

Pension Reform Proposals

January 3rd, 2011

CFFR has drafted two alternative pension reform proposals and a set of reforms that work with both alternatives. A constitutional amendment would be necessary to enact these reforms, and they would apply to all public pension systems in California, including state and local governments, school and special districts, and universities. CFFR welcomes comments from the public and expert analysis, which will be made available here on CaliforniaPensionReform.com.

Alternative A

- Employees hired after July 1, 2013 shall be eligible for a Defined Contribution (DC) plan.
- Defined Benefits (DB) pension for new employees is capped at median state household income (\$56,344 in 2009).

To read **Alternative A**, [click here](#).

Alternative B

- A fiscal emergency is declared. State and local DB plans are frozen until fully funded.
- Current employees with DB plans would earn a pension equal to 1.25% of qualifying compensation (multiplied by years of service) after age 65.
- Peace officers and firefighters with DB plans would earn a pension equal to 1.6% of qualifying compensation (multiplied by years of service) after age 55.
- New public employees could join a DC plan that provides an employer-paid match up to 5% of salary.
- Employees not covered by social security would receive a DB plan with a pension equal to 1.25% of qualifying compensation (multiplied by years of service) after age 65.
- Peace officers and firefighters not covered by social security would receive a DB plan with a pension equal to 1.6% of qualifying compensation (multiplied by years of service) after age 55.
- No benefit exceeding \$40,000 per year shall be paid, adjusted 2% annually;
- No benefits paid while receiving a salary from a state or local government employer.

To read **Alternative B**, [click here](#).

Provisions Included in Both Alternatives

- Current and future employees pay half the cost of retirement benefits.
- Benefits are integrated with Social Security and other public retirement plans.
- DB benefits based on average of three years of qualifying compensation, which excludes overtime, sick, vacation, bonuses, and severance.
- No retroactive benefit increases.
- New employees may not receive lifetime medical benefits prior to age 65.
- Disability benefits to be provided by joint powers authority, self-insurance or

private companies.

- Public employers to provide competitive life insurance and disability benefits integrated with federal, state, pension and other insurance.
- Public employees may discontinue participation in their retirement plan and select a lower-cost option.
- Legislature and public employers must enact plans to fully fund public pension plans by January 1, 2020 without increasing taxes.
- Public employers are not required to increase plan contributions by more than incremental revenue growth until 2020.

Provisions Included in Neither Alternative

- Pension benefits for retirees are not changed.
- Medical benefits for current employees are not changed.
- Retirement benefits earned by current employees are not changed.