

Alternative B

January 3rd, 2011 [Leave a comment](#) [Go to comments](#)

The Fair and Sustainable Public Pension System

1. Freeze all current defined benefits (DB) plans at all state and local government agencies. Amend the California Constitution to declare the level of unfunded liabilities in current db plans a fiscal emergency and suspend further accruals to plans under 90% funded until they demonstrate they have maintained their funding levels above 100% for three consecutive years using asset market values and conservative actuarial assumptions (5% liability discount rate, 6% earnings assumption). After three years above 100% funding, the governing board of the jurisdiction may place the question of re-opening the current plans before their voters on a statewide general election ballot subject to a majority vote of the affected jurisdiction. The freezing and re-opening of plans shall be excluded from collective bargaining.
2. Uniform future benefits for current state and local employees. All state and local government employees currently covered by defined benefit plans would earn defined benefits at 1.25%@65 until their current plans is unfrozen, except that peace officers and firefighters would earn 1.6%@55. All state and local government employees would also have access to a defined contribution plan that provides a one to one match up to 5% of salary. All benefits earned by current employees prior to July 1, 2012 shall be paid as earned. Employees within one year of their early retirement date or older may earn one additional year of service under their current plan.
3. Uniform benefits for new state and local employees. All new state and local government employees would have access to a defined contribution plan that provides a one to one match up to 5% of salary. Employees not covered by Social Security would receive a 1.25%@65 defined benefit plan, with peace officers and firefighters earning a 1.6%@55 plan.
4. New conditions on all defined benefit plans
 - a) The full normal cost shall be paid equally by employer and employee every year
 - b) The employer may not pick up the employee's share of normal cost
 - c) Retroactive benefits shall not be granted
 - d) No additional benefits beyond those earned by service may be purchased
 - e) Each year, every retirement plan shall publicly release its funding status using the market value of assets and conservative actuarial assumptions with any principal amount of pension obligation bonds sold after 2010 included as debt.
5. Additional conditions on new defined benefit plans
 - a) No benefit exceeding \$40,000 a year shall be paid – adjusted 2% annually
 - b) Benefits based on the highest three-year average of annual base pay — excluding additional compensation such as overtime, accrued sick leave, vacation pay, bonuses, severance payments and any other non-recurring compensation.
 - c) No benefit can be paid while receiving a salary from any state or local

government employer

d) Early retirement allowed starting at Social Security early retirement age or medical disability at an actuarially reduced rate.

e) Peace officers and firefighters may retire at age 50 at an actuarially reduced rate

6. Conditions on new defined contribution plans

a) The defined contribution plans must be administered by the current retirement systems or their contractors

b) Death and permanent disability benefits must be provided through insurance policies, self-insurance or joint powers authorities. Defined benefits plans may not be used for those purposes.

c) Death and permanent disability benefits must be integrated with federal, state, pension and insurance benefits.

d) Defined contribution assets could not be removed from the plan before Social Security early retirement age, except in the case of permanent disability. Peace officers and firefighters would be able to make withdrawals after age 50 should they take early retirement.

e) Employees and retirees must be allowed to buy annuities underwritten by third parties

f) Default investment option would be an age appropriate asset allocation

7. Retiree Health Coverage

a) No public employee hired on or after July 1, 2012 may receive lifetime or formulaic retirement medical benefits prior to age 65, except that peace officers and firefighters would be eligible at 55.

b) Public employees' medical benefits before retirement are not affected.

c) Any public agency offering retiree health care benefits must annually pre-pay the entire annual cost of the benefit, sharing the cost equally with the employee.

d) All public agencies with unfunded liabilities for retiree health care must establish a plan to fully fund the accrued benefits within 15 years.

8. Governance

a) Two-thirds of the members of a public pension plan's governing trustees shall be independent of that retirement system and serve 12 year terms.

b) Two-thirds of independent trustees shall have a minimum of 20 years experience in a financial, actuarial, accounting, legal, benefits or investment profession.

c) The Governor shall appoint the independent trustees for statewide retirement systems subject to Senate confirmation, and the Legislature shall determine the method of selection for other pension plans, except that the Board of Regents shall select the UC plan trustees.

d) Amend Constitutional protection of current boards composition