <li>» The appointment lasts only for the duration of the leave; it must terminate when the permanent employee returns.</li> </ul> </li> </ul> </li> </ul>	<p>7522.56</p> <p>7522.57</p>	<p>X</p>	<p>X</p>