



[AB 340](#) – Public Employees’ Retirement
Frequently Asked Questions
Updated August 31, 2012 – 11:03 AM

GENERAL PROVISIONS

Q: Is this bill even legal? Doesn’t meet and confer, collective bargaining and negotiating in good faith mean anything in California?!?

A: It’s a fine line for sure ... one that will only likely only become clearer if/once provisions of it are challenged and litigated in the courts.

Q: Will CPF hold a class or informational session on this bill for local affiliates to help educate us on its application if it’s approved?

A: Yes. The next round of CPF district meetings, which will be held after the November 2012 General Election (dates TBA), will include an in-depth discussion on the applicability of this bill.

CURRENT EMPLOYEES

Q: How soon will changes outlined in AB 340 be implemented for current safety employees?

A: In most cases for state and local safety, January 1, 2013 (i.e. elimination of airtime, felony pension forfeiture, etc.). The exception is the January 1, 2018 date, when a local agency employer may impose the cost-sharing provisions on their local safety employees, if not otherwise achieved via bargaining in the next five years before 2018.

Q: Do current employees keep their existing retirement formula?

A: Yes.

Q: What happens if you are a current safety employee vested in CalPERS, but transfer to another fire department of a CalPERS contracting agency – are you put into the new plan and subject to the new formulas?

A: No. See question below regarding who is considered a “new employee”.

Q: I heard there’s a provision in the bill changing the way CalPERS’ Industrial Disability Retirement allowances are calculated?

A: Yes. Until January 1, 2018 -- unless legislation deleting or extending that date is enacted prior to then -- the new allowance is ***equal to the greater of the following:***

- 50% his or her final compensation attributable to the defined benefit (DB) plan, plus an annuity purchased with his or her accumulated contributions, if any;
- A service retirement allowance, if he or she is qualified for service retirement; or
- An actuarially-reduced factor for each quarter year of service age that is less than 50 years of age, multiplied by the number of years of safety service subject to the applicable retirement formula (if he or she is not qualified for service retirement).

Q: Do the changes to the CalPERS IDR allowance calculation apply to current local safety employees too?

A: Yes. Effective January 1, 2013, the modified IDR allowance calculation will apply to existing CalPERS local safety employees.

Q: Does salary cap affect current employees?

A: No. The cap applies to new employees only.

Q: Does AB 340 apply to existing retirees?

A: No.

NEW EMPLOYEES

Q: Who exactly is considered a “new employee”? I’m promoting to a position outside of the bargaining unit, but still within the same department – am I considered a new employee?

A: No. A new employee is defined as either of the following:

1. An employee, including one who is elected or appointed, of a public employer who is employed for the first time by any public employer on or after January 1, 2013, and who was not employed by any other public employer prior to that date; or
2. An employee, including one who is elected or appointed, of a public employer who is employed for the first time by any public employer on or after January 1, 2013, and who was employed by another public employer prior to that date, but who was not subject to reciprocity.

Q: What is the “compensation cap” that applies to new members?

A: It’s a cap on the amount of compensation that can be used to calculate your pension, which is equal to:

1. The Social Security wage index limit (i.e. \$110,100) for employees who participate in Social Security; or
2. 120% of that limit (i.e. \$132,120) if they do not participate in Social Security.

COSTS

Q: How much is estimated that the new 2% @ 57 formula [or the other safety formulas] will cost new employees of a local agency that contracts with CalPERS?

A: On August 31, CalPERS released a preliminary cost analysis of the provisions of AB 340. That analysis, in pertinent part:

The following table from the preliminary cost analysis summarizes ranges of estimated savings -- as a percentage of payroll -- for the local agency plans broken down by existing benefit formula. According to CalPERS, these savings reflect only the impact of the new benefit formulas provided for by AB 340, as well as estimated cost savings associated with the requirement in AB 340 that all new hires be subject to 3 year final compensation:

CalPERS Local Agency Plans (Formula Change Only)

Current Local Agency Benefit Formula	Estimated Employer Normal Cost Savings for New Hires (as percentage of payroll)
2% at age 50	0.2% of payroll
2% at age 55	2.0% of payroll
3% at age 55	3.9% of payroll
3% at age 50	6.2% of payroll

And, here is a CalPERS' comparison of the total normal cost -- as a percentage of payroll -- for benefits applicable to current new hires and for the proposed benefits:

Current Local Agency Benefit Formula	Proposed Local Agency Benefit Formula	Total Normal Cost for current new hire*	Total Normal Cost for proposed benefit
2% at age 50	2.7% at age 57	21.5%	21.0%
2% at age 55	2.0% at age 57	17.0%	16.8%
3% at age 55	2.7% at age 57	23.4%	21.0%
3% at age 50	2.7% at age 57	25.7%	21.0%

**Normal Costs for local agencies vary. The normal costs presented above are based on a large local agency.*

Q: What is “normal cost”?

A: “Normal cost” means that portion of the present value of projected benefits under the defined benefit that is attributable to the current year of service, as determined by the public retirement system's actuary according to the most recently completed actuarial valuation. “Normal cost rate” means the annual, actuarially-determined normal cost for the defined benefit plan of an employer expressed as a percentage of payroll.

Q: Will cost-sharing fluctuate year to year based on that year's actuarial valuation?

A: Likely for '37 Act counties because of age of entry differentials, etc., but not as likely for CalPERS' contracting agencies.

Q: How does 12% enter into this pension reform equation?

A: With respect to cost-sharing for CalPERS local safety employees, it's 12% of pay or 50% of the normal cost of their pension benefits, whichever is less.

Q: Does the 50/50 cost-sharing include member contributions (if not, what would that percentage be in addition to member contributions)?

A: Yes. Cost-sharing includes employee contributions in the case of a local CalPERS' contracting agencies. In the case of a '37 Act county, it is in addition to.

Q: Is EPMC (Employer-Paid Member Contribution) eliminated?

A: For new hires, yes – EPMC is no longer allowed. For current employees, however, it will vary. AB 340 provides some bargaining “flexibility” of current employee contribution rates in that it allows bargaining of existing employee contribution rates at any amount (i.e. not restricted).

Q: Will employee contributions ever be more than ½ of the normal cost of benefits?

A: They could be, but only if agreed to through collective bargaining and AB 340 prohibits the employer using impasse procedures as a tactic to increase an employee contribution rate.

“AIR TIME”

Q: If I already bought air time credit, will it be honored?

A: Yes. And, any application for airtime submitted and received by the retirement system before January 1, 2013 will be honored.