

Addressing Benefit Equity:

The CalPERS Proposal

SB 400 (Ortiz and Burton)

*Prepared by
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Retirement System*

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*The average
CalPERS member
retires with 18.8
years of service*

THE PROBLEM

The basic retirement formula for the vast majority of state and school members has not improved in 30 years. Inequities exist between classes of membership.

RETIREES ARE NOT KEEPING PACE

- Retirees suffer up to a 25% reduction in their initial purchasing power.
- The average monthly allowance for a CalPERS service retiree is \$1,175. The average service retirement for school miscellaneous members is \$627.58 a month. According to the federal Dept. of Health & Human Services, the 1999 poverty level for a family of two is \$922 a month.

STATE MISCELLANEOUS & INDUSTRIAL TIER TWO IS AN INADEQUATE, INFERIOR PLAN

- Tier Two is widely known as an inferior, inadequate plan that contributes to the state's inability to attract talented employees in a tight labor market, especially in specialized job skill areas.
- Employees are working side by side, and earning benefits at a smaller rate than colleagues performing the same jobs.

STATE & SCHOOL PENSION BENEFITS HAVE FALLEN BEHIND THAT OF MOST LOCAL GOVERNMENTS

- Two thirds of non-safety employees in local agencies within the CalPERS family enjoy the 2% at 55 formula; some local agency pension benefits are even higher. Most State workers hired before July 1, 1991 have a 2% at 60 formula (Tier One). State workers hired on July 1, 1991 or after have a 1% at 60 formula (Tier Two).

55

THE SCHOOL EMPLOYEES FINAL AVERAGE COMPENSATION BASIS DIFFERS FROM OTHER STATE PLANS, DISADVANTAGING THEM WITHOUT PURPOSE.

- Basic equity calls for standardization of this benefit, especially since the school employer fund is so flush that employer contributions are projected to be zero for the next 26 years at current benefit levels.

STATE SAFETY EMPLOYEE RECRUITMENT DEMANDS HIGHER BENEFITS

- Many local government law enforcement and public safety employees have more generous pensions that recognize the unique hazardous duties and the more limited tenure of these strenuous, stressful positions. To attract and retain high caliber state safety employees, it is necessary to raise the level of benefit to remain competitive.

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*The average age
CalPERS members
retire under a
service retirement
is age 61.*

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CalPERS paid \$4.4 billion in benefit payments last fiscal year. Investment earnings over the last 4 years totaled nearly \$70 billion.

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THE PROPOSAL

A 5% Ad Hoc Increase for All Current State and Classified School Retirees

- It provides a 5% ad hoc increase for those who retired before 1993, and scaled down increases to those who retired from 1993 to the date of the enactment of legislation.

Eliminate Inferior State Miscellaneous and Industrial Second Tier Retirement Plan and Allow Those With Current Second Tier Service to Opt Into First Tier

- Close the tier two plan for state employees hired on and after January 1, 2000; allow those with tier two service to opt into first tier on a prospective basis; and convert second tier service, with purchase of past service through a variety of methods.

School Employee Pensions Would Be Based on Highest One Year Salary, Rather Than Average of the Highest Three Consecutive Years of Salaries, To Be Consistent with Other CalPERS Members

- The proposal will calculate school pensions using the highest one year compensation as is currently the case with nearly all others.

Improve Basic Pension Plan for Non-Safety State and School Employees to a Level Comparable to Most Local Government Non-Safety Employees

- 2.7% at 65 – State Miscellaneous and Industrial
- 2.7% at 65 – School employees

Improve Basic Pension Plan for State Safety Employees

- 2.35% at 56 – State Safety
- 3% at 55 – State Peace Officer/Firefighter
- 3% at 50 – California Highway Patrol

COSTS OF THIS PROPOSAL

WHAT IS THE INCREASED LIABILITY OF THIS PACKAGE?

The increased liability would be \$5.14 billion for the state employees, and an additional \$2.748 billion for school employees.

WHAT IS THE EXISTING LEVEL OF EXCESS ASSETS THAT WOULD BE APPLIED AGAINST THESE LIABILITIES?

The excess assets — prior to being applied to the new benefit package — total approximately \$10.417 billion for state employee plans, and an additional \$7.289 billion for the school employee plan.

ASSUMING THE EXCESS ASSETS ARE APPLIED AGAINST THESE LIABILITIES, WHAT WOULD REMAIN IN EXCESS ASSETS?

After consideration for the increased accrued liability, the remaining excess assets will be approximately \$5.002 billion for the state fund and \$4.541 for the schools fund.

WHAT IS THE OVERALL PACKAGE WORTH WHEN ONE COMPARES IT TO A PAY RAISE?

The package equates to a 2 – 2.5% pay raise.

HOW MUCH DID THE STATE PAY IN CONTRIBUTIONS LAST YEAR AND HOW WILL THAT AMOUNT DIFFER IN FY 99/00 FOR THE STATE EMPLOYEE CONTRIBUTIONS AND SCHOOL CONTRIBUTIONS ?

The state's contribution was about \$766 million for FY 98/99. This has been reduced to \$463 million for the 99/00 FY and would be further reduced to \$160 million for the 99/00 FY with the enactment of this proposal.

The increased contributions of about \$600 million – which reflect the first year cost of the benefits – will begin being applied in the 01/02 FY.

The School employer rate will remain at zero for the next 12 years if actuarial assumptions are met.

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Cost of these enhancements is equal to a 2% to 2.5% pay raise.

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Even though the State's employer rate of contributions is now zero for the classified school employee fund, school workers continue to pay 7% of their salary toward retirement. The State's employer contribution for its miscellaneous member is the lowest it has been since 1944.

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HOW WILL IMPROVEMENTS BE FINANCED?

CalPERS has enjoyed excess earnings in its fund, as a result of the booming stock market and investment strategies of the CalPERS Board. A substantial portion of the cost of this package can be financed through the excess returns of the CalPERS fund without jeopardizing its future ability to meet pension obligations.

Certain aspects of the benefit equity proposal will be funded directly by excess assets. The cost of the other aspects of the proposal will be funded by amortizing existing excess assets over the next 20 years. Such amortization reduces the employer's annual contributions.

CalPERS fully expects the State's contribution to remain below the 1998/99 fiscal year for at least the next decade.

The components of this actuarial process include the following actions by the CalPERS Board:

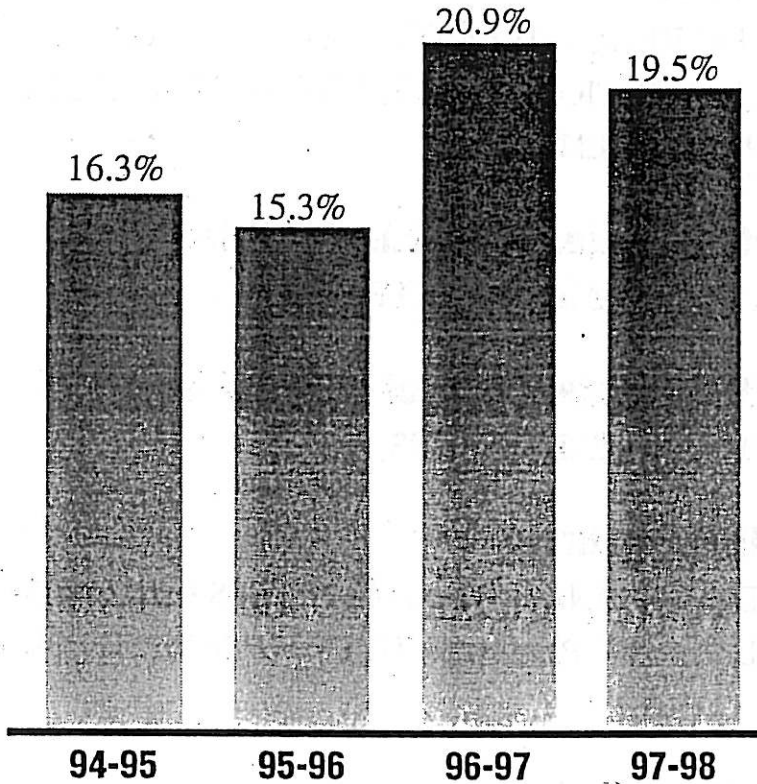
Employ for JUNE 30, 1998 VALUATION 95% of the MARKET VALUE OF ASSETS. Currently it is valued at 90% of market value.

Amortize the JUNE 30, 1998 EXCESS ASSETS OVER A 20 YEAR PERIOD BEGINNING JULY 1999. Currently, it is amortized over 30 years.

For the SCHOOL PLAN, continue current zero cost for the next 12 years or more.

FINANCIAL FACTS AT A GLANCE

Fund chart – shows growth of income over last four years



State Contribution for All State Employees

\$1.223 Billion – 1997/98

\$ 776 Million – 1998/99

\$ 463 Million – 1999/00

State Contribution for School Employees

\$318 Million – 1997/98

No cost – 1998/99

No cost – 1999/00

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Some 67.7 percent of all CalPERS assets are in equities; 27.6 percent are in fixed income; and 4.7 percent are in real estate.

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The average CalPERS retiree receives \$1,175 a month in service benefit allowance. The average school retiree receives \$627.58. The federal poverty line for a family of two is \$922 a month.

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IMPACT ON THE STATE OF CALIFORNIA

■ Taxpayers

NO INCREASE OVER CURRENT EMPLOYER CONTRIBUTIONS IS NEEDED FOR THESE BENEFIT IMPROVEMENTS

■ State Agencies and School Districts

IMPROVED ABILITY TO RECRUIT

■ CalPERS State & School Active Members

FAIR, EQUITABLE PENSION

■ CalPERS Retirees

PREVENT FINANCIAL HARDSHIPS CREATED BY FAILURE OF PENSION TO KEEP UP WITH COST OF LIVING

■ CalPERS Fund

FUND WILL REMAIN FULLY FUNDED.

IMPROVING STATE MISCELLANEOUS FORMULA— Why Is It Necessary?

In 1990, Gov. Deukmejian signed legislation that allowed local agencies an option to improve the retirement formula for non-safety employees to provide 2% of final compensation at 55. To date, nearly 400 local governmental agencies have adopted this – covering two thirds of non-safety employees in CalPERS plans. Here is a list of the local agencies which currently provide 2% at 55 formula to miscellaneous employees.

Two-thirds of all local agency miscellaneous members have the 2% at 55 formula. Many county systems have comparable or higher formulas.

Local Agencies Lead The Way For Miscellaneous Employees

Under this formula, for example, an employee who started working at age 30 can retire with 50% of pay at age 55, after having worked for the agency for 25 years. Previously, the norm had been to provide 2% at age 60, the formula now applicable to school and state non-safety employees.

Alameda City	Brentwood City	Chula Vista City
Alameda Co. Congestion Mgmt Auth	Brisbane City	Clovis City
Alameda Co. Mosquito Abate. Dist.	Brooktrails Comm Service Dist.	Coachella City
Alameda Co. Schools Insurance Group	Buellton City	Coastal Municipal Water Dist.
Alameda Co. Waste Mgmt Authority	Burbank City	Colton City
Alameda Co. Water Dist.	Burlingame City	Colusa Co.
Amador Co.	Calaveras Co.	Colusa Mosquito Abatement Dist.
American Canyon City	Calaveras Co. Water Dist.	Commerce City
American River Fire Protection Dist.	Calaveras Public Utility Dist.	Compton City
Anderson City	California City	Concord City
Antioch City	Camhria Comm Service Dist.	Cordelia Fire Protect. Dist. Of Solano Co.
Apple Valley Town Of	Campbell City	Corning City
Aptos La Selva Fire Protection Dist.	Canyon Lake City	Corona City
Arcadia City	Carlsbad City	Coronado City
Azusa City	Carson City	Costa Mesa City
Bakersfield City	Castaic Lake Water Agency	Crescent City
Barstow City	Castro Valley Sanitation Dist.	Crestline Lake Arrowhead Water Agency
Bull Gardens City	Central Fire Protect. Dist. Santa Cruz	Cucamonga Co. Water Dist.
Belmont City	Co	Cudahy City
Benicia City	Central Marin Sanitation Agency	Culver City
Berkeley City	Cerritos City	Cupertino City
Big Bear City Airport Dist.	Chico Area Recreation & Park Dist.	Daly City
Bishop City	Chico City	Davis City
Blythe City	Chino City	Del Norte Co.

Delta Vector Control Dist.	Kern Co. Local Agency Formation Commission	Nevada City
Desert Hot Springs City	Kings Mosquito Abatement Dist.	Nevada Co.
Diamond Springs El Dorado Fire Protect. Dist.	La Mesa City	Nevada Irrigation Dist.
Dixon City	La Mirada City	Newark City
Dos Palos City	La Puente City	Norco City
Downey City	La Quinta City	North Coast Unified Air Quality Mgmt Dist.
Duarte City	La Verne City	North Co. Transit Dist.
Dublin San Ramon Service Dist.	Lake Co.	North Marin Water Dist.
East Bay Dischargers Authority	Lake Elsinore City	North State Coop Library System
East Co. Fire Protection Dist.	Lancaster City	Northstar Comm Service Dist.
East Valley Water Dist.	Las Gallinas Valley Sanitation Dist. Marin Co	Oakdale City
Eastern Municipal Water Dist.	Lemon Grove City	Oakland City
El Cajon City	Lemoore City	Oceanside City
El Centro City	Lincoln City	Olivenhain Municipal Water Dist.
El Cerrito City	Lindsay City	Ontario City
El Dorado Hills Co. Water Dist.	Little Lake Fire Protection Dist.	Orange City
El Monte City	Livermore City	Orland Cemetery Dist.
Escondido City	Lomita City	Oro Loma Sanitation Dist.
Escondido Comm Development Commission	Long Beach City	Oxnard Harbor Dist.
Estero Municipal Improvement Dist. (Foster City)	Los Altos City	Pacific Grove City
Eureka City	Los Altos Hills Town Of	Pacifica City
Fairfax Town Of	Los Angeles City Comm. Redevelopmt Agency	Padre Dam Municipal Water Dist.
Fairfield City	Los Angeles Co. Sanitation Dist. No 2	Palm Desert City
Feather River Air Quality Mgmt Dist.	Los Banos City	Palm Springs City
Feather River Recreation & Park Dist.	Los Gatos Town Of	Palmdale City
Fern Valley Water Dist.	Lower Tule River Irrigation Dist.	Palmdale Water Dist.
Folsom City	Madera City	Paradise Town Of
Fremont City	Madera Co. Mosquito & Vector Contol Dist.	Paramount City
Garden Grove City	Manteca City	Patterson City
Gardena City	Marin Co Sanitation Dist. No. 5	Petaluma City
Georgetown Divide Public Utility Dist.	Marin Co. Sanitation Dist. No. 1	Pine Cove Co. Water Dist.
Gilroy City	Marin Municipal Water Dist.	Placentia City
Glendale City	Mariposa Co.	Placer Co.
Glendora City	Martinez City	Placer Co. Resource Conservation Dist.
Glenn Co. Mosquito Abatement Dist. #1	Marysville City	Placer Co. Transportation Commission
Golcta Water Dist.	Maywood City	Placer Co. Water Agency
Grass Valley City	Menlo Park City	Pleasant Hill Martinez Joint Facility Agency
Great Basin Unified Air Pollution Control Dist.	Metropolitan Transportation Commission	Pleasanton City
Greater Los Angeles Co. Vector Control Dist.	Metropolitan Water Dist. Southern Calif	Plumas Co.
Gridley City	Mid-Placer Public Schools Trans. Authority	Port Hueneme City
Hanford City	Midpeninsula Reg Open Space Dist.	Port San Luis Harbor Dist.
Hayward Area Recreation & Park Dist.	Mill Valley City	Poway City
Hayward City	Millbrae City	Rancho Adobe Fire Protection Distret
Healdsburg City	Milpitas City	Rancho Calif Water Dist.
Heartland Comm Facility Authority	Mission Viejo City	Rancho Cucamonga City
Helix Water Dist.	Mojave Water Agency	Rancho Cucamonga Fire Protection Dist.
Hemet City	Monrovia City	Rancho Mirage City
Hercules City	Montclair City	Rancho Santa Fe Fire Protection Dist.
Heritage Ranch Comm Service Dist.	Montebello City	Red Bluff City
Highland City	Montecito Fire Protection Dist.	Redding City
Humboldt Bay Municipal Water Dist.	Monterey Peninsula Regional Park Dist.	Redondo Beach City
Humboldt Co.	Monterey Reg Waste Mgmt Dist.	Redwood City
Huntington Park City	Moreno Valley City	Rescue Fire Protection Distret
Imperial Beach City	Morro Bay City	Rialto City
Independent Cities Association, Inc.	Mountain View City	Richardson Bay Sanitation Dist.
Indian Wells City	Mt. Shasta City	Richmond City
Indio City	Mt. View Sanitation Dist. Contra Costa Co.	Ridgecrest City
Industry City	Murrieta City	Rincon Valley Fire Protection Dist.
Inglewood City	Murrieta Fire Protection Dist.	Riverside City
Inland Counties Regional Center, Inc.	Napa City	Riverside Co.
Intergovernmental Training and Develop. Center	Napa Co.	Riverside Co. Flood Control & Water Cntrl Dist
Inyo Co.	Napa Co. Mosquito Abatement Dist.	Riverside Co. Law Library
Irwindale City	Napa Sanitation Dist.	Riverside Co. Reg Park & Open Space Dist.
Jackson City	National City	Riverside Co. Waste Resources Mgmt Dist.
Kern Co. Council Of Govern	National City Comm Developmt Commission	Riverside Co. Transportation Commission

Riverview Water Dist.
 Rohnert Park City
 Rosemead City
 Roseville City
 Ross Town Of
 Rowland Water Dist.
 Russian River Fire Protection Dist.
 Sacramento Co. Fire Protection Dist.
 Sacto. Yolo Mosquito & Vector Control Dist.
 San Andreas Sanitation Dist.
 San Bruno City
 San Carlos City
 San Diego Association of Government
 San Diego Co. Water Authority
 San Diego Metro Transit Development Board
 San Diego Trolley, Inc.
 San Elijo Joint Powers Authority
 San Francisco Bay Area Rapid Transit Dist.
 San Francisco City/Co. Redevelop. Agency
 San Francisco Co. Transit Authority
 San Joaquin Co. Housing Authority
 San Leandro City
 San Mateo City
 San Miguel Consolidated Fire Protection Dist.
 San Pablo City
 Sanger City
 Santa Ana City
 Santa Barbara City
 Santa Clara Co Central Fire Protection Dist.
 Santa Clara Co.
 Santa Clara Co. Traffic Authority
 Santa Clara Co. Transit Dist.
 Santa Clara Valley Water Dist.
 Santa Clarita City
 Santa Cruz City
 Santa Cruz Co Law Library
 Santa Cruz Co.
 Santa Cruz Local Agency Formation Commission
 Santa Cruz Metro Transit Dist.
 Santa Fe Irrigation Dist.
 Santa Fe Springs City
 Santa Maria City
 Santa Maria Puh Airport Dist.
 Santa Paula City
 Santa Rosa City
 Santee City
 Sausalito Marin City Sanitation Dist.
 Scotts Valley Fire Protection Dist.
 Seal Beach City
 Seaside City
 Sebastopol City
 Shasta Co.
 Shasta Mosquito Abatement Dist.
 Siskiyou Co.
 Solana Beach City
 Solano Co.
 Solano Irrigation Dist.
 Solano Transportation Authority
 Sonoma City
 Sonoma City
 South Bay Regional Public Comm Authority
 South Bayside System Authority
 South Lake Tahoe City
 South Placer Fire Dist.
 South Placer Municipal Utility Dist.

South San Francisco City
 South San Luis Obispo Co. Sanitation Dist.
 Southern Calif Association of Government
 State Water Contractors
 Stockton City
 Stockton East Water Dist.
 Suisun City
 Summit Cemetery Dist.
 Sunnyvale City
 Sutter Co.
 Tahoe City Public Utility Dist.
 Tahoe Truckee Sanitation Agency
 Temecula City
 Thousand Oaks City
 Tiburon Fire Protection Dist.
 Tracy City
 Truckee Fire Protection Dist.
 Tulare City
 Tuolumne Utilities Dist.
 Twentynine Palms City
 Ukiah City
 Union City
 Union Sanitation Dist.
 Vacaville City
 Vallecitos Water Dist.
 Vallejo City
 Vallejo Sanitation & Flood Control Dist.
 Valley Co. Water Dist.
 Valley Of The Moon Water Dist.
 Valley Wide Recreation & Park Dist.
 Ventura (San Buenaventura City)
 Vernon City
 Victorville City
 Visalia City
 Vista City
 Vista Irrigation Dist.
 Walnut Creek City
 Water Replenishment Dist. of Southern Calif
 West Covina City
 West Sacramento City
 West Stanislaus Irrigation Dist.
 West Valley Sanitation Dist. Santa Clara Co.
 Western Municipal Water Dist.
 Whittier City
 Willits City
 Willows City
 Woodbridge Rural Co. Fire Protection Dist.
 Woodland City
 Yolo Co Communi Emergency Services Agency
 Yountville Town Of
 Yuba City
 Yuba Co.
 Yuba Sutter Transit Authority

*86% of all
CalPERS retirees,
survivors and
beneficiaries live in
California*

CHRONOLOGY

How We Got Here: A Chronology Of Board Action

- June 1998** CalPERS Board announces employer contribution rate reductions which resulted in reduced State contributions of \$766 million. Wilson Administration fails to apply savings to improve member benefits. Majority of State employees see no pay raise or benefit increase.
- August 1998** The Board of Administration approved Resolution BD 98-04, which recommended the Governor and Legislature introduce and support legislation that: would remedy inadequate retirement plan provided for state employees currently participating in tier two retirement plan, remedy inadequate and inequitable cost-of-living adjustments for retirees, and remedy inequities in school and public agency membership.
- Feb. 1999** Board directs staff to bring forward proposals to end inequities.
- April 1999** Chief Actuary reports that due to investment decisions by CalPERS Board, the employer rate for state workers will be reduced again, resulting in another projected savings in State contributions of more than \$300 million. State also will continue to pay zero contributions for school members.
- May 3, 1999** Board held special hearing on proposals.
- May 21, 1999** Benefits & Program Administration Committee received proposal and postponed final action pending more information.
- June 16, 1999** Board adopts resolution calling on the Governor and Legislature to consider ending inequities and offers to help finance it through excess assets.

APPENDIX

RESOLUTION

By the Board of Administration of the California Public Employees' Retirement System To The Governor of the State of California and The State Legislature

Subject: Redress of Inequities Within
Existing Retirement Programs
for **State** and **School** Employees
and Retirees Covered by CalPERS

No. BD-99-03

WHEREAS, the California Constitution provides that the Board of Administration (Board) of the California Public Employees' Retirement System (CalPERS) has the sole and exclusive authority for the administration of CalPERS, including the provision of all actuarial services.

WHEREAS, the California Constitution provides that the Board must discharge its duties with respect to CalPERS solely in the interest of, and for the exclusive purposes of providing benefits to participants and their beneficiaries; minimizing employer contributions to CalPERS; and defraying reasonable administrative expenses.

WHEREAS, the California Constitution provides that the Board's duty to CalPERS participants and beneficiaries shall take precedence over all other duties.

WHEREAS, the purpose of CalPERS, as articulated by the legislature when the System was created in 1932, is to effect economy and efficiency in the public service by assuring that public employees may, when they reach the age of retirement or become incapacitated, retire from the active workforce "without hardship or prejudice."

WHEREAS, the Board's Mission is to advance the financial and health security of all of those who participate in CalPERS.

WHEREAS, although the Board has the authority and duty to interpret and implement existing statutory provisions that establish retirement benefits, it does not have the authority to unilaterally create new benefits.

APPENDIX

WHEREAS, during the past ten years, CalPERS has earned an annual return of 13.5% on its investments; and more recently during the past four fiscal years, CalPERS has earned significant returns on its investments, as follows:

Fiscal Year 1994-95	16.31 percent
Fiscal Year 1995-96	15.31 percent
Fiscal Year 1996-97	20.09 percent
Fiscal Year 1997-98	19.50 percent

WHEREAS, these investment returns have been significantly higher than the actuarially assumed return rate of 8.5 percent, thus illustrating the sustained strength and growth of the Public Employees' Retirement Fund.

WHEREAS, in March 1998 and following an extensive deliberation of the issue, the Board adopted new economic assumptions, which are used for setting employer contributions rates; in so doing, the Board lowered the assumed investment return rate from 8.5 to 8.25 percent, the assumed inflation rate from 4.5 to 3.5 percent, and the long-term wage growth rate from 4.5 to 3.75 percent.

WHEREAS, as a result of CalPERS' continued high investment returns, lower inflation, and the March 1998 economic assumptions, the employer contributions due from the State of California and School Employers has continued to decrease:

	1997-98 Employer Rates	1998-99 Employer Rates	1999-00 Employer Rates
State Miscellaneous Tier 1	12.721%	8.541%	5.026%
State Miscellaneous Tier 2	9.822%	6.437%	2.976%
State Industrial	9.048%	4.583%	0.026%
State Safety	13.754%	9.440%	9.513%
State Peace Officer/ Firefighter	15.270%	9.591%	4.575%
California Highway Patrol	15.515%	13.541%	13.345%
Schools	6.172%	0.000%	0.000%

WHEREAS, this steady decrease in contributions resulted in savings to the State of California for fiscal year 1998-99 of over \$455 million, and will result in savings for fiscal year 1999-00 of over \$300 million; School Employers' contributions were reduced in 1998-99 by over \$315 million, and those employers continue to pay no contributions to CalPERS.

APPENDIX

WHEREAS, the funded status of the State and School plans has similarly improved:

	June 30, 1996	June 30, 1997	June 30, 1998
State Miscellaneous	89.3%	99.4%	110.7%
State Industrial	111.2%	126.7%	139.7%
State Safety	110.4%	116.3%	117.1%
State Peace Officer/ Firefighter	104.2%	116.9%	132.4%
California Highway Patrol	99.8%	100.0%	100.0%
Schools	104.4%	120.3%	128.7%

WHEREAS, although employer contributions vary according to current economic assumptions and actuarial valuations, employee contributions are fixed by statute, and thus even when a plan may be significantly overfunded, employees must continue to contribute.

WHEREAS, in 1990, the Board agreed to make certain changes to its actuarial policies, specifically: (a) approve the payment of quarterly State employer contributions rather than monthly, (b) reduce the size of the Reserve Against Deficiencies from 0.3% to 0.2%, (c) reflect the net actuarial gain for fiscal year 1988-89 over a five year amortization period, and (d) adopt a 40 year amortization period for the State.

WHEREAS, this agreement by the Board was contingent on the enactment of certain legislation that provided State members with a benefit calculated based on one-year highest compensation, rather than three-years.

WHEREAS, other than the "one-year final compensation" benefit adopted in 1990, State members' retirement benefits have not substantively improved for nearly 30 years; School members' retirement benefits have had no improvement during this same period.

WHEREAS, the Board's Legislative Policy Standards (approved on June 19, 1996), provide that the Board will sponsor and support legislative action that redresses "inequitable, unfair or discriminatory benefits."

WHEREAS, the terms and conditions of employment for certain CalPERS covered employees are subject to the collective bargaining processes set forth in the California Government Code, sections 3512 et seq. (state employees), 3543 (public school employees), and 3560 et seq. (employees of institutions of higher education).

APPENDIX

WHEREAS, California Government Code section 20233 requires the Board to report to the Legislature on whether existing increases to retirement allowances are meeting the objective of preserving the purchasing power of benefits, and also to report on the amount of supplementary increases required to meet that objective.

WHEREAS, the Board has completed a study of existing benefit inequities for the State and School plans, and has identified certain improvements that can redress the inequities.

WHEREAS, the Board has also determined that, with a change in actuarial methodology (i.e., valuing assets on a one time basis at 95% of market value, rather than the current three-year smoothing method using 90-110% of market value; and utilizing a funding period of 20 years) these benefit improvements can be funded for a period exclusively from current surplus assets and thus not increase the employers' 1999-00 contributions.

NOW THEREFORE BE IT RESOLVED THAT:

The CalPERS Board of Administration recommends that the State Legislature adopt, and that the Governor sign, legislation that would accomplish all of the following:

1. Eliminate Tier 2 for all State employees hired after the date of the legislation, providing all current Tier 2 members with the option to join Tier 1 for past and/or future service (with past service purchased according to provisions substantially comparable to Senate Bill 399).
2. Provide an ad hoc cost of living increase to all State and School retirees, according to the following retirement dates:

<u>Retirement Date</u>	<u>Ad Hoc COLA</u>
December 31, 1992 and earlier	5%
January 1, 1993 – December 31, 1993	4.5%
January 1, 1994 – December 31, 1994	4%
January 1, 1995 – December 31, 1995	3%
January 1, 1996 – Effective date of the legislation adopting this COLA	2%

APPENDIX

3. Adopt the following benefit formulas:

<u>Membership Classification</u>	<u>Formula</u>
State Miscellaneous and Industrial	2.7% @ 65
State Safety	2.35% @ 56
State Peace Officer/Firefighter	3% @ 55
California Highway Patrol	3% @ 50
School	2.7% @ 65

4. Adopt one-year final compensation for school members.

BE IT FURTHER RESOLVED THAT:

Upon the enactment of legislation redressing benefit inequities, the Board of Administration of the California Public Employees' Retirement System will:

- A. Employ, for the June 30, 1998 valuation, 95% of the market value of CalPERS' assets as the actuarial value of assets; and
- B. For the State of California plans, amortize the June 30, 1998 excess assets over a 20 year period beginning July 1, 1999; and
- C. For the School plan, amortize the June 30, 1998 excess assets over the appropriate period of time to maximize the number of years the plan would have a 0% employer rate.

I hereby certify that on the 16th day of June 1999, the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.



WILLAM DALE CRIST
PRESIDENT
BOARD OF ADMINISTRATION

OPINIONS

“I think it’s good public policy...”

*Senate President Pro Tem John Burton (D-San Francisco),
Los Angeles Times, June 17, 1999*

“It’s long overdue, particularly (addressing) the Tier Two inequities...Employees working side by side were earning benefits at different rates yet doing the same jobs...It’s time to remedy the decisions made when the economy was much poorer than it is now.”

*Assemblywoman Deborah Ortiz, Chair,
Assembly Public Employees, Retirement and Social Security Committee
Sacramento Bee, June 17, 1999*

“This is a special opportunity to restore equity among CalPERS members without it costing a dime of additional taxpayer money.”

*Dr. William D. Crist, President, CalPERS Board,
June 16, 1999.*

“This package does not in any way threaten the soundness of the CalPERS fund. It will enable the state and schools to be better able to recruit high quality workers to deliver a high level of service to taxpayers...and it will provide for a decent pension allowance for retirees who have not been able to keep up with the cost of living.”

*Michael Flaherman, Chairman,
CalPERS Benefits and Program Administration Committee,
June 15, 1999.*

“When I left public service in 1983 and went into the private realm, I found that the pay scales in the public realm were better than...in the private sector...I come back 15 to 16 years later and find the level of public benefits for actives and retirees has eroded substantially where I do believe we are threatening our ability to attract and retain people in public service and just as importantly we are not taking care of people in retirement...”

*State Treasurer Phil Angelides, June 15, 1999 at CalPERS
Benefits and Program Administration Committee*

“What is important is to build the foundation so that this state has the capacity to do what is needed to motivate good people to come into public service.”

*Controller Kathleen Connell,
Benefits and Program Administration Committee,
June 15, 1999.*