

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 21, 2007
POSITION: Oppose
SPONSOR: California Professional Firefighters

BILL NUMBER: SB 579
AUTHOR: P. Wiggins

BILL SUMMARY: Public Employees' Retirement Law

This bill would require the California Public Employees' Retirement System (CalPERS) to certify to the Internal Revenue Service (IRS) and specified health insurance plan providers, for tax purposes, that the member is a retired public safety officer when the member retires for a disability or based upon years of service.

FISCAL SUMMARY

CalPERS states this bill could create significant administrative costs if it were enacted. The administration costs would come out of the Public Employees' Retirement Fund (PERF) which is paid for by all CalPERS members and their employers.

SUMMARY OF CHANGES

Amendments to this bill since our analyses of the February 22, 2007 version are minor and do not alter our position. The amendments clarified that the board may, in order to implement the provisions of the federal Pension Act of 2006 determine the following:

- If a member is a public safety officer, consistent with federal tax law.
If a provider of an accident or health insurance plan or a qualified long-term care insurance contract is a health insurance plan provider.
If the normal retirement age of a member by the age specified in the name of the benefit formula under Article 7.5 (commencing with Section 31660) or Article 8 (commencing with Section 31670), that is applicable to that member.
The Board may change its determination of normal retirement age as described in paragraph (3) of subdivision (a) in order to comply with any rules of the Internal Revenue Service.

COMMENTS

The Department of Finance is opposed to this bill because it will increase the state's PERF administration costs. Finance notes the benefit of using tax-free distributions to pay for health or long-term care insurance premiums, but under the state's current classification structure this bill would create substantial administrative costs.

ANALYSIS

A. Programmatic Analysis

The federal Pension Act of 2006 (HR 4) permits certain public safety officers who separate from service due

(Continued)

Analyst/Principal Date Program Budget Manager Date
(0931) K. Hansen Thomas E. Dithridge

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

P. Wiggins

June 21, 2007

SB 579

ANALYSIS (continued)

A. Programmatic Analysis (continued)

to disability or attainment of normal retirement age to take tax-free distributions from qualified retirement plans such as CalPERS' retirement plans to pay health or long-term care insurance premiums, up to a maximum of \$3,000 annually, if the retirement plan takes the administrative steps necessary to implement the benefit.

The Department of Personnel Administration (DPA) classifies positions within the state. Membership in the states safety class requires employees to perform the following duties:

- The protection and safeguarding of the public and property
- The control and supervision of inmates, youthful offenders, and state mental facility Penal Code Offenders
- The capability to respond in emergency situations and to provide a level of service to the public such that the safety of the public and of property is not jeopardized as part of the conditions of employment

Whereas existing federal law defines a "Public Safety Officer" as an "individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, as a firefighter, as a Chaplin, or a member or a rescue squad or ambulance crew."

Requiring CalPERS to certify to the Internal Revenue Service (IRS) and specified health insurance plan providers that a member is a retired public safety officer would not be an automatic process. Certification would require CalPERS to manually review individual classifications within the state's safety classes to cross reference their duties with the federal definition of "Public Safety Officer", at that point the necessary certification documents could be completed.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year)			Fund Code
				(Dollars in Thousands)			
				2007-2008	2008-2009	2009-2010	
1900/PERS	SO	No		-----	See Fiscal Summary	-----	0830
0001/Major Rev	SO	No		-----	See Fiscal Summary	-----	0001
<u>Fund Code</u>	<u>Title</u>						
0001	General Fund						
0830	Public Employees' Retirement Fund						