This is an updated leaflet as of February 2013. Further updates are possible going forward. SEIU 721 will continue to update this analysis as required to keep our members informed.

Frequently Asked Questions: Impact of Pension Reform on SEIU Local 721 Members

What's going on?

"The California Public Employees' Pension Reform Act of 2013" (PEPRA), was designed to "reform" public pensions in California. It was signed into law by Governor Brown on Sept. 12, 2012 and went into effect on Jan. 1, 2013. It is supposed to end pension abuses and save money for city, county, state and other public employers.

Did my union support the new law?

SEIU worked with allies in Sacramento to mitigate the most damaging portions of "pension reform." We were especially opposed to changes that bypassed the collective bargaining process. While there are many important reforms in the new law, it was achieved via legislation, not through bargaining. SEIU and other unions will challenge several provisions. Yet, we understand that most of the provisions that were rolled back by AB 340 actually originated in legislation from 1999 (SB 400).

We don't like many of these rollbacks, but it could have been much worse. The Gov. wanted a "hybrid" system, which would have weakened retirement security by relying more on risky 401(k) plans. He wanted all of the provisions to apply to current employees (almost none of them do). He also wanted to restrict retiree health benefits. Our political power prevented those additional rollbacks. In truth, PEPRA is the best possible outcome given the difficult economic and political environment since the market crash.

SEIU 721 members participate in many pension systems. Which ones are affected?

All of our members in CalPERS (County of Riverside, and all PERS-contracted municipalities and agencies) and "1937 Act" County systems, including LACERA, VCERA and SBCERS, are affected. Only 721 members who work for the City of Los Angeles or DWP, which have their own charter based pension systems, fall outside the PEPRA rules. However, the new law may establish a framework for future bargaining even for "charter" cities.

What provisions apply to <u>both</u> "current" and "new" members?

"New" members are employees who have never been a member of any public retirement system before Jan. 1, 2013, or who moved between public retirement systems lacking reciprocity, or who moved between employers in the same public retirement system with more than six months of break in service. Everyone else is a "current" member under the law.

- Neither current nor new members will have the right to purchase "air time", aka ARC (Additional Retirement Credit) UNLESS their retirement benefit was already vested *and* they applied for ARC prior to December 31, 2012.
- Any public employee who is convicted of a felony related to official duties and other specified conduct will forfeit retirement benefits accrued after the date the felony occurred.
- Retired annuitants cannot work more than 960 hours in a consecutive 12 month period.
- A person who retires after Jan. 1, 2013 is prohibited from returning to work as a retired annuitant for a period of 180 days, unless they qualify for an exception.

- Prohibits applying pension improve-ments retroactively to prior service.
- Eliminates ***"pension holidays".*** Prohibits all employers from suspending employer and employee contributions necessary to fund annual pension costs.

Does any other provision affect current members?

- While current members are not subject to mandatory 50% normal cost sharing, the law encourages bargaining on this point, and <u>may</u> allow an employer to impose 50% normal cost sharing (or 8% on CalPERS members, whichever is less) after impasse, **but not until 2018.** The protective cap is measured differently for '37 Act members.

What provisions affect <u>new members</u> only?

1. ***Increased retirement ages/changes in retirement formulas.*** The following formula is designed to discourage early retirement and encourage longer service.
   - The earliest an employee will be eligible to retire is age 52 at 1.0% (currently age 50 at 1.0% for CalPERS).
   - Normal retirement age: 2% at age 62.
   - Maximum benefit: 2.5% at age 67.
2. ***Must pay at least 50% of the normal cost of the benefit, or the current contribution rate of similarly situated members, whichever is greater. (Normal cost is the cost of providing the current year's benefit, excluding unfunded liabilities.) Employers will be prohibited from picking up new members' share of normal costs (EPMC) once a current MOU expires. (NOTE: Other cost-sharing arrangements set forth in current contracts prevail over PEPRA until expiration date.)***
3. ***Caps pensionable income*** at $113,700 for those in Social Security and $136,440 for those without Social Security. Adjusts yearly by CPI.

4. Redefines final compensation for all new employees as the highest average annual compensation over a consecutive three year period. (Many current employees use their single highest year of final compensation).

5. New members' pensionable compensa-tion may be limited to base pay, but your fund's Board of Retirement will determine any additional categories of compensation that will be pensionable.

The following categories will NOT be considered pensionable for new members:

- Any compensation determined by the retirement board to have been paid to increase a member's retirement benefit.
- In-kind or third-party compensation which was converted to and received by the member as a cash payment.
- Any one-time or ad-hoc payment made to a member, but not to all similarly situated members in the member's grade or class.
- Termination pay received while employed.
- Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.
- Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.
- Any employer-provided allowance, reimbursement, or payment including, but not limited to, housing, vehicle or uniform.
- Compensation for unplanned overtime work.
- Employer contributions to deferred compensation or defined contribution plans.
- Any bonus other than allowable differential pay in addition to the normal monthly rate of pay or base pay described above.

Can we bargain over these changes?
These changes are now enshrined in law, although they may be amended or courts may rule them unconstitutional. But the process of collective bargaining remains in force, and we will bargain to make our members whole by offsetting losses through improvements to wages and other benefits.

How can I get more information?
Participate in the Local's Secure Retirement Program by joining a Secure Retirement Committee. Contact Mark Klein, Local 721's Secure Retirement Coordinator, directly at (213) 368-8601 or email him at Mark.Klein@seiu721.org.