September 2012 Legislative Update

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LOS ANGELES – Governor Edmund G. Brown Jr. today signed sweeping bipartisan pension reform legislation that saves billions of taxpayer dollars by capping benefits, increasing the retirement age, stopping abusive practices and requiring state employees to pay at least half of their pension costs.

“This is the biggest rollback to public pension benefits in the history of California pensions,” said Governor Brown. “We’re lowering benefits to what they were before I was Governor the first time and reducing costs by up to $55 billion in PERS and billions more in other local pension systems. Under the new rules, employers and employees alike are going to contribute their fair share of the costs, resulting in a more sustainable system.”

The pension reform law, AB 340 (Furutani), requires current state employees and all new public employees to pay for at least 50 percent of their pensions and establishes this as the norm for all public workers in California. Importantly, these new reforms eliminate state-imposed barriers that have prevented local governments from increasing employee contributions. The new law also bans abusive practices used to enhance pension payouts.

“I am very proud of my colleagues for their hard work to achieve these historic, bipartisan reforms,” said Assembly Speaker John A. Pérez. “The pension reform law outlaws the most objectionable practices, creates new accountability for pensions and saves state and local government as much as 70 billion dollars in the coming years while keeping faith with California’s hardworking public servants. These are meaningful reforms that address one of the biggest long-term challenges facing California, and I believe this is a major victory for the people of our state.”

“Until recently, pension reform was defined by ending the system’s abuses. The reforms we have accomplished do just that but we also ventured significantly further,” said Senate President pro Tem Darrell Steinberg. “Some say that it is far too much and others say that it is not enough but this much is undeniable: the result is a fair and defined middle-class retirement package that goes a great distance toward protecting taxpayers and the fiscal health of our pension systems.”

AB 340 also increases the retirement age for new public workers and caps the salary amount that can go toward pensions.

“The pension reform plan that Governor Brown signed today will save taxpayers billions of dollars by making important changes to the way we calculate pension benefits and eliminating opportunities for abuse,” said Assemblymember Cameron Smyth. “Having been involved in pension discussions with the Governor for many months, I can say that all of us wanted to see this plan go further. We have to be careful, though, not to make the perfect the enemy of the good. This plan is a step in the right direction, and lays the groundwork for more comprehensive reform going forward.”

On Monday, Moody’s Investors Service said that California’s pension reform legislation boosts the credit outlook for state and local governments participating in CalPERS. Moody’s currently rates California an ‘A1’ with a stable outlook.

“Thanks to the Governor's leadership and signature today we have a Win-Win for California's public and private sector,” said Dan Dunmoyer, Senior Vice President for Farmers Insurance and CalPERS board member. “It is a win for the public sector because the new law will take positive steps to ensure we can keep our commitment to our new public servants for decades to come and a win for the private sector as a better funded pension systems will result in less pressure to raise taxes and reduce support for much needed education and infrastructure projects.”

Public Employee Pension Reform Act of 2012

Caps Pensionable Salaries
• Caps pensionable salaries at the Social Security contribution and wage base of $110,100 (or 120 percent of that amount for employees not covered by Social Security).

Establishes Equal Sharing of Pension Costs as the Standard
• California state employees are leading the way and are paying for at least 50 percent of normal costs of their pension benefits. Requires new employees to contribute at least half of normal costs, and sets a similar target for current employees, subject to bargaining.
• Eliminates current restrictions that impede local employers from having their employees help pay for pension liabilities.
• Permits employers to develop plans that are lower cost and lower risk if certified by the system’s actuary and approved by the legislature.
• Provides additional authority to local employers to require employees to pay for a greater share of pension costs through impasse proceedings if they are unsuccessful in achieving the goal of 50-50 cost sharing in 5 years.
• Directs state savings from cost sharing toward additional payments to reduce the state’s unfunded liability.

Unilaterally Rolls Back Retirement Ages and Formulas

• Increases retirement ages by two years or more for all new public employees.
• Rolls back the unsustainable retirement benefit increases granted in 1999 and reduces the benefits below the levels in effect for decades.
• Eliminates all 3 percent formulas going forward.
• For local miscellaneous employees: 2.5 percent at 55 changes to 2 percent at 62; with a maximum of 2.5 percent at 67.
• For local fire and police employees: 3 percent at 50 changes to 2.7 percent at 57.
• Establishes consistent formulas for all new employees going forward.

Ends Abuses

• Requires three-year final compensation to stop spiking for all new employees.
• Calculates benefits based on regular, recurring pay to stop spiking for all new employees.
• Limits post-retirement employment for all employees.
• Felons will forfeit pension benefits.
• Prohibits retroactive pension increases for all employees.
• Prohibits pension holidays for all employees and employers.
• Prohibits purchases of service credit for all employees.

For full text of the bill, visit:

http://leginfo.ca.gov/bilinfo.html.

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