

**MEMO# 8604**

February 3, 1997

# **DRAFT CALPERS ALTERNATIVE BENEFIT PLANS REPORT**

February 3, 1997 TO: PENSION COMMITTEE No. 3-97 RE: DRAFT CalPERS ALTERNATIVE BENEFIT PLANS REPORT

Attached is a draft report to the Board of CalPERS (the California Public Employees' Retirement System) on alternative benefit plans for the CalPERS retirement programs. This report recommends possible modifications to existing programs as well as additional new programs. This report was prompted by recent criticisms of the CalPERS program and legislation introduced in the California legislature that would have created an optional portable retirement plan for certain State employees. Retirement Benefits for Part-Time and Non-Career Employees The report proposes creating a new benefit program for part-time employees who are currently statutorily excluded from the CalPERS defined benefit plan. Specifically, the report recommends that CalPERS design and implement a defined contribution plan to offer State, contracting public agencies and school employers an alternative plan for part-time employees. Portability Under CalPERS' current retirement program, certain participants have a ten year vesting schedule for employer contributions to the plan. In addition, employees who withdraw any employee contributions forfeit the entire employer-provided benefit. The report recommends that a study be performed to determine actual mobility patterns of CalPERS workers and possible deficiencies in portability of the defined benefit program. The report further recommends that any CalPERS plan should conform with ERISA private sector vesting requirements, including requirements that vested employer-provided benefits be nonforfeitable. Second Tier Members With regard to the Second Tier program, a noncontributory defined benefit program created in 1984, the report notes that participation levels have been low. As a result, the report urges consideration of alternative modifications to the program, including a hybrid retirement plan and a reduction of the vesting schedule from ten years to five. Mandated Social Security The report notes that all three alternatives offered by the Advisory Council on Social Security concerning the reform of Social Security included mandating Social Security participation by State and local government employees hired after 1997. CalPERS estimates that this requirement could cost California nearly \$3 billion and recommends that the CalPERS' Board continue to reaffirm its opposition to mandating Social Security coverage for state and local employees. We will keep you informed of any further developments. Kathryn A. Ricard Assistant Counsel - Pension Attachment (in .pdf format)

should not be considered a substitute for, legal advice.