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California on the Verge of Pension Reform

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After months of waiting, California Governor Jerry Brown presented a sweeping package of pension reform measures to the California Legislature. The reform measures primarily affect the pension benefits available to government employees who are hired on or after January 1, 2013.

The package:

- Reduces pension formulas to 2% at age 62 for miscellaneous employees and 2.7% at age 57 for safety members;
- Caps the amount of salary that can be used to calculate benefits at the Social Security contribution limit (currently $110,100 per year), except that the cap is at 120% of this contribution limit for employees who do not participate in Social Security (e.g., teachers, certain local agency employees, and safety employees);
- Calculates pension benefits based on a 3-year salary average, instead of an employee's single highest year;
- Increases minimum retirement age from 50 to 52 for miscellaneous employees;
- Results in the forfeiture of benefits upon conviction of certain crimes; and
- Eliminates employee purchases of additional service credit ("airtime").

The reform package also includes increases to employee contributions towards pension benefits. By January 1, 2018, all current and future employees will be required to pay at least one-half of their normal pension costs, up to a maximum of 8% of pay for miscellaneous employees and 12% for safety employees. Currently, safety members are required to pay a maximum employee contribution of 9% of pay. Employers will be prohibited from paying any portion of these mandatory employee contributions. This effectively eliminates any employer paid member contribution ("EPMC") benefits, a step that many public agencies have taken on their own in recent years.

The current legislative session ends on August 31, 2012. We will advise you if the California Legislature passes these pension reform measures by the end of session.

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