

THE BENEFITS INSIDER

For up-to-the minute information, tips and best practices

E-mail us: BenefitsInsider@calstate.edu

HRM

PENSION REFORM FAQ

RELEASE DATE: 12/06/12

Please note: the answers below are based on our preliminary review and current understanding of AB 340. Therefore, the information below may be subject to change and the FAQ will be updated accordingly.

PENSION REFORM - GENERAL

1. What is the Pension Reform bill that was announced on the news and by CSU?

Assembly Bill (AB) 340, which is also referred to as The Public Employee Pension Reform Act (PEPRA) of 2012, was signed by the Governor on 9/12/12, and will become law on 1/1/13.

CALPERS SERVICE CREDIT PURCHASES (“AIR-TIME”)

1. With regard to the purchase of Additional Retirement Service Credit (“Air-Time”), what is considered non-qualified service?

*Currently, eligible CalPERS members can purchase Additional Retirement Service Credit in increments of one year, up to five years that can be used toward retirement. This type of service credit is defined as **non-qualified service credit** and is not based on actual employment. To clarify, “Air-time” purchased cannot be used to qualify employees for retirement, health or dental benefits vesting. The ability to purchase this type of service credit is eliminated as the result of AB 340, unless the employee submits an application to CalPERS prior to 1/1/13.*

2. Will qualified service continue to be eligible for purchase through CalPERS?

Yes, it is our understanding that employees will still be able to purchase qualified service credit.

3. If an employee will not have the required five years of employment needed to purchase Additional Retirement Service Credit (“Air-Time”) until May 2013, will an exception be made?

Unfortunately, purchase of Additional Retirement Service Credit (non-qualified service credit) will not be an option for any public employee as of 1/1/13.

4. How do I find out how to go about purchasing non-qualified (“Air-Time”) service credit prior to 1/1/13?

Contact CalPERS at 888.225.7377, or visit their website at:

<http://www.calpers.ca.gov/index.jsp?bc=/member/service-credit/purchase-options/non-qualified/home.xml>

5. **Will a faculty member still be able to purchase qualified service credit after 1/1/13, to make up credit lost when the faculty member took a sabbatical leave at less than full pay?**

Yes, it is our understanding that employees will still be able to purchase qualified service credit.

6. **Will CalPERS accept “early” service credit applications in December from members if the minimum age and/or service credit requirement will not be met until 2013?**

No, you must meet the minimum requirements at the time that your application is submitted to CalPERS.

7. **What does CalPERS consider an “official” service credit purchase application?**

A completed, signed and dated “Request for Service Credit Cost Information – Additional Retirement Service Credit” form mailed to CalPERS with a member-generated Service Credit Cost Estimate (must be received prior to 1/1/13). The Service Credit Cost Estimate can be obtained via the CalPERS online Service Credit Cost Estimator.

RETIREMENT CONTRIBUTIONS (EMPLOYEE/EMPLOYER COST SHARING)

1. **“Beginning on 1/1/18, the employer may unilaterally require employees to pay 50% of the total annual normal cost up to an 8% contribution rate for miscellaneous employees and an 11 or 12% contribution rate for safety employees.” Is the CSU subject to this provision?**

It is our understanding that this language is applicable to contracting agencies and not the CSU.

2. **What, if any, change will there be to the PERS contribution of current employees?**

At this time, there is no change to the current PERS contribution for current employees.

3. **What is the timeline for these PERS contribution changes?**

The timeline for the PERS contribution changes for impacted employees is 1/1/13.

4. **For CSU new hires as of 1/1/13, what is the anticipated employee retirement contribution percentage (e.g., 50% of the normal cost of the defined benefit (DB) plan) and how is it calculated?**

Answer is pending verification by CalPERS.

PENSION-RELATED (FORMULAS, FINAL COMPENSATION, ETC.)

1. **What does the “prohibiting of retroactive pension benefit changes” in the Pension Reform Bill mean?**

This portion of the law addresses enhancements to existing retirement benefits. As of 1/1/13, retirement benefits can no longer be enhanced retroactively – the enhancements or retirement formula increase must occur on a prospective basis, and apply only to service performed on or after the operative date of the enhancement.

2. **If I get a retroactive salary increase, does that mean that CalPERS will not factor my new salary for retirement?**

Per CalPERS, "The prohibition on retroactive benefit increases do not impact salary increases. This is because retirement formulas already contemplate future salary increases. However, any increases must meet the definition of compensation earnable for existing members and pensionable compensation for new members in order to be used when calculating a retirement benefit."

3. I am a Police Cadet under 2% at 55. If I am reclassified to a Police Officer in 2013, will I also be reclassified to the 3% at 50 retirement formula? What if my reclassification is retroactive?

Per CalPERS, "An individual who is a member of a retirement system as a police cadet in a miscellaneous formula and subsequently transfers to a safety formula would not be considered a new member and would therefore be entitled to the safety formula in effect on 12/31/12. However, PEPRAs prohibits retroactive benefit increases that include formula enhancements stemming from reclassifications from miscellaneous to safety, therefore, the service time accrued as a cadet will remain under the miscellaneous formula."

4. If a ten year employee resigns from the CSU to pursue other opportunities and is subsequently rehired after 1/1/13, is the individual grandfathered into the 2% at 55 retirement formula?

It is our understanding that if an employee leaves the CSU and is subsequently rehired at the CSU, the employee should fall under the original retirement formula.

5. How is my current retirement formula impacted if I was hired at another CSU? For example, if I leave the campus that I am currently employed at to work at another CSU after 1/1/2013, would my retirement formula change?

It is our understanding that if an employee leaves the CSU and is subsequently rehired at the CSU, the employee should fall under the original retirement formula.

6. For employees that currently fall under the 2% at 55 retirement formula and subsequently leave the CSU but DO NOT retire, will these individuals receive the same retirement plan if rehired?

It is our understanding that if an employee leaves the CSU and is subsequently rehired at the CSU, the employee should fall under the original retirement formula.

7. Will there be any changes to how unused sick time will be applied for service credit at retirement?

It is our understanding that unused sick leave will still be applied to service credit for purposes of retirement.

8. What happens to unused vacation time under the new CalPERS Pension Reform signed by Governor Brown?

Unused vacation time is either cashed out at retirement or can be deferred to a 403(b), 401(k) or 457 retirement savings plan. Please note: lump sum payouts for vacation are not subject to retirement withholding, and this will continue to be the practice in January 2013.

9. Does Assembly Bill (AB) 340 change how CalPERS treats special compensation for current employees?

Per CalPERS, "No; AB 340 does not change how public employers treat special compensation for current employees. However, PEPRAs does establish a definition of pensionable compensation for new members, and that definition is different from compensation earnable, which applies to current employees."

10. What are the applicable retirement formulas to CSU?

Please see the chart below:

Retirement Plans	Hired prior to 1-15-11	Hired on or after 1-15-11	Hired on or after 1-1-13
State Misc. Tier 1 <i>(all eligible employees except public safety)</i>	2% at 55 <i>(one year highest compensation)</i>	2% at 60 <i>(36 month average compensation)</i>	2% at 62 <i>(consecutive 36 month subject to cap)</i>
Public Safety			
Retirement Plans	Hired prior to 1-15-11	Hired on or after 1-15-11	Hired on or after 1-1-13
PO/FF <i>(MPP Public Safety)</i>	3% at 50 <i>(one year highest compensation)</i>	2.5% at 55 <i>(36 month average compensation)</i>	2.5% at 57 <i>(consecutive 36 month subject to cap)</i>
State Safety <i>(limited to Intermittent Peace Officer)</i>	2.5% at 55 <i>(one year of highest compensation)</i>	2% at 55 <i>(36 month average compensation)</i>	2% at 57 <i>(consecutive 36 month subject to cap)</i>
	Hired prior to 7-1-11	Hired on or after 7-1-11	Hired on or after 1-1-13
PO/FF (Unit 8)	3% @ 50 <i>(one year highest compensation)</i>	2.5% at 55 <i>(36 month average compensation)</i>	2.5% at 57 <i>(consecutive 36 month subject to cap)</i>

Please note: Employees who became members of CalPERS on or after 7/1/1996, are subject to the IRC 401(a) (17) limit, which restricts the amount of compensation that can be used to calculate the CalPERS retirement benefit. For 2012, the limit is \$250,000.

11. Is defined pension at 2% or 2.5% at age 63 for employees who were hired before 1990?

Employees who were hired prior to 1990 are subject to the 2% at 55 *(non-Public Safety)* retirement formula. Under this retirement formula, an employee at age 63 or older would have a benefit factor of 2.5%, which is the maximum benefit factor possible under this retirement formula.

12. Does this mean faculty no longer get 2.5% after 30 years?

Three factors are used to calculate your monthly retirement benefit:

- Years of Service
- Final Compensation
- Benefit Factor *(this is based on your age)*

The percent of final compensation that you will receive for each year of service is referred to as the benefit factor. The benefit factor increases with your age, and is used to determine the percent of pay that your monthly retirement benefit will be based on. For the 2% at 55 retirement formula, the benefit factor ranges from a minimum of 1.100% (age 50) up to a maximum benefit factor of 2.500% (age 63+).

In order for a member to qualify for the 2.5% benefit factor as referenced in the question, the employee must be at least 63 years of age or older. Therefore, the benefit factor is impacted by age and not by years of service. However, with a 2.5% benefit factor and 30 years of service as referenced above, the member would be eligible to receive 75% of pay up to the applicable limits.

The benefit factor for the 2% at 60 retirement formula ranges from a minimum of 1.092% (age 50) up to a maximum of 2.418% (age 63+). The benefit factor ranges for other retirement formulas varies.

For additional information regarding retirement calculations, refer to the State Miscellaneous & Industrial Member Benefit Publication or the State Safety Member Benefit Publication located on the CalPERS website.

13. What does 2% at 55 (one year highest compensation) mean?

2% at 55 means that the benefit factor that will be used to calculate retirement benefits at the age of 55 is 2.000% when and if minimum retirement qualifications are met (at least five years of CalPERS-covered service, with minimum age requirement).

One year highest compensation means that the 12 highest consecutive months of salary will be averaged to calculate the retirement benefit under this formula.

14. Please clarify that under the new 2% at 62 retirement formula, the minimum retirement age is increased to age 52.

If hired on or after 1/1/13, the retirement formula is 2% at 62 (non-Public Safety) and the earliest an employee can retire is at age 52 with five years of CalPERS-covered service.

15. How will AB 340 impact some CSU stipends that are currently includable for retirement (i.e., Police Officer Standards and Training (POST) Council certification, uniform allowance, and certain bonuses and other stipends)? Will they still be included as “pensionable compensation” for the purposes of retirement?

Answer is pending CalPERS verification.

16. My understanding for faculty is that the pension increases from 2% to 2.5% at age 65. Is this correct? If not, when does it increase to 2.5%? Will that 2.5% go away after 1/1/13?

The benefit factor of 2.5% is applicable at age 63 and above for the 2% at 55 retirement formula. The current benefit factors applicable to the 2% at 55 retirement formula will not change as of 1/1/13.

17. If an employee is hired prior to 1-15-11 in the 2% at 55 (one year highest compensation) formula, works for five years (becomes CalPERS vested at that point), then leaves the job but remains an inactive member of CalPERS (doesn't withdraw any contributions and doesn't add any contributions). After a number of years (let's say ten), the same employee is re-hired and becomes an active member of CalPERS again after 1/1/13. Would that employee be reinstated in the previous formula or be re-hired with 2% at 62 (consecutive 36 month subject to cap) plan?

Also, after being re-hired, if an employee works for five more years and reaches the age of 55, would the employee be eligible for medical retirement benefits – being 55 and having a total of ten years (or more) of CalPERS membership?

If rehired with the same employer, the employee would be placed in the retirement formula that was applicable to the employee prior to separation.

Upon retirement, the employee would be subject to any provisions that pertain to the employee's specific retirement formula (i.e., minimum age for retirement, final compensation, retiree medical vesting, etc.).

18. I previously worked for the City of Chula Vista which has a PERS retirement benefit package that is different than what I have at CSULB. Their retirement was 3% at 55 and the cost to both the City and the Employee was more than it is here due to the increased benefits. My question is since more money was paid into PERS for a higher level of Benefits during the six years that I worked for that City do I receive any increased benefit if and when I retire under the current PERS package at CSULB?

Service credit from CalPERS-covered employment is reported to and maintained by CalPERS. If there is more than one CalPERS-covered employer and/or more than one CalPERS retirement formula over the course of the

employee's career, it is reflected on the CalPERS Annual Statement (can also be viewed by logging into myCalPERS). At the time of retirement, CalPERS will perform a separate retirement calculation for each retirement formula that you were covered under, but will use the same final compensation amount for each calculation. The two calculations are added together to derive the retirement benefit.

CALPERS MEMBERSHIP

- 1. Please clarify "new member" as mentioned in AB 340. When would the "new member" definition be applicable to someone that previously worked for a CalPERS covered employer?**

It is our understanding that an employee who previously worked for a CalPERS-covered employer would be considered a "new member" if the employee changes public employers and the separation between employers is greater than six months, unless the change of employment is between state entities or schools.

- 2. I have worked for the past six years as a part time lecturer. If I do not become a CalPERS member until 2013, will I be placed in the 2% at 62 retirement formula?**

Per CalPERS, "PEPRA (AB 340) provides that the new pension formula (2% at 62) be offered to new members. A new member includes an individual who becomes a member of a public retirement system for the first time on or after 1/1/13 (and who was not a member of another public retirement system prior to that date). Under the scenario described, a part-time employee – who is hired prior to 1/1/13 but does not become a member of CalPERS until after 1/1/13 – would be considered a new member for the purposes of PEPRA."

- 3. Are leaves of absence considered a break in service in terms of determining an employee's retirement formula?**

Per CalPERS, "No. Leaves of absence (i.e., maternity leave, military leave) should not be considered a break in service; CalPERS believes that a termination of employment must occur for there to be a break in service."

- 4. If I took a refund from CalPERS and later returned to a CalPERS covered employer, would I be considered a new member?**

Per CalPERS, "No, provided you became a CalPERS member prior to 1/1/13 and you returned to work with the same employer. Your original membership date would apply. If you returned to work with a different CalPERS employer, you would be considered a new member if your break in service between employers was greater than six months."

- 5. How will CalPERS know if a new employee is eligible for reciprocity?**

Per CalPERS, "CalPERS will develop a new procedure for employers to validate and report the reciprocal employment details. An employee should provide accurate and timely information to their employer regarding their reciprocal status."

CURRENT RETIREES

- 1. Does any of the language in the reform specify reductions, changes or elimination of cost of living adjustments (COLA) to retirees?**

AB 340 does not specify reductions, changes or eliminations of COLA for current retirees.

2. Does Pension Reform apply retroactively to individuals already retired?

No, changes detailed in the Pension Reform legislation do not retroactively affect retirees.

3. What happens to prior state service when an existing employee who previously retired reinstates to work for the CSU?

Currently when a CalPERS retiree reinstates into active employment from retirement, the retiree resumes active member status and the prior state service remains on the member's account. The new employment earns additional service credit toward a subsequent retirement. It is our understanding that this process will continue after 1/1/13.

4. What retirement formula will be applied for employees who reinstate from retirement to accept a full-time position in January 2013 with the same employer the employee retired from?

Per CalPERS, "A person who reinstates from retirement and returns to the same employer would be entitled to the same retirement formula he or she had at the time of the initial retirement."

REINSTATEMENT FROM RETIREMENT

1. Please let me know what benefit retirement formula will be applied for employees who rescind retirement to accept a full-time position in January 2013 with the same employer the employee retired from.

It is our understanding that if an employee retires from the CSU, and subsequently reinstates from retirement by accepting a position at the CSU, the employee should fall under the original retirement formula.

POST-RETIREMENT EMPLOYMENT

1. Does the 180 day wait period include adjunct faculty following retirement from full time position? This is not a FERP position.

It is our understanding that the 180 day wait period includes adjunct faculty.

2. Regarding rehired annuitants, if an employee retires on 12/1/12, can the employee be hired as a rehired annuitant effective 12/2/12, to work in December and then continue working during the spring semester up to the PERS maximum days or must the new retiree wait 180 days?

Per CalPERS, "The 180-day waiting period only applies to retirees who seek employment as a retired annuitant after January 1, 2013. Therefore, an employee who retires in 2012 and also works as a rehired annuitant in 2012 would not be subject to the 180-day waiting period."

3. Does the limit on rehired annuitants take effect for people who retire after 12/31/12 only or for any work within the 180 days after retirement no matter when they retire?

Employees retiring after 12/31/12 will be subject to the 180 day sit-out period.

4. Does the limit on rehire annuitants apply to completely retired faculty or rehired staff or administrators who have retired (Ex: 8/21/12) or will retire before the end of the calendar year?

If an individual who retired 8/21/12 or prior to the end of the year is rehired as an annuitant in 2012 and is working, he/she is not subject to the 180-day sit-out period. If the same individual is rehired in January, he/she would not be eligible to work as a rehired annuitant until he/she has served the 180 day sit-out period.

5. Is the 180 day “sit-out” period for rehired annuitants applicable to any job, or just a job within the CSU?

It is our understanding that the “sit-out” period applies to any employer in the same retirement system, such as CalPERS.

6. Can employees work in the private sector or the community college environment after retiring from the CSU on 1/1/13 without jeopardizing CSU retirement benefits or waiting 180 days?

Currently, a retired person receiving a CalPERS service retirement allowance may be employed by any employer who does not participate in the CalPERS system (e.g., private sector, U.C. employment) without reinstatement from retirement or reduction to the service retirement allowance.

6. If I retired from a full-time county-level position, would that affect my ability to work part-time for the CSU?

As of 1/1/13, if the county-level position was CalPERS-covered employment, then as a retiree, you can work for another CalPERS employer (e.g., CSU) as a temporary rehired annuitant with certain restrictions, such as working a maximum of 960 hours within a fiscal year or calendar year, after the 180 day waiting period has occurred.

7. If an employee’s first day of retirement is 12/31/2012, will that employee be exempt from the new rehired annuitant limitations?

Per CalPERS, “No; the post-employment provisions apply to any person receiving a pension from a public retirement system regardless of their retirement date. Therefore, an employee who retires on 12/31/12 would be subject to the 180 day sit-out period.”

8. If an employee retired during last six months of 2012 and was asked to return as a rehired annuitant in January, can the employee return if he/she has not been retired a full six months?

It is our understanding that the answer is no; the retiree cannot be rehired as an annuitant if the 180-day waiting period has not occurred.

9. PEPR (AB 340) exempts public safety officers from the 180 day waiting period. How will CalPERS define a public safety officer?

Per CalPERS, “CalPERS has interpreted the phrase public safety officer to mean any individual in one of CalPERS safety membership classifications and plans to promulgate a regulation to clarify this interpretation.”

FACULTY EARLY RETIREMENT PROGRAM (FERP)

1. Can a faculty member who has ended a FERP appointment (after the five year entitlement) on 6/1/2012 or 12/21/12 be rehired as a rehired annuitant on 1/24/13?

Faculty members who have worked for at least six months or longer in a FERP assignment prior to being appointed as a rehired annuitant are exempt from the 180 day sit-out period.

2. Is a FERP classified as a rehired annuitant or active employee for the purpose of this pension reform?

AB 340 refers to FERP participants as retirees, so although exempt from the limitations of post-retirement employment described in Pension Reform, FERP participants are rehired annuitants.

COMPENSATION AND RETIREMENT LIMITS

1. Please explain the compensation limits in the Pension Reform Bill.

AB 340 places a compensation cap on individuals who are new CalPERS members, hired on or after 1/1/2013, to 100% of the Social Security "Contribution and Benefit Base," if participating in Social Security, or 120% of the "Contribution and Benefit Base," if not participating in Social Security (such as Public Safety employees). For earnings in 2013, this amount is \$113,700 (\$136,440 for Public Safety). Therefore, these amounts will become the maximum salary that can count toward final compensation and calculation of retirement benefits for employees that are placed in the 2% at 62 retirement formula.

In addition, once the employee's salary reaches the compensation cap during the year, the employee's retirement contributions will be stopped and restarted in January of the following year.

2. What does the 415 limit refer to?

IRC Section 415(b) places a dollar limit on the annual benefit that can be received from a tax-qualified pension plan such as CalPERS. Under Section 415, the maximum annual retirement benefit payable at Social Security "normal retirement age" is \$200,000 for calendar year 2012. The dollar limit is set every year by the Internal Revenue Service (IRS). Determination of whether an employee's retirement benefit will be subject to this limit can only be made at retirement.

3. Does the Pension Reform bill impact 401(a)(17) limits?

No, the Pension Reform bill does not directly impact 401(a)(17) limits – these limits will continue to be set by the IRS on an annual basis, and will continue to be applicable to current employees. However, new employees subject to the new 2% at 62 retirement formula will become subject to the compensation limits discussed in question #1 of this section, which supersedes the 401(a)(17) limits.

4. How will this impact summer session special payment type appointments for faculty which are considered special compensation? This would only apply to faculty who do not work full time during the academic year.

For faculty members who work less than full-time during the academic year, state-supported summer session appointments would be considered pensionable compensation.

RETIREE HEALTH BENEFITS

1. I am a CSU employee hired in 2005. I am 52 and single but plan to be married in a couple of years. My question is if the pension reform affects the health benefits of my future spouse upon my retirement?

For current employees, AB 340 does not impact retiree health benefits vesting or benefits for a spouse after retirement.

ADDITIONAL INFORMATION: CALPERS

1. How can employees contact CalPERS for additional information regarding Pension Reform?

- CalPERS created a “Pension Reform Impacts” section on its website (www.calpers.ca.gov) at: <http://www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml>.
- CalPERS representatives can also be reached at (888) 225-7377.
- Employees can view their personal member account information via myCalPERS at: <http://www.calpers.ca.gov/index.jsp?bc=/member/mycalpers-central/home.xml>.

ADDITIONAL INFORMATION: SYSTEMWIDE HUMAN RESOURCES

1. Who in Systemwide HR can I contact regarding Pension Reform?

We are proactively answering your questions via the Pension Reform FAQ. Please e-mail any pension related questions you have to: BenefitsInsider@calstate.edu.