DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 1, 2011
POSITION: Neutral

BILL NUMBER: AB 1184
AUTHOR: M. Gatto

BILL SUMMARY: Public Employees' Retirement Benefits

This bill would require the California Public Employees' Retirement System (CalPERS) to develop guidelines and implement program changes to ensure that a contracting agency that creates a significant increase in actuarial liability, due to increased compensation paid to a non-represented employee, shall bear the associated liability. The CalPERS Board of Administration would be required to report to the Legislature on its implementation efforts. This bill would also prohibit the CalPERS Board of Administration from administering an Internal Revenue Code (IRC) Section 415 Replacement Benefits Plan (RBP) for a person who first becomes a CalPERS member on or after January 1, 2013.

FISCAL SUMMARY

This bill would have minimal to no fiscal impact on the state.

According to CalPERS, this bill would create minimal operating costs.

CalPERS states that in the aggregate shifting liability among CalPERS contracting agencies does not change benefit costs for CalPERS employers. However, this bill would place the increased liability created by large compensation increases on the employer responsible for such increases. Additionally, CalPERS employers would no longer be responsible for paying the cost of replacement benefits to "make whole" the retirement allowances of future members that are limited by IRC Section 415 limit, currently at $195,000 for 2011. There are currently five participants in the RBP and none are state employees.

COMMENTS

The Department of Finance is neutral on this bill because there is minimal to no fiscal impact on the state.

The Governor is currently developing pension reform proposals which include a pension cap.

This bill would:

- Provide that the obligations for retirement benefits that are attributable to excess compensation earned by a non-represented employee who was employed by one or more CalPERS contracting agencies shall be the sole obligation of the contracting agency that paid the excess compensation.
- Require the system actuary of CalPERS to assess the increase in liability to the employer that created it and adjust the employer's rates as needed to comply with the requirements.
- Require CalPERS to develop guidelines and implement program changes to ensure that a contracting agency that creates a significant increase in the actuarial liability for another contracting agency or agencies due to increased compensation it has paid to a non-represented employee will bear the associated liability, regardless of when the increase in compensation occurred.
- Require that the CalPERS Board of Administration report to the Legislature by June 30, 2012 on the implementation of the guidelines developed and the assessment of the implementation and effectiveness of the guidelines.

Analyst/Principal	Date	Program Budget Manager	Date
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Department Deputy Director			Date

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

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COMMENTS (Continued)

- Prohibit CalPERS from administering an IRC Section 415 RBP for a person who first becomes a member of CalPERS on or after January 1, 2013.

The IRC Section 415 places a dollar limit on the annual benefit that can be received from a tax-qualified pension plan, such as CalPERS. The maximum annual retirement benefit payable is $195,000 for calendar year 2011. Those members that receive retirement benefits in excess of the maximum federal limit are issued quarterly payments called “replacement benefits” from a separate fund through the CalPERS RBP funded by the employer. The RBP would no longer be an option for CalPERS members hired on or after January 1, 2013. According to CalPERS, there are five members participating in the RBP, of which all were high-level administrators of local contracting agencies.

According to the author, this bill would save the taxpayers of well-run cities from having to pay the pension costs associated with exorbitant salaries in other cities. Additionally this bill would prohibit California’s public employee retirement systems from participating in any program offering pension benefits in excess of the federal cap ($195,000 for 2011).

The author also states that this bill is in response to media reports that the City of Bell, a CalPERS contracting agency, paid its top executives what was characterized as excessive compensation. In one instance, the City of Bell hired a former police chief from the City of Glendale, another CalPERS contracting agency, and approximately doubled his compensation. Currently, the City of Glendale would be affected by the increased compensation given by the City of Bell through increases in their pension liabilities.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Fund Code
		(Fiscal Impact by Fiscal Year) (Dollars in Thousands)							
1900/PERS	SO	No		--------------------- See Fiscal Summary ---------------------					0830

Fund Code	Title
0830	Public Employees' Retirement Fund