

## SCA 13: PENSION REFORM

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### IN BRIEF

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SCA 13 is the Pension Reform proposal by the GOP-4 to drastically alter the public employee pension system that is significantly underfunded and crippling government on the state and local levels.

### THE ISSUE

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California must act now to get control of our skyrocketing public-employee pension costs, which threaten to cripple local and state budgets. Most Californians agree the cost of public pensions is a problem, and the solution requires stopping abusive spiking practices and controlling costs.

### EXISTING LAW

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The ten largest public pension funds in the state encompass 90% of public employees. Most public employee retirement systems provide defined retirement benefits based on years of service, age, and final compensation. While pension funds fluctuate with the market, retirement benefits are fixed and state and local government liability is on the rise as more employees retire and collect on the generous benefits they've been promised. A recent study by the Little Hoover Commission reports that the public employee system is currently underfunded by approximately \$240 billion. Other estimates place the burden anywhere between \$50-300 billion.

### THE SOLUTION

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SCA 13 would both address the gross abuses of public employee pension systems and reform the structure of these systems to ensure that they are actuarially sound and sustainable. The provisions included are:

#### COST CONTROLS

Hybrid Pension (Mandatory): Creates a new hybrid pension plan for future employees consisting of a lower defined benefit plan and a defined contribution component. The costs of the new defined benefit plan will be shared equally between the employer and employee. Employees may elect to participate in the defined contribution component only. Pension plans will aim to provide employees with 75% wage replacement from all retirement sources (including

Social Security for applicable employees). This will cap the state's exposure while providing employees with a sensible retirement plan that is more in line with the private sector.

Pension Cap: Caps the pension amount for employees who participate in social security at \$106k (\$119k for those not in social security), allowing for COLA adjustments.

Future unearned benefits: Permits public employers to retain the right to prospectively change the retirement benefits for any member prior to retirement. (Benefits that have been promised but not yet earned).

California State Teacher's Retirement System (CalSTRS): Requires CalSTRS to annually set an actuarially sound contribution rate for the state that is funded within the Prop. 98 guarantee.

Reduces Unfunded Liabilities: Requires current employees to contribute 5% more of their salaries towards reducing unfunded pension liabilities and to contribute more toward their health care benefit costs.

Retiree Health Care: Require future employees to pay a proportional share of their post-employment health benefit costs.

Vesting: Increase full vesting for postretirement health care benefits from 20 years to 25 years.

#### PENSION SPIKING & ABUSIVE PRACTICES

"Airtime" purchases: Eliminates the purchase of additional retirement service credit for service not yet performed or "airtime" (i.e. credits for up to 5 years for work not yet performed).

Pension "holidays": Prohibits the suspension of employer/employee retirement pension contributions until an independent plan actuary determines it is actuarially sound to do so.

Employer contributions for employee: Prohibits the employer from paying the employee's contribution on the employee's behalf.

Retroactive pension benefit increases: Prohibits California public employers from granting any retroactive pension benefit increases, such as benefit formula improvements that credit prior service.

Pension spiking - Base Pay: Defines "final compensation" to mean the normal rate of pay or base pay of an employee and excludes special compensation, overtime, and accrued leave from retirement calculation.

Pension Spiking - Average Salary: Final compensation for new employees would be defined as the highest average annual compensation during a consecutive 60-month period.

Double Dipping: Employee cannot work for public entity while collecting a pension from that same public entity.

Felony convictions: Prohibits payment of pension benefits to those who are convicted of a felony related to their employment. Any contributions made will be returned without interest.

## **OTHER PROVISIONS**

Public Defense: Permits a taxpayer to defend this measure should the State Attorney General fail to do so. And, requires the funds to defend this measure come from the AG.

Greater Board Accountability: 2/3 of a pension board must have demonstrated expertise in financial, legal accounting or health care fields and shall not have any conflicts of interest.

Pension Board's must follow Independent Plan Actuaries Recommendations: Creates independent plan actuaries that will proscribe recommendations on sound actuarial practices.

2/3 Vote: Requires implementation of this measure and future changes to salary and benefits by approved by 2/3 vote.

Applicability: Applies to all California public employers - state, local, special districts University of California and the California State Teacher's Retirement System.

Severability: The provisions in this measure are severable.

## **FOR MORE INFORMATION**

Bill text and status can be found at:  
[www.leginfo.ca.gov](http://www.leginfo.ca.gov)