APPENDIX TO SACRAMENTO HEARING DISCUSSION DOCUMENT

This appendix document contains the following materials:

- Appendix A: LACERA Response to “Thirty Ways to Spike Your Pension” document
- Appendix B: CalPERS Response to “Thirty Ways to Spike Your Pension” document
- Appendix C: CalSTRS Response to “Thirty Ways to Spike Your Pension” document
- Appendix D: Overview of Retirement Commissions/Panels in Other States
- Appendix E: Summary of Economic Impact Reports from CalPERS, CalSTRS, and SACRS

Appendix A

LACERA Response to
“Thirty Ways to Spike Your Pension” Document

LACERA Los Angeles County Employees Retirement Association
300 N. Lake Ave., Pasadena, CA 91101 ■ Mail to: PO Box 7060, Pasadena, CA 91109-7060 626/564-6132 • 800/786-6464

October 23, 2007

Mr. Tom Branan
Policy Director
Public Employee Post-Employment
Benefit Commission
980 9th Street, Suite 1760
Sacramento, CA 95814-2719

Dear Mr. Branan,

At a recent Public Employee Post-Employment Benefit Commission meeting a document titled "Pension Spiking" was provided to the commission from a source identified as People's Advocate, Inc. The list includes numerous forms of compensation that supposedly spike the calculation of defined benefits. I believe the list to be misleading when applied to the Los Angeles County Employees Retirement Association and county retirement systems in general.

The following includes an abbreviated history demonstrating how court rulings affect how County retirement systems recognize compensation, the deliberative measures taken by the Los Angeles County Employees Retirement Association (LACERA) to mitigate the risk of pension spiking, and a detailed review of the People's Advocate, Inc, pension spiking list.

Pensionable Earnings

LACERA relies upon its participating employers to report employee earnings that are ultimately used in calculating retirement benefits. These earnings are commonly cited as "pensionable earnings". There are specific rules in California State Law and in recent Court rulings that define what type of earnings qualify as pensionable earnings.

The County Employees Retirement Law (California State code sections 31450 through 31899) is the body of law governing the defined benefit County Retirement Systems. This body of law is commonly referred to as the 1937 Act and the twenty county retirement systems operating under its rules are commonly referred to as the 1937 Act county retirement systems. The 1937 Act defines pensionable earnings broadly to mean cash paid to an employee.

In 1983, a California Court of Appeal ruled that pay items to be included in pensionable earnings should be limited to only those items of compensation uniformly paid in cash to all members in a given employment classification. Under this ruling, the Court excluded from the calculation of retirement benefits compensation such as bilingual pay, educational incentive pay, shift and assignment bonuses, and automobile allowances, and other additional pay that was not provided on a uniform basis to all employees in a designated classification, but was paid only to employees who had special qualifications or assignments or met other special conditions.

As such, the employers routinely paid moderate base pay to all employees and offered additional compensation through skill or duty-based pay. For example, a specific sheriff deputy being awarded additional compensation based on shooting proficiency or a specific social services worker being paid additional compensation for using their bilingual skills. This additional compensation was not considered pensionable earnings and was appropriately excluded from the pension benefit calculations.

In a decision that became final on October 1, 1997, the California Supreme Court in Ventura County Deputy Sheriffs' Association v. Ventura County Employees' Retirement Board 16 Cal.4th 483 ("Ventura Decision") ruled that the earlier interpretation of the Court of Appeal was incorrect on this point, and that cash payments to the employee as remuneration for services rendered other than pay for time worked except overtime and cash paid to third parties, must be considered pensionable earnings for the purposes of calculating retirement benefits for County retirement systems.

Following the Ventura Decision, the LACERA Board of Retirement evaluated the participating employers' pay items to determine whether such compensation would be considered pensionable earnings. Their findings were documented by Board Resolution and communicated to the employees and participating employers as rules for communicating pensionable earnings to the retirement system. The list of pensionable earnings and those pay items considered not pensionable is available for public viewing through LACERA.com.

Combating Pension Spiking

Pension spiking is the ability for an employee or employer to artificially increase the employee's pensionable earnings used for calculating pension benefits. The 1937 Act code section 31461.45 specifically identifies the pensionable pay items for Los Angeles County and the collective bargaining process for making changes to such list. LACERA expends considerable resources to ensure the participating employers limit pensionable earnings only to those pay items approved by the LACERA Board of Retirement and agreed to through the plan sponsor's collective bargaining processes.

LACERA's first line of protection against pension spiking is the Board of Retirement review of new pay codes to determine pensionability. The generation of new pay codes results from the collective bargaining process between the plan sponsor and their employees. These pay codes are reviewed by LACERA legal staff in relation to the Ventura Decision. The legal analysis is provided to the LACERA Board of Retirement for their determination. The pensionability/nonpensionability of the new pay items is communicated to the plan sponsors so they may update their payroll systems.

LACERA's second line of protection against pension spiking comes from the computer system edit of all payroll transmissions received from the plan sponsor. Exceptions are investigated prior to updating to the retirement system data bases. These efforts are critical in the building and maintaining employee salary data bases used for the calculation of employee benefits, calculation of age-based employee contributions, and the valuation of plan liabilities.

The third line of defense is the manual audit of member accounts prior to retirement. The members' pensionable earnings are reviewed for unusual items or trends. In the event an error in a member's pensionable earnings is found, the 1937 Act (code section 31539) requires the error be corrected and the member only receive the retirement benefit as defined in California State law. This may require reducing a retiree's retirement benefit prospectively, repayment of over withheld employee contributions to the retiree, seeking repayment of overpaid pension benefits. The majority of adjustments are effected prior to the employee's retirement.

Some argue that pension spiking extends to the employee's ability to use the employer's compensation structure to maximize their retirement benefit and that such maximization is beyond the pension benefit promised by the employer to the employee. For example, the employee sells unused vacation time back to the employer for cash, thus, increasing their pensionable earnings. No one argues that the employee did not earn the compensation. What is argued is that the employee is not paying their fair share of the pension cost by elevating their pensionable earnings only in the final year of employment prior to retirement. This specific practice is mitigated by Los Angeles County through capping the amount of benefit leave balances that the employee may accrue and convert to cash at a later time.

People's Advocate Pension Spiking Pay Item Listing

The People's Advocate, Inc. is self described on their website as a non-profit entity dedicated to educating the public regarding issues of taxation, government spending, financing, and local, state, and national government structures. The People's Advocate promulgated a list titled "pension spiking". The list infers that all the pay items are used to spike pensions. This is simply not the case. The following is a reproduction of the list with additional information on the pensionability for such pay items for Los Angeles County.

People Advocate List of Pay Items	**Pensionability for Los Angeles County**
1. Regular Base Pay	Pensionable. Base pay is the foundation for the calculation of pension benefits. Defined in California State Law code section 31640.
2. OT hours paid over a maximum	Not Pensionable. All forms of overtime are excluded from pensionable earnings.
3. Worker comp temp disability	Not Pensionable. Worker compensation awards and short-term disability payments are not pensionable.
4. Shift differential	Pensionable under the Ventura Decision

5. Special pay allowances	Pensionable. Employees who are working duties beyond the job they were hired to perform receive additional compensation.
6. Incentive pay allowances	Pensionable under the Ventura Decision. Use of incentive pay is common in the private labor market and is beginning to gain more acceptance with public employers.
7. Miscellaneous allowances based on % of base pay.	Pensionable. Cash compensation, such as longevity pay bonus, that is a percentage of base pay is pensionable.
8. Management Differential	Not applicable to Los Angeles County.
9. Retirement Offset (employer's pick-up of employee's share of pension costs)	Not Pensionable.
10. Leave balance usage	Pensionable. Employee compensation that is paid during vacation, sick, and holiday time is considered pensionable.
11. Insurance subsidy	Not Pensionable.
12. Insurance subsidy offset (employer's pick-up of employee's share of costs)	Not Pensionable.
13. Mental health retention	Not applicable to Los Angeles County
14. Disability pay	Not Pensionable. Safety members being paid by the employer under Labor Code 4850 will have employee contributions deducted from earnings and such earnings are pensionable.
15. Pay in lieu of temporary disability	Not applicable to Los Angeles County
16. One time bonus	Pensionable under Ventura Decision. Lump sum bonus payments may significantly inflate an employee's pensionable earnings if earned during the final compensation period.
17. 7/12 work shift	Not applicable to Los Angeles County
18. Standby pay	Not Pensionable

19. Food allowance	Not applicable to Los Angeles County. Reimbursements for food are not pensionable.
20. Clothing allowance	Pensionable under the Ventura Decision.
21. Equipment Allowance	Pensionable under the Ventura Decision.
22. Animal Allowance	Pensionable
23. Auto Allowance	Pensionable under the Ventura Decision. Auto allowances were significantly curtailed by the plan sponsor in the 1990's.
24. Vacation cash-in	Pensionable under the Ventura Decision. Plan sponsor mitigates the impact through capping the amount of vacation time that may be cashed in by the employee. Employees may only sell back earned vacation that is accrued beyond a preset limit.
25. Payoff of vacation beyond maximum accrual	Pensionable under the Ventura Decision, see above.

In addition to the foregoing list, People's Advocate also listed "other abuses" in their Pension Spiking paper. The following is clarification on applicability to Los Angeles County.

People Advocate List of Pay Items	**Applicability to Los Angeles County**
1. Bargain purchase of service years. Workers are allowed to purchase additional years at prices set before anticipated bonuses, raises, and or plan amendment increases.	Employees may purchase up to five additional years of service credit by paying the full actuarial value of the benefit. These costs are based upon the employees' pay rate at time of purchase. Other public agency service credit may also be purchased at the full actuarial value provided the employee is not eligible to receive a retirement benefit from the former public agency based upon such service credit.
2. Reinstatement of Service. Retirees can return to work if they retired before benefits were increased and receive higher pension formula on all previous years.	Not applicable to Los Angeles County. Retirement benefit formulas have never been increased.

3. Retire with one employer that has a CalPERS plan and work full time for another employer who is a 1937 county, or a local agency with an independent plan, or vice versa. This is a common way for safety workers to receive retirement at a greater than 90% of final wages after they have worked 30 years for a single employer.	LACERA will retire any employee who terminates service and meets eligibility requirements. New employees hired by plan sponsor may include employees with public or private employment history. It is becoming more common for employees to choose government employment as a second career.
4. Opt out of employer-provided health insurance and go on spouses plan in final year. Employers commonly pay cash in lieu of health benefits to those who do not enroll in their health plan, and this amount is sometimes included in final pay for pension purposes.	Unspent cafeteria plan contributions received in cash by the employee are non pensionable for employees hired on or after January 1, 1996.
5. End of career promotions for upper management positions.	Promotional opportunities are provided to employees throughout their careers. Employers seek the best qualified candidates irrespective of age and length of service.

As you can see, the LACERA retirement plan is administered to protect the employee's promised benefit. I trust the information provided herein sheds light on the misleading nature of the People's Advocate Inc.'s Pension Spiking paper.

Sincerely

GREGG RADEMACHER
Chief Executive Officer

GR:jm Tom Brannon 10-23-07.doc

Appendix B

CalPERS Response to
"Thirty Ways to Spike Your Pension" Document

CalPERS 75 Years

Memorandum

California Public Employees' Retirement System

Date: September 14, 2007

To: Tom Branan
Post-Employment Benefits Commission

From: Ken Marzion, Assistant Executive Officer
Actuarial & Employer Services Branch

Subject: Pension Spiking

Tom,

Attached you will find CalPERS' response to the document referred to as "30 ways to spike your pension." Attachment A describes the laws, regulations and policies CalPERS uses to control pension spiking. Attachment B is the list provided by Mr. Costa and Attachment C specifically addresses each item listed in Attachment B. As you'll notice, many items listed on Attachment B are non-reportable items for CalPERS purposes. For those items listed on Attachment B that are reportable to CalPERS, there are many checks and balances in place to make sure pension spiking does not occur.

After reviewing the attached information, please call me and we can further discuss the information provided. Thanks for the opportunity to set the record straight.

CalPERS' Response to "30 Ways to Spike Your Pension" prepared for Public Employee Post-Employment Benefits Commission

<u>CalPERS-Sponsored Legislation Curtails Pension Spiking</u>.

Retirement benefits are calculated as a percentage of "final compensation" that has been reported to CalPERS. So-called spiking is the intentional inflation of "final compensation" in order to increase retirement benefits. In 1993, CalPERS sponsored legislation (SB 53, Stats. 1993, Ch. 1297) defining compensation such that today it is more difficult to include additional amounts in final compensation in order to "spike" a retirement benefit.

<u>Compensation Review and Field Audits Provide Additional Safeguards against Pension Spiking</u>.

In addition to the provisions in the law that define compensation and thereby control the payments counted in the retirement benefit calculation, CalPERS has established a Compensation Review Unit whose job it is to review the retirement benefits and final compensation of newly retired members for the purpose of identifying and correcting mistakes and spiking abuses. Subsequent field audits also may identify situations where overpayments of retirement benefits may be occurring.

As a further safeguard against spiking, whenever CalPERS discovers that erroneous payments have been made to a retired member, CalPERS has an obligation to correct the error. In cases where the overpayment is the result of fraudulent reports for compensation made by a member for his or her own benefit, then CalPERS has ten years from the date of discovery to collect. [Gov. Code sections 20160 *et seq*.]

<u>Definition of Compensation Rewritten and Clarified</u>.

Compensation is payment to employees for services performed during normal working hours or for time during which the employee is excused from work (i.e. holidays, sick leave, vacation, leave of absence, etc.). An employer must identify and *report* compensation for the pay period in which the compensation was *earned*, and the amount reported cannot exceed *compensation earnable*. Overtime compensation is excluded. [Gov. Code sections 20630, 20635, and 20635.1] *Final compensation* (the amount used to calculate the pension benefit) is a member's highest average full-time monthly compensation earnable (i.e. payrate and special compensation) for a 1-year or 3-year period. State and school members use 1-year final compensation and local public agency members use either 1-year or 3-year final compensation period as determined by the employer's contract with CalPERS. [Gov. Code sections 20035-20043, 20635, and 20635.1]

<u>Compensation Earnable includes Payrate and Special Compensation</u>.

Compensation earnable is made up of payrate and special compensation. *Payrate* means the normal monthly rate of pay of the member, and *special compensation* includes only those payments received for special skills, knowledge, abilities, work assignments, workdays or hours or other work conditions that are listed in statute or regulations. Amounts reported to CalPERS cannot exceed compensation earnable. [Gov. Code sections 20636, 20636.1]

<u>Special Compensation is Limited by Statute and Regulations</u>.

Only those items of special compensation that are listed in Board regulations can be reported as compensation earnable to CalPERS (and thus included in the calculation of retirement benefits). Among the items listed are (i) incentive pay, (ii) educational pay, (iii) premium pay, (iv) special assignment pay, and (v) statutory items. [Cal. Code of Regulations, title 2, section 571] In addition, listed items may only be included in compensation earnable if they are:

1. Contained in a written labor policy or agreement;
2. Available to all members in the group or class;
3. Part of normally required duties;
4. Performed during normal hours of employment;
5. Paid periodically as earned;
6. Historically consistent with prior payments for the job classification;
7. Not exclusively in the final compensation period;
8. Not final settlement pay;
9. Not creating an unfunded liability over and above PERS actuarial assumptions.

Items that may not be included as special compensation include (i) final settlement pay, (ii) payments made for additional services rendered outside of normal working hours, and (iii) other payments the board has not affirmatively determined to be special compensation.

<u>Payrate and Special Compensation Schedules are Public Records</u>.

All payrate and special compensation amounts must be maintained as public records and made available for public scrutiny. [Gov. Code section 20636]

<u>Line-by-Line Response Contained in Attached Chart</u>. Attachment C identifies relevant statutes or regulations and summarizes the CalPERS procedure for handling each of the thirty spiking events included in "30 Ways to Spike Your Pension."

PENSION SPIKING

Items included in final compensation for pension purposes (partial list):

1. Regular base pay
2. OT hours paid over a maximum (varies from agency to agency)
3. Workers comp temp disability
4. Shift differential
5. Special pay allowances
6. Incentive pay allowances
7. Miscellaneous allowances based on % of base pay
8. Management differential
9. Retirement offset (employer's pick-up of employee's share of pension costs)
10. Leave balance usage
11. Insurance subsidy
12. Insurance subsidy offset (employer's pick-up of employee's share of costs)
13. Mental health retention
14. Disability pay
15. Pay in lieu of temporary disability
16. One time bonus*
17. 7/12 work shift*
18. Standby pay*
19. Food allowance*
20. Clothing allowance*
21. Equipment allowance*
22. Animal allowance*
23. Auto allowance*
24. Vacation cash-in*
25. Payoff of vacation beyond maximum accrual*

*additional pay added by Ventura decision (2003)

Other abuses:

1. *Bargain purchase of service years.* Workers are allowed to purchase additional years at prices set before anticipated bonuses, raises, and/or plan amendment increases).
2. *Reinstatement of service.* Retirees can return to work if they retired before benefits were increased and receive higher pension formula on all previous years.
3. *Retire with one employer that has a Ca1PERS plan and work full-time for another employer who is a 1937 county, or a local agency with an independent plan, or vice versa.* This is a common way for safety workers to receive retirement at greater than 90% of final wages after they've worked 30 years for a single employer.
4. *Opt out of employer provided health insurance and go on spouse's plan in final year.* Employers commonly pay cash-in-lieu of health benefits to those who do not enroll in their health plan, and this amount is sometimes included in final pay for pension purposes.
5. *End of career promotions for upper management positions.*

Source: People's Advocate, Inc. 2007

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	**PUBLIC EMPLOYEES' RETIREMENT LAW**	**CalPERS PROCEDURES**
1. Regular Base Pay	Section 20636(b)(1) states: " 'Payrate' means the normal monthly rate of pay or base pay of the member paid in case to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules. 'Payrate,' for a member who is not in a group or class, means the monthly rate of pay or base pay of the member paid in cash and pursuant to publicly available pay schedules, for services rendered on a full-time basis during normal working hours, subject to the limitations of paragraph (2) of subdivision (e)."	If the position is listed on a publicly available pay schedule and the reported base pay is within the range of the salary listed on the pay schedule, the payrate is reportable to CalPERS. If the position is not listed on a publicly available pay schedule and the agency cannot verify the base pay through an employment contract, the payrate is denied and the member's base pay is reduced to the last verifiable payrate.
2. OT hours paid over a maximum	Section 20635 states: "When the compensation of a member is a factor in any computation to made under this part, there shall be excluded from those computations any compensation based on overtime put in by a member whose service retirement allowance is a fixed percentage of final compensation for each year of credited service. For the purposes of this part, overtime is the aggregate service performed by an employee as a member for all employers and in all categories of employment in excess of the hours of work considered normal for employees on a full-time basis, and for which monetary	Overtime is not reportable compensation.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
	compensation is paid. If a member concurrently renders service in two or more positions, one or more of which is full time, service in the part-time position shall constitute overtime. If two or more positions are permanent and full time, the position with the highest payrate or base pay shall be reported to this system. This provision shall apply only to service rendered on or after July 1, 1994."	
3. Worker's Compensation Temporary Disability	Section 20630 states: "As used in this part, 'compensation' means the remuneration paid out of funds controlled by the employer in payment for the member's services performed during normal working hours or for time during which the member is excused from work because of any of the following: 1. Holidays. 2. Sick Leave. 3. Industrial disability leave, during which, benefits are payable pursuant to Section 4800 and 4850 of the Labor Code, Article 4 (commencing with Section 19869) of Chapter 2.5 of Part 2.6, or Section 44043 or 87042 of the Education Code. 4. Vacation. 5. Compensatory time off. 6. Leave of absence."	For **safety** employees: As long as the Worker's Compensation Temporary Disability meets the criteria outlined in Labor Code Section 4850 and Education Code Section 87042 it is reportable to CalPERS. For **miscellaneous** employees: Worker's Compensation Temporary Disability payments and employer payments in lieu of Worker's Compensation benefits are not reportable to CalPERS. However, if a miscellaneous member uses accrued leave credits, such as vacation, sick leave, or compensated time off, the compensation attributable to the used leave credits are reportable to CalPERS.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
4. Shift Differential	Section 20636(c)(1) states: "Special compensation of a member includes a payment received for special skills, knowledge, abilities, work assignment, workdays or hours, or other work conditions." California Code of Regulations (CCR) 571(a)(4) defines shift differential as: "Compensation to employees who are routinely and consistently scheduled to work other than a standard 'daytime' shift, e.g. graveyard shift, swing shift, shift change, rotating shift, split shift or weekends." CCR 571(b) states: "The Board has determined that all items of special compensation listed in subsection (a) are: 1. Contained in a written labor policy or agreement; 2. Available to all members in the group or class; 3. Part of normally required duties; 4. Performed during normal hours of employment; 5. Paid periodically as earned; 6. Historically consistent with prior payments for the job classification; 7. Not paid exclusively in the final compensation period;	If the shift differential meets the criteria outlined in CCR 571(a)(4) and 571(b) it is reportable to CalPERS as special compensation.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	**PUBLIC EMPLOYEES' RETIREMENT LAW**	**CalPERS PROCEDURES**
	8. Not final settlement pay; and 9. Not creating an unfunded liability over and above PERS' actuarial assumptions."	
5. Special Pay Allowances (For example, Sacramento County Employees' Retirement System's website, Special Pay Allowances is described as "Additional pay for performing work considered to be out of or in addition to the class.")	CCR 571(a)(3) Premium Pay states: "Temporary Upgrade Pay – Compensation to employees who are required by their employer, or governing board or body, to work in an upgraded position/classification of limited duration." CCR 571(b)	If the Temporary Upgrade Pay meets the definition of CCR 571(a)(3) and the criteria of CCR 571(b), it is reportable to CalPERS as special compensation.
6. Incentive Pay Allowances (For example, Sacramento County Employees' Retirement System's website, Incentive Pay Allowances is described as "Additional pay for possession of education degrees or required certificates.")	CCR 571(a)(1) defines all of the Incentive Pay special compensation items that are reportable to CalPERS. The reportable Incentive Pay includes: ▪ Bonus ▪ Dictation/Shorthand/Typing Premium ▪ Longevity Pay ▪ Management Incentive Pay ▪ Marksmanship Pay ▪ Master Police Officer ▪ Physical Fitness Program ▪ Value of Employer Paid Member Contributions (EPMC) ▪ Off-Salary-Schedule Pay For example, Sacramento County Employees' Retirement System's website, Incentive Pay Allowances is described as	If the reported special compensation meets the definition of CCR 571(a) and criteria of CCR 571(b), it is reportable to CalPERS as special compensation.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
	Educational Pay as described in the Public Employees' Retirement Law (PERL) CCR 571(a)(2). CCR 571(a)(2) defines all of the Educational Pay special compensation items that are reportable to CalPERS. Educational Pay includes, but is not limited to: ▪ Undergraduate, Graduate or Doctoral Credit ▪ Educational Incentive ▪ Peace Officer Standard Training Certificate Pay CCR 571(b)	
7. Miscellaneous Allowances Based on Percentage of Base Pay (For example, Sacramento County Employees' Retirement System's website, Miscellaneous Allowances is described as "Assignment differentials based upon a percentage of base pay.")	CCR 571(a)(4) defines all of the Special Assignment Pay special compensation items that are reportable to CalPERS. CCR 571(b)	If the Miscellaneous Allowance is included in CCR 571(a)(4) and meets the criteria of CCR 571(b) it is reportable to CalPERS as special compensation. The labor agreement will be reviewed to determine the amount that is to be reported to CalPERS.
8. Management Differential (For example, Sacramento County Employees' Retirement System's website, Management Differential is described as "Additional pay paid to managers in lieu of other benefits, i.e., tuition reimbursement.")	CCR 571 and 571(b) CCR 571(a)(1) Incentive Pay includes: "Management Incentive Pay – Compensation granted to management employees in the form of additional time off or extra pay due to the unique nature of their job. Employees within the group cannot have the option to take time off or receive extra pay. This	Management Differential, as described by the Sacramento County Employees' Retirement System website, is not reportable compensation. It is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b). However, if Management Differential is considered Management Incentive Pay as described in CCR 571(a)(1), it would be reportable to CalPERS as long

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
	compensation must be reported periodically as earned and must be for duties performed during normal working hours. This compensation cannot be for overtime, nor in lieu of other benefits excluded under the statutes, nor for special compensation not otherwise listed in this Section 571."	as it meets the criteria of CCR 571(a)(1) and CCR 571(b).
9. Retirement Offset (Employer's Pick-Up of Employee's Share of Pension Costs) (For example, Sacramento County Employees' Retirement System's website, Retirement Offset is described as "Additional pay for certain employees in-lieu of the county paying ½ retirement contributions.")	Section 20691 states: "Notwithstanding any other provision of law, a contracting agency or school employer may pay all or a portion of the normal contributions required to be paid by a member…The payments shall be reported simply as normal contributions and shall be credited to member accounts." CCR 571(a)(1) Value of Employer-Paid Member Contributions states: "The full monetary value of employer-paid member contributions (EPMC) paid to CalPERS and reported as an item of special compensation on behalf of all members in a group or class. The value of EPMC is calculated on all 'compensation earnable' excluding the special compensation of the monetary value of EPMC paid to CalPERS by the employer under Government Code section 20636(c)(4) thus eliminating a perpetual calculation."	If the value of EPMC is reported to CalPERS as an item of special compensation and meets the criteria as outlined in CCR 571(a)(1) and CCR 571(b), it is reportable to CalPERS. If a contracting agency includes the benefit provided under Section 20692, the employee's payrate is increased by an amount equal to the normal contributions paid by the employer on behalf of the employees during the final compensation period. This increased payrate is reportable to CalPERS. A contract amendment, resolution or ordinance of the governing body must be provided to CalPERS indicating the group or class, effective date, and percent or amount of EPMC being paid and reported as an item of special compensation. The contract amendment, resolution or ordinance must be formally adopted by the employer's governing body, and submitted to CalPERS. The full terms of the contract amendment, resolution or ordinance by which the employer's governing body elects to pay and report the value of EPMC as an item of special compensation — along with any time-ingrade

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
	Section 20692(a) states: "Where a contracting agency employer or a school employer has elected to pay all or a portion of the normal contributions of members of a group or class of employment pursuant to Section 20961, the employer may, pursuant to a labor policy or agreement, stop paying those contributions during the final compensation period applicable to the members and, instead, increase the payrate of the members by an amount equal to the normal contributions paid by the employer on behalf of the employees in the pay period immediately prior to the final compensation period…"	exception for newly-hired employees — must be incorporated into the written labor agreement that pertains to the affective group or class of employment.
10. Leave Balance Usage	Section 20630	If the employee is using leave balances in absences from work, that is reportable as compensation.
11. Insurance Subsidy (For example, Sacramento County Employees' Retirement System's website, Insurance Subsidy is described as "Cash payment of the amount of the county contribution towards health insurance over the premium, less the cost of social security.")	Section 20636 CCR 571	Insurance Subsidy, as described by Sacramento County Employees' Retirement System's website, does not meet the definition of payrate or special compensation, and therefore, not reportable to CalPERS.
12. Insurance Subsidy Offset (Employer Pick-Up of Employee's Share of the Cost)	Section 20636 CCR 571	Insurance Subsidy Offset, as described by Sacramento County Employees' Retirement System's website, does not meet the definition of payrate or

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
(For example, Sacramento County Employees' Retirement System's website, Insurance Subsidy Offset is described as "An amount paid in January of each year to refund the social security reduction of the insurance subsidy to employees who were at social security maximum.")		special compensation, and therefore, not reportable to CalPERS.
13. Mental Health Retention (For example, Sacramento County Employees' Retirement System's website, Mental Health Retention is described as "A recruitment differential paid twice a year to employees who work at the mental health facility.")	CCR 571	Mental Health Retention is not reportable compensation. It is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b).
14. Disability Pay	Section 20630	For **safety** employees: As long as the Disability Pay meets the criteria outlined in Labor Code Section 4850 and Education Code Section 87042 it is reportable to CalPERS. For **miscellaneous** employees: Disability Pay is not reportable to CalPERS. However, if a miscellaneous member uses accrued leave credits, such as vacation, sick leave, or compensated time off, the compensation attributable to the used leave credits are reportable to CalPERS.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
15. Pay In Lieu of Temporary Disability	CCR 570 states: " 'Final settlement pay' means any pay or cash conversions of employee benefits in excess of compensation earnable, that are granted or awarded to a member in connection with or in anticipation of a separation from employment. Final settlement pay is excluded from payroll reporting to PERS, in either pay rate or compensation earnable. For example, final settlement pay may consist of severance pay or so-called 'golden parachutes'. It may be based on accruals over a period of prior service. It is generally, but not always, paid during the period of final compensation. It may be paid in lump-sum, or periodic payments. Final settlement pay may take the form of any item of special compensation not listed in Section 571. It may also take the form of a bonus, retroactive adjustment to payrate, conversion of special compensation to payrate, or any other method of payroll reported to PERS."	If an employer pays cash-in-lieu of temporary disability benefits, it is not reportable to CalPERS and the additional compensation will be denied as final settlement pay.
16. One Time Bonus	CCR 571(a)(1) Bonus "Compensation to employees for superior performance such as 'annual performance bonus' and 'merit pay'. If provided only during a member's final compensation period,	A One Time Bonus is not reportable special compensation, because it does not meet the nine criteria outlined in CCR 571(b). The bonus that is reportable must be for superior performance and a program identifying goals and objectives must be created in addition to meeting the criteria of CCR

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	**PUBLIC EMPLOYEES' RETIREMENT LAW**	**CalPERS PROCEDURES**
	it shall be excluded from final compensation as 'final settlement' pay. A program or system must be in place to plan and identify performance goals and objectives."	571(b). If the bonus does not comply with CCR 571, the bonus is denied.
17. 7/12 Work Shift (For example, Sacramento County Employees' Retirement System's website, 7/12 Work Shift is described as "Regular work schedule of 12 hours per day; 84 hours per bi-weekly pay period.")	Section 20636	All amounts paid for normal working hours must be reported to CalPERS. If the 7/12 Work Shift is the normal working hours for the employees, all amounts paid for hours worked under the 7/12 Work Shift is considered payrate and reportable.
18. Standby Pay	CCR 571	Standby Pay is not reportable compensation. It is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b).
19. Food Allowance (For example, Sacramento County Employees' Retirement System's website, Food Allowance is described as "An allowance paid to employees hired or transferred into food service prior to July 1971 represented by Health Services Unit.")	CCR 571	Food Allowance is not reportable compensation. It is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b).
20. Clothing Allowance	CCR 571(a)(5) Uniform Allowance "Compensation paid or the monetary value for the purchase, rental and/or maintenance of required clothing, including clothing made from specially designed protective fabrics,	Uniform Allowance is a statutory item and must be reported as special compensation. Employers must report the value of the uniform allowance for employees in positions that require the employee to wear required clothing, such as police officer, bus drivers, etc.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	**PUBLIC EMPLOYEES' RETIREMENT LAW**	**CalPERS PROCEDURES**
	which is a ready substitute for personal attire the employee would otherwise have to acquire and maintain. This excludes items that are solely for personal health and safety such as protective vests, pistols, bullets, and safety shoes."	Clothing that is not a uniform is not reportable.
21. Equipment Allowance (For example, Sacramento County Employees' Retirement System's website, Equipment Allowance is described as "An allowance paid in two installments to reimburse employees who are required to provide their own equipment, i.e., court reporters.")	CCR 571	Equipment Allowance is not reportable compensation. CCR 571(a)(5) is clear on the definition of Uniform Allowance and does not include items such as protective vests, pistols, bullets and safety shoes. In addition, it is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b).
22. Animal Allowance	CCR 571(a)(4) Canine Officer/Animal Premium "Compensation to local police officers, county peace officers and school police or security officers who are routinely and consistently assigned to handle, train and board a canine or horse. Compensation shall not include veterinarian fees, feed or other reimbursable expenses for upkeep of the animal."	If the Canine Officer/Animal Premium meets the definition in CCR 571(a)(4) and meets the nine criteria listed in CCR 571(b) it is reportable to CalPERS as special compensation.
23. Auto Allowance	CCR 571	Auto Allowance is not reportable compensation. It is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b).

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	**PUBLIC EMPLOYEES' RETIREMENT LAW**	**CalPERS PROCEDURES**
24. Vacation Cash-In	CCR 571	Vacation Cash-In is not reportable compensation. It is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b).
25. Payoff of Vacation Beyond Maximum Accrual	CCR 571	Payoff of Vacation Beyond Maximum Accrual is not reportable compensation. It is not included in the list of special compensation as defined in CCR 571(a) and does not fit the nine criteria listed in CCR 571(b).
26. Bargain Purchase of Service Years	Section 21052 states: "A member or retired former employee who elects to receive service credit subject to this section shall contribute, in accordance with Section 21050, an amount equal to the increase in employer liability, using the payrate and other factors affecting liability on the date of the request for costing of the service credit. The methodology for calculating the amount of the contribution shall be determined by the chief actuary and approved by the board. A member or retired former employee electing to receive service credit for service subject to Section 21076 or 21077 shall pay the contributions as described."	The cost to purchase service credit is based upon the payrate and other factors (benefit formula, special compensation, etc.) that are in effect at the time of the request for costing is made. There is no way to base the cost upon anticipated bonuses, raises or plan amendment increases, because they are not in effect at the time of request.
27. Reinstatement of Service	Section 21357(a) states: "For a member reinstated from service retirement or partial service retirement, the current service pension, or current and prior	Scenario: Member retires from Agency A with a benefit formula of 2% @ 55.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	PUBLIC EMPLOYEES' RETIREMENT LAW	CalPERS PROCEDURES
	service pensions, as the case may be, upon his or her service retirement subsequent to the reinstatement, shall be the sum of (1) a current service pension calculated on the basis of service rendered after reinstatement in accordance with the formula applicable to him or her in that service and membership, plus, (2) if the subsequent retirement occurs before he or she renders, after his or her reinstatement, at least one year of state service credit under this system, or if the subsequent service or disability retirement occurs after his or her reinstatement from service or disability retirement pursuant to an election under Section 21465, his or her current service pension, or current and prior service pensions, as the case may be, as it was prior to his or her reinstatement…adjusted according to any change after reinstatement in the provisions governing the calculation of his or her pension that would have applied to him or her had he or she continued in retirement but been subject to the formula applied in the first adjustment."	After member retires, Agency A amends their contract to provide 3% @ 60. Member reinstates with Agency A. If the member works for less than a year after reinstatement, his new allowance will consist of the allowance prior to reinstatement based on 2% @ 55 and an additional allowance based on service after reinstatement date to the 2nd retirement date based on 3% @ 60. If the member works for more than a year after reinstatement, the new allowance will consist of all service credit (prior to reinstatement and after reinstatement) based on 3% @ 60. If the member reinstates with a different CalPERS agency (Agency B) that has a retirement formula of 3% @ 60 regardless of the duration of the new employment, the new allowance will have the service from Agency A based on the 2% @ 55 from Agency A and the service from reinstatement date to the new retirement date with Agency B based on 3% @ 60.
28. Retire From a CalPERS Employer and Work for a 37 Act Employer.	Section 21220 states: "A person who has been retired under this system for service or for disability, may not be employed in any capacity thereafter by the state, the university, a school employer, or a contracting agency, unless the employment qualifies for service credit in the University of California Retirement Plan or the State	There is nothing in the PERL that prevents someone from retiring from a CalPERS employer and then working full-time with a 37 Act employer.

CalPERS' RESPONSE TO "THIRTY WAYS" PRESENTED IN ATTACHMENT B

PAY TYPE	**PUBLIC EMPLOYEES' RETIREMENT LAW**	**CalPERS PROCEDURES**
	Teachers' Retirement Plan, unless he or she has first been reinstated from retirement pursuant to this chapter, or unless the employment, without reinstatement, is authorized by this article. A retired person whose employment without reinstatement is authorized by this article shall acquire no service credit or retirement rights under this part with respect to the employment."	
29. Opt Out of Employer-Provided Health Insurance and Go On Spouse's Plan in Final Year	Section 20636 CCR 570	If an employer pays cash-in-lieu of health benefits, it is not reportable to CalPERS and the additional compensation will be denied as final settlement pay.
30. End of Career Promotions for Upper Management Positions	CCR 570	There is nothing we can do to prevent or monitor this. If there is a significant increase in payrate in the final year, the Compensation Review Unit will request documentation from the employer. If the employer informs us that the employee received a promotion, the position is on a publicly available pay schedule, and the salary being reported is within the salary range on the pay schedule, we have no grounds to deny the payrate. We cannot determine whether or not the appointment was a true promotion or not. It is not considered final settlement pay, because it is a promotion and not a pay or cash conversion of employee benefits.

Appendix C

CalSTRS Response to "Thirty Ways to Spike Your Pension" Document

Compensation is credited to the Defined Benefit Program, and therefore includible in final compensation, if it is payable in cash to everyone in the same class of employees for the performance of creditable service and as long as it doesn't meet certain criteria

- The compensation is paid for the principal purpose of enhancing a member's retirement benefit, as determined by CalSTRS
- The compensation is being paid for a limited period of time
- The compensation is for service in excess of 1.000 years of service in a school year
- There are restrictions in how the employee spends the compensation, or is required to document how it was spent

As a result, the following compensation is creditable to the DB Program:

- Regular base pay
- Management differential (if the member receives release time to perform the management functions)
- Leave balance usage (while the person is employed, not for unused leave at the time of termination)
- Auto allowance

A number of other forms of compensation are creditable to CalSTRS, but are credited to the Defined Benefit Supplement Program (and not the DB Program), a cash balance program whose benefits are measured by the contributions and associated interest credited to those contributions, and are not based on age, final compensation or amount of service. Compensation creditable to DBS include

- Overtime hours
- Management differential (if paid for work in excess of a normal contract)
- Compensation that is payable in cash to everyone in the same class of employees for the performance of creditable service that meets one or more of the criteria noted above

The remaining compensation listed is not typically paid to DB Program members.

The reason why auto allowances became creditable was to prevent spiking. What happened in the past was that administrators were paid auto allowances during their career and, because that compensation was not creditable, no contributions were paid on it. Toward the end of the career, the auto allowance was converted to creditable salary and contributions began being paid. The resulting increase in final compensation resulted in a lifetime benefit increase that was well in excess of the value of the contributions paid for that limited period of time. By including auto allowances as creditable compensation, there was probably little increase in benefits (because that compensation would have been restructured to make it creditable anyway), but the resulting contributions were more consistent with the value of benefit.

A major tool used by CalSTRS is the school district audit, combined with the provision of law that permits the Board to determine whether particular compensation is being paid for the principal purpose of enhancing the DB benefit. That presumption can only be reversed upon receipt of sufficient evidence to the contrary. By auditing school districts, CalSTRS identifies circumstances in which the employer reported compensation that appears to CalSTRS to be spiking. CalSTRS can require the reporting be reversed to instead credit the specific compensation to the DBS Program, reduce the DB benefit, and require repayment of the overpaid benefit.

Other issues raised by the list

- Bargain purchase of service years. The cost of purchasing service credit is based on the impact of that service credit on the member's DB benefit as of the date of purchase, based on the member's current age and highest compensation in the past three years, even if the service was performed years before at a younger age, lower salary and/or lower benefits
- Reinstatement of service. Retired members may reinstate to active service and receive a new benefit based on plan provisions at the time of the second retirement, if the member works the equivalent of two full years after reinstatement.
- Retire with one employer with a CalPERS plan and work for a different plan. This provision does not apply to CalSTRS.
- Opt out of employer-provided health insurance and go on spouse's plan in final year. If this restructuring was done in the final year, and was not continued to the replacement person, CalSTRS would likely characterize the change as being paid for the principal purpose of enhancing the DB benefit, and therefore, the compensation would be credited to the DBS Program, and not the DB program, and therefore would not affect final compensation.
- End of career promotions for upper management positions. If the member is promoted to a legitimate position with a salary that is consistent with salaries paid before and after that member assumed the position, then it would be creditable for purposes of final compensation. If a position or compensation was established for the member, and was not continued after the member retired, then CalSTRS could determine that the compensation was paid for the principal purpose of enhancing the DB benefit and credit the compensation to the DBS Program, and not have it count toward final compensation.

Appendix D

Overview of Retirement Commissions/Panels in Other States

Overview of Retirement Commissions/Panels in Other States

As additional context for the Commission's discussion on the idea of a state-level advisory actuarial panel, this appendix item provides an overview of various state retirement commissions and their duties. Each commission profile provides a small introduction to the commission, the composition of the commission, the commission's duties, and their website.

Minnesota Legislative Commission on Pensions and Retirement

The Minnesota Legislative Commission on Pensions and Retirement was originally established as an interim commission, but was established as a permanent entity in 1967. The Commission currently exists as a joint agency of the Minnesota Legislature. The Commission's main functions include: conducting research, providing legislative oversight, and arranging for the preparation of reports and actuarial valuations.

Composition

- Five members of the House of Representatives and five members of the Senate:
  - o The House members of the Commission are appointed by the Speaker of the House.
  - o The Senate members of the Commission are appointed by the subcommittee on Committees of the Senate Rules Committee.
- Permanent staff of 3 positions.
- The Commission retains a consulting actuarial firm for the performance of regular actuarial valuations and related actuarial work.

Function

- Reviews and makes recommendations on pending proposed public pension legislation.
- Conducts ongoing research on pension policy issues.
- Provides legislative oversight for Minnesota's system of over 700 public employee pension plans.
- Arranges for the preparation of regular actuarial valuations and periodic experience studies of the statewide and major local public pension plans.
- Assesses the sufficiency of current public pension plan funding and recommends required modifications.

Website: http://www.lcpr.leg.mn/lcprmain.htm

Georgia Public Retirement Systems Standards Law

The Georgia Public Retirement Systems Standards Law was implemented in 1983. Although not a formal commission or board, the law establishes funding standards for Georgia pension plans and places additional requirements on any legislative proposal with pension impacts.

Function

- Retirement bills with a fiscal impact can only be introduced in the first legislative session after an election and can only be approved in the second year.

- After the actuarial review, no amendments that increase the cost can be made.
- If no specific provision is made to fund the legislation the bill is automatically repealed.
- Requires the state must maintain minimum funding standards for its pension plans and each year must contribute the pension plan's normal cost plus the amount needed to amortize the unfunded liability.

Oklahoma State Pension Commission

The Oklahoma State Pension Commission was established by statute in 1988. The commission is required to hold regular meetings at least once each quarter. The Commission's main functions include: providing guidance and recommendations on pension issues, and publishing performance reports and actuarial valuations.

<u>Composition</u>

- Three permanent members by position, four appointees, and one administrator:
  - Permanent members:
    - Oklahoma State Treasurer – *Chair*;
    - Oklahoma State Auditor & Inspector;
    - Director, Department of Central Services.
- One or more pension fund management consultants hired to assist the Commission in accomplishing its objectives.
- Administrative support for the Commission is provided by the State Auditor and Inspector.
- New England Pension Consultants is employed as the consultant to the Commission.

<u>Function</u>

- Provides guidance to public officials, legislators, and administrators in:
  - Developing public retirement objectives and principles;
  - Identifying problems and areas of abuse;
  - Projecting costs of existing systems and modifications to those systems; and
  - Recommending pension reform programs.
- Publishes on a quarterly basis a performance report analyzing the performance of each of the above state retirement systems on an individual and consolidated basis. The reports contain:
  - Combined and individual rates of return of the investment managers by category of investment, over periods of time;
  - Comparison with similar data for a larger population of investment managers by asset class as well as by style of management; and
  - An analysis of the performance of the custodian bank or trust company of the System including a specific review of the adequacy of the collateralization of the short–term interest–bearing investment vehicles placed by the custodian.
- Publishes an annual comparative performance report containing:
  - On an individual and consolidated basis, an analysis of the written investment plans developed by each retirement system as required by law;
  - A qualitative and quantitative analysis of the performance of the custodian employed by each governing body of the retirement systems; and

- The results of the above analyses are compared with similar data for a larger population.

- Publishes a report of the most recent actuarial valuation including total assets, total liabilities, unfunded liability or over funded status, contributions and any other information deemed relevant by the Commission.
- Makes recommendations on administrative and legislative changes which are necessary to improve the performance of the retirement systems.

Website: http://www.state.ok.us/~ok-pension/

Texas Pension Review Board

The Texas Pension Review Board was established by statute in 1979. The Board's main functions include: conducting reviews of current public retirement systems and possible issues, providing information and technical assistance, making pension systems recommendations, and examining legislation and providing actuarial reviews.

Composition

- Nine members:
  - The Governor, with the advice and consent of the Senate, appoints seven members
  - The Lieutenant Governor appoints one Senator to the Board and the Speaker of the House appoints one Representative.
- Eight person supporting staff for the Pension Review Board
  - Executive Director, Executive Assistant, Program Specialist, Program Specialist, Program Specialist, Program Specialist, Program Specialist, Accountant, Administrative Assistant.

Function

- Conducts a continuing review of all public retirement systems within the state, compiling and comparing information about benefit structures, financing, and administration of systems;
- Conducts intensive studies of existing or potential problems that weaken the actuarial soundness of public retirement systems;
- Provides information and technical assistance to public retirement systems, their members, the political entities which sponsor them, and the public;
- Recommends policies, practices, and legislation to public retirement systems and their sponsoring governments;
- Examines all legislation for potential effect on Texas' public retirement systems, overseeing the actuarial analysis process, and providing actuarial review when required by law;
  - Administers the registration and reporting requirements under Chapter 802, Government Code; and
  - Reports Board activities to the Governor and Legislature in November of each even-numbered year.

Website: http://www.prb.state.tx.us/

Ohio Retirement Study Council

The Ohio Retirement Study Council was established in 1968. The Council is required to hold monthly meetings. The Council's main functions include: advising the state legislature about the various public retirement systems, providing legislative oversight, and performing statutory duties which include reports on different retirement issues, reviews of retirement policies and financial issues, and assorted actuarial valuations.

<u>Composition</u>

- Fourteen members:
  - Three members appointed by the Governor:
    - One representing the state;
    - Another representing local governments;
    - The third representing public education institutions.
  - Three members of the House appointed by the Speaker;
  - Three members of the Senate appointed by the President;
  - Five executive directors of the state retirement systems, who are nonvoting members.
- The Council is supported by four staff members: a Director, an Executive Assistant for Payroll, a Staff Attorney, and a Research Attorney.
- The law stipulates that no more than two of the three House members, Senate members, or gubernatorial appointees may be of the same political party.
- The Council retains a consulting actuarial firm, Milliman USA.
- The Council also retains a consulting firm, William M. Mercer Company.

<u>Function</u>

- Advises and informs the state legislature on all matters relating to the benefits, funding, investment, and administration of the five statewide retirement systems in Ohio:
  - The Public Employees Retirement System, covering all state and local government workers
  - The State Teachers Retirement System, covering teachers at public schools, colleges, and universities
  - The School Employees Retirement System, covering non-teaching school employees
  - The Police and Fire Pension Fund, covering full-time police officers and firefighters
  - The State Highway Patrol Retirement System, covering state troopers
- Provides legislative oversight with respect to the Ohio Public Safety Officers Death Benefit Fund, a state-funded program providing death benefits to the survivors of law enforcement and public safety officers killed in the line of duty, and the Volunteer Fire Fighters' Dependents Fund, a program providing benefits to disabled volunteer firefighters and their survivors.
- Performs the following statutory duties:
  - Makes an impartial review on a periodic basis of all laws governing the public retirement systems and makes recommendations to the legislature on any changes related to benefits, sound financing of benefit costs, and prudent investment of funds;
  - Reports to the governor and legislature on its evaluation and recommendations with respect to the operations of the public retirement systems and their funds;

- Studies all proposed changes to the public retirement laws and reports to the legislature on their probable costs, actuarial implications and desirability as a matter of sound public policy;
- Reviews semiannually the policies, objectives, and criteria of the systems' investment programs;
- Has prepared, at least once every ten years, an independent actuarial review of the annual actuarial valuations and 5-year actuarial investigations prepared by each system;
- Has conducted a fiduciary performance audit of each system at least once every ten years;
- Provides each Council member with copies of all proposed rules submitted by the retirement systems and submits any recommendations to the Joint Committee on Agency Rule Review;
- Reviews the police and fire contribution rates and makes recommendations to the legislature that it finds necessary for the proper financing of OP&F benefits; and
- Prepares an independent actuarial study every three years on the required employer supplemental contribution to be made on behalf of academic and administrative employees of higher education electing an alternative retirement plan.

Website: http://www.orsc.org/

Appendix E

Summary of Economic Impact Reports from CalPERS, CalSTRS, and SACRS

Economic Impacts of California Public Pensions

Public retirement systems have many economic impacts such as stimulating business through investment and balancing the national trade deficit by increasing U.S. investment capital sent abroad. This section summarizes recent studies by the Applied Research Center at California State University, Sacramento on the economic benefits of CalPERS, STRS, and the member funds that comprise the State Association of County Retirement Systems (SACRS). These studies focused on the economic impacts that result as retirees spend their benefit payments in their communities. Key findings from the study include:

- Pension benefit payments to retired public employees increase consumer purchasing power, creating jobs and stimulating local economies throughout the state.
- Increased economic activity resulting from benefit payments generates revenue for the state, city, county and other local governments through taxation and fees.

The reports use two measures of economic activity to describe a "ripple effect" as pension system payments circulate through the economy. Payout checks for pension, dependent, survivor and disability payouts are converted into increased consumer purchase power causing the ripple effect. Measurements of the economic ripple effect are described below.

> ***Total Impact*** – as defined in this study, is the total of 1) payment of retirement benefits to retirees; 2) spending at businesses and government agencies for goods and services; and 3) spending that occurs when employees of businesses and government agencies spend at other businesses. This is very similar to *total output*.
>
> ***Value Added*** – an estimate of California productivity that measures the creation of new value in the California economy. It excludes the costs of purchased materials and services, but includes profits, capital costs, worker compensation, and other aspects of the productive activity.

Following are highlights of the findings from each study conducted for CalPERS, CalSTRS and SACRS. All findings are based on 2006 data.

The Annual Economic Impacts of CalPERS Benefit Payments[1]

CalPERS benefit payments in California totaled $7.737 billion in 2006. These benefit payments produced the following impacts:

- $11.839 billion in *total impact* (ripple effect on business and government revenues as spending from those benefit checks works its way through the economy) on the California economy.
- 78,107 jobs supported by this activity, with total compensation of around $2.71 billion.
- $5.77 billion in *value added* to California's economy.
  - Larger than the combined annual economic activities of livestock, poultry and field crop industries.
  - More than similar impacts from airline, apparel or oil and gas industries in 2005.
- $779 million per year returns in new state and local revenues as a result of CalPERS retirement income payments in California.

The Annual Economic Impacts of CalSTRS Benefit Payments[2]

CalSTRS benefit payments in California totaled $6.029 billion in 2006. This money went on to produce a ripple effect as it circulated and re-circulated through the California economy. It produced the following:

- $9.225 billion in *total impact* on the California economy.
- 60,867 jobs supported by this activity, with $2.112 billion in wages and compensation from this activity.
- $4.49 billion in *value added* to California's economy – a larger impact than from the furniture or gas and oil extraction industries in 2005.
- $607 million in new revenue for state and local governments as a result of CalSTRS benefit income payments in California.

The Economic Impacts on California and Counties of SACRS Members' Benefit Payments[3]

The study reviewed aggregate benefit payments from the member funds that comprise the State Association of County Retirement Systems (SACRS). In 2006, collective benefit payments in California totaled $3.462 billion. The impact of these payments include:

- $5.298 billion in *total impact* on the California economy.
- 34,951 jobs supported by this activity, with $1.213 billion in wages and compensation from this activity.
- $2.58 billion in *value added* to the California's economy.
- $349 million in new revenues for state and local governments as a result of SACRS' member funds' retiree benefits payments in California.

Summary of Economic Impacts of California Public Pensions

Agency	Total Payouts	Value Added	Total Impact	Jobs Supported	Wages Paid
CalPERS	$7.737 bn	$5.77 bn	$11.839 bn	78,107	$2.71 bn
CalSTRS	$6.029 bn	$4.49 bn	$9.226 bn	60,867	$2.112 bn
SACRS	$3.462 bn	$2.58 bn	$5.298 bn	34,951	$1.213 bn

[1] *The Annual Economic Impacts of CalPERS Benefit Payments*, Robert Fountain and Bob Waste, Applied Research Center, California State University, Sacramento, April 2007.
http://www.calpers.ca.gov/eip-docs/about/press/news/economic-engine/calpers-economic-impacts.pdf

[2] *The Annual Economic Impacts of CalSTRS Benefit Payments*, Robert Fountain and Bob Waste, Applied Research Center, California State University, Sacramento, April 2007.
http://www.calstrs.com/Newsroom/What%27s%20New/EconomicImpact.aspx

[3] *The Economic Impacts on California and Counties of SACRS Members' Benefit Payments*, Robert Fountain and Bob Waste, Applied Research Center, California State University, Sacramento, September 2007.