UAPD
FOUNDED 1972

UNION OF AMERICAN PHYSICIANS AND DENTISTS
AFFILIATED WITH AFSCME, AFL-CIO

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UAPD PEPRA PROPOSAL BACKGROUND

In late 2012 the State Legislature passed the Public Employees Pension Reform Act (PEPRA). PEPRA made many changes, but by far the most damaging one for UAPD members was the introduction of a cap on pensionable salary. Because of the cap, those who are defined as "new" employees under CalPERS (those hired after January 1, 2013 without recent CalPERS membership) will receive a pension based on only a portion their income rather than their full salary. The cap is adjusted for inflation annually. It started off at $113,070 and for 2016 it is $117,020. We've calculated that, on average, BU 16 employees who are considered "new" employees under PEPRA will lose about 45% of their CalPERS pension benefits as a result of the cap on pensionable salary. That's from the cap alone, not taking into account the reduced multiplier and higher age requirement these doctors also have.

For high wage employees, the one silver lining to PEPRA was that the pensionable salary cap applied only to defined <u>benefit</u> plans like CalPERS. The law was written in a way that allows employers to create defined <u>contribution</u> plans, the 401k style plans, to offset the losses described above. If you look at the language of PEPRA, they go into some detail about the amount of money the employer is allowed to contribute to defined contribution plans for employees subject to the cap on pensionable salary.

From the union's standpoint, it made sense for us to ask employers to contribute to defined contribution plans for "new" employees affected by the PEPRA cap. But after PEPRA was implemented, UAPD discovered that employers were still obligated to make their CalPERS *employer* contributions based on employees' full salaries, not the capped amount. In other words, the PEPRA salary cap had created no savings for public employers, just extra money for CalPERS, which was collecting the same amount in employer contributions but providing significantly reduced pension benefits for these employees. For the union, this meant there was no money that employers could consider redirecting to a new defined contribution plan for employees affected by the law. UAPD decided to use our legislative and lobbying department to try to compel CalPERS to stop overcharging public employers.

CHANGING THE LAW

UAPD and AFSCME worked with Senator Jim Beall's office to craft language that would require that CalPERS base the employer contribution on the pensionable salary amount rather than the full salary. SB 13, which contained that language, was passed at the end of 2013 and in went into effect January 1, 2014. The new language in California Government Code Section 7522.10 states:

> (h) The retirement system shall limit the pensionable compensation used to calculate the contributions required of an <u>employer</u> or a new member to the amount of compensation that would be used for calculating a defined benefit as set forth in subdivision (c) or (d).

In the above, (c) and (d) refer to the language that created the cap on pensionable compensation.

Several months of follow up were necessary to make sure CalPERS implemented the change and did so in a way that the savings to employers were transparent in the system that employers use to track their contributions. The CalPERS website now states:

> As a result of changes to my|CalPERS, employers no longer contribute on earnings in excess of the Internal Revenue Code section 401(a)(17) limit for classic members, nor do they contribute on earnings in excess of the pensionable compensation limit set forth in PEPRA for new members. Further information is provided in Circular Letter 200-007-14 (PDF). (https://www.calpers.ca.gov/page/employers/policies-and-procedures/pension-reform-impacts)

By our calculations, the State of California will save $7.5 million in payments to CalPERS in 2017-2017 as a direct result of the legislation that UAPD helped pass (employer contribution rate of 25.068%, 300 people, on an average of $97,000 of earnings above the cap). That number reflects the savings on "new" employees under PEPRA only. It does not take into account the fact that, in the process of implementing the PEPRA change, CalPERS stopped the employer contributions on salary above the IRS cap as well, creating additional savings for the State.

WHY THE STATE SHOULD USE THIS SAVINGS TO CLOSE THE GAP CREATED BY THE CAP

Public sector agencies do not pay salaries as high as private sector employers do, and/or the work is performed under challenging circumstances. Offering attractive retirement benefits is one way that employers have historically enticed doctors into public sector work. The PEPRA salary cap has taken away the State's main competitive advantage in recruitment.

By contributing to a defined contribution plan for those affected by the cap, the State can once again provide *complete* retirement benefits for doctors. This would be a big selling point as it tries to recruit new doctors. The State would regain its competitive advantage over private sector employers, and compete well against public employers that have not yet made this change to their retirement offerings.

The change would be cost neutral, since it is entirely funded by the savings created by UAPD's efforts to pass SB 13.

UAPD CONCEPTUAL PROPOSAL

For all UAPD-represented employees affected by the PEPRA salary cap, we believe the State should contribute to a defined contribution plan an amount equal to what would have been contributed to CalPERS had the employee not been subject to the cap.