STAFF REPORT

MEETING DATE:	**12/20/12**
SUBJECT:	**Policy for New Hires: Public Employee's Pension Reform Act (PEPRA)**
AGENDA ITEM:	**7**
STAFF CONTACT:	**Dan Little**

SUMMARY:

The Public Employee's Pension Reform Act (PEPRA) takes effect January 1, 2013, and will reduce the agency's pension plan costs over time by reducing benefits for most new hires.

STAFF RECOMMENDATION:

It is recommended that the board receive a presentation regarding PEPRA provisions for future agency hires. No action is recommended at this time.

DISCUSSION:

In May 2012, the SRTA board approved a policy to pursue a two-tiered employee pension plan: two-percent of salary times years of service at age 55 (2% at 55) for existing employees and 2% at 60 for new hires.

Legacy & Non-Legacy Hires: Beginning January 1, 2013, PEPRA automatically changes the formula for "non-legacy hires" to 2% at 62 and reduces the agency pension cost for these hires by nearly half. PEPRA also identifies "legacy hires." These are employees that have been in the California Public Employees Retirement System (CalPERS) – or affiliated programs – within six months of the SRTA hire date. PEPRA requires that legacy hires receive the same 2% at 55 pension provided to current SRTA staff. PEPRA prohibits the creation of additional tiers – such as the 2% at 60 formula intended by the board – after January 1, 2013. The attached table illustrates major differences between legacy and non-legacy hires.

Reduced Agency Pension Costs: The agency will see a savings equal to about 5% of the salary for each non-legacy employee hired after January 1, 2013. Historically, the agency has only attracted non-legacy employees, primarily due to SRTA salaries and benefits that are substantially lower than other public agencies in CalPERS. To illustrate, of all 12 new SRTA hires over the last 15 years, none would have qualified as legacy employees had PEPRA been in effect. With each non-legacy hire going forward, cumulative savings occur over time. Another significant provision of PEPRA is equal sharing of pension costs, including future increases. SRTA is somewhat unique in this respect because employees are unrepresented. As such, there is no employee/employer memorandum of understanding (MOU) which would have taken precedent over PEPRA's 50-50 cost-sharing requirement.

Other PEPRA Impacts: While PEPRA reduces agency costs, it does so by further reducing employee benefits and net income. With SRTA's pension and salary differential already among the lowest of public agencies, one downside of PEPRA is that it will further widen this gap. This compromises the agency's ability to retain or attract talented and productive staff. The resulting recruitment and training needs come at a cost to the agency – but perhaps more significantly – interfere with SRTA's mission to maximize grant revenues for its member agencies.

No-Action Recommended: PEPRA was pushed through the legislative process quickly and agencies are sure to encounter many kinks and unintended consequences. Experts agree that future litigation and clean-up legislation is inevitable. Staff recommends a wait-and-see approach for several reasons:

1. PEPRA will take effect regardless of any agency action; SRTA savings will exceed those intended by the board's 2% at age 60 formula.
2. PEPRA only impacts agency finances to the extent there are new hires; it is unlikely to have any effect in the near-term since, presently, there are no SRTA vacancies.
3. With current SRTA salary and benefits relatively lower than other public agencies, any new SRTA staff will most likely be "non-legacy" hires, further reducing SRTA's pension costs.
4. Many PEPRA issues will remain unsettled over the next year; CalPERS remains unclear on implementation measures. It is prudent to wait until further guidance is in place.

ALTERNATIVES:
The board could pursue an MOU declaring a 2% at 60 pension benefit for legacy hires. This could enable the agency to implement the new tier, but only if there is clarifying legislation. This is not recommended because guidance remains unclear and the resources needed for such an effort would likely outweigh any benefits beyond what PEPRA already provides. Even if successful, the additional 2% at 60 tier would create an administratively complex three-tier pension system for an agency staff of seven.

FINANCING:
PEPRA will lower agency pension costs, but only to the extent SRTA hires new staff. Based on past recruitments, most SRTA hires under PEPRA will be non-legacy hires. Each non-legacy hire would result in an agency pension cost estimated at 7% of the new hires salary, as opposed to the current 12.082%. All SRTA employees contribute an additional 7% regardless; however, non-legacy employees would equally share the burden of future CalPERS cost increases. In the long-term, PEPRA will result in a substantial cost savings to the agency since pension benefit reductions will eventually apply to all public employees. SRTA's pension costs are funded 100% through state and federal grants and programs.

Daniel S. Little, AICP, Executive Director

Attachments: TABLE 1: AB 340 Public Employee's Pension Reform Act (PEPRA) – New Hires

TABLE 1: AB 340 Public Employee's Pension Reform Act (PEPRA) - New Hires

	Legacy Hires	Non-Legacy Hires
New Hire Definitions	Hires after January 1, 2013, that worked for another CalPERS agency – or other program with reciprocity to CalPERS – within six months	All other new hires
Typically Hired From . . .	State of California or a city, county or regional agency	Private sector, out of state, or new to work force (school graduate)
Typical SRTA Recruitment (15-year history)	0	12
Pension Formula	2% at age 55	2% at age 62
Employee Cost (% of salary)	7%	7%*
SRTA Cost: PEPRA Requirement (% salary)	12%	7%*
Board Intended SRTA Cost with (2% at age 60)	10% (PEPRA cost 2% higher)	10% (PEPRA cost 3% lower)
Total Pension Cost Under PEPRA	19%	14%
Other PEPRA Cost Saving Measures	Broadened authority for agencies to increase employee cost sharing Caps on pensionable income Prohibitions on pension spiking and limitations on service credit purchases Limitations on hiring retired annuitants	

PEPRA Example - New Hire: $60,000 annual salary

	Legacy Hire: John Doe		Non-Legacy Hire: Dorothy Doe	
Pension Plan Costs	**What SRTA Pays**	**What Employee Pays**	**What SRTA Pays***	**What Employee Pays***
Monthly Deduction	600.00	350.00	350.00	350.00
Total Annual Deduction	7,200.00	4,200.00	4,200.00	4,200.00

* Employee and SRTA equally share future CalPERS cost increases for non-legacy hires