POLICY NO.	023	**Issue No.**	~~2.0~~3.0
Committee:	Administrative	**Effective Date:**	~~01/07/2016~~
Policy Category:	Benefits	**Page(s)**	5

Approved.

By: ____________________________________
Chair~~man~~ of the Board

Subject: Adjustment to the Pensionable Compensation Limit Policy

---

ADJUSTMENT TO THE PENSIONABLE COMPENSATION LIMIT POLICY

I. Purpose

The purpose of this Policy is to establish a mechanism by which the pensionable compensation limit is adjusted each year for Tier 2 members pursuant to the California Public Employees' Pension Reform Act of 2013 (PEPRA), as amended by Senate Bill No. 13 (SB 13).

II. Background

PEPRA, as amended by SB 13, limits the pensionable compensation used to calculate the defined benefit paid to a Tier 2 member (membership dates on or after January 1, 2013) who retires from the system. The statute specifies the method for calculating the 2013 calendar year pensionable compensation limit (calculated at 120% of the federal ~~social~~ Social ~~security~~ Security limit for all members except those employed by the Law Library; limits for members employed by the Law Library are set at 100% of the Social Security Limit), and requires subsequent adjustments to the limit be based on the annual changes to the Consumer Price Index for All Urban Consumers: U.S. City Average (CPI-U), calculated by dividing the CPI-U for the month of September in the calendar year preceding the adjustment by the CPI-U for the month of September of the previous year, rounded to the nearest thousandth.

To encourage all California public retirement systems to use a uniform pensionable compensation limit, the California Actuarial Advisory Panel (CAAP) issued a non-binding calculation of the adjustment to the pensionable compensation limit for calendar year 2014, which is calculated pursuant to PEPRA, as amended by SB 13. CAAP also intends to provide the calculation adjustment to California public retirement systems, including SBCERA, in future years.

III. Guidelines

A. SBCERA will use the CAAP calculation to provide for a uniform adjustment to the pensionable compensation limit on an annual basis, based on the following:

i. SBCERA recognizes the CAAP is an advisory organization only; therefore, the Chief Executive Officer (CEO) ~~(~~or designee~~) [CEO]~~ is required to independently evaluate the CAAP calculation and concur with it.

ii. If the CEO or designee concurs with the CAAP calculation, the adjusted limit will be used, in compliance with PEPRA, as amended by SB 13. No Board action will be required to implement the CAAP derived limit.

iii. If the CEO or designee does not concur with the CAAP calculation, the CEO shall notify the Board, and recommend an appropriate limit for the Board's approval.

iv. The CEO or designee will report to the Board the CAAP calculated adjustment to the pensionable compensation limit on an annual basis, either by written communication or as an informational item at a Board meeting.

IV. Process Review

The Board shall review this Policy if CAAP no longer provides their annual adjustment letter to SBCERA to ensure that the policy remains relevant and appropriate.

STATE OF CALIFORNIA

California Actuarial Advisory Panel

November 26, 2013

RE: PEPRA Pension Compensation Limit (Code Section 7522.10)

To Whom It May Concern:

Pursuant to a request from a Public Agency, the California Actuarial Advisory Panel (the Panel) is publishing this letter to provide a calculation of the Pension Compensation Limits for the Calendar Year 2014.

Background:

Pursuant to Government Code Section 7507.2(b), the responsibilities of the Panel include "Replying to policy questions from public retirement systems in California" and "Providing comment upon request by public agencies". On November 5th, 2013, members of the Panel received a request from a public retirement system (the San Joaquin County Employees' Retirement Association) to compute and publish the annual compensation limit for 2014 prescribed by the California Public Employees' Pension Reform Act of 2013 (PEPRA), as amended by Senate Bill No. 13 (SB 13). This request was made to address a concern that minor calculation or rounding differences could result in different systems calculating slightly different pension compensation limits.

The Panel has agreed to calculate the dollar amounts of the pension compensation limits for 2014, as we believe that the use of a uniform compensation limit will provide administrative benefits to California's public retirement systems. However, as the Panel is an advisory body only (Government Code Section 7507.2(e) states that "The opinions of the California Actuarial Advisory Panel are nonbinding and advisory only"), the Panel encourages each system to independently review the calculation of the pension compensation limits contained in this letter.

Analysis:

SB 13 amended Section 7522.10 of the Government Code as follows:

> *7522.10. (a) On and after January 1, 2013, each public retirement system shall modify its plan or plans to comply with the requirements of this section for each public employer that participates in the system.*

State Controller's Office
Division of Accounting and Reporting
P.O. Box 942850, Sacramento, CA 94250
Phone: 916-327-4144 Fax: 916-323-4807

STATE OF CALIFORNIA

California Actuarial Advisory Panel

(b) Whenever pensionable compensation, as defined in Section 7522.34, is used in the calculation of a benefit, the pensionable compensation shall be subject to the limitations set forth in subdivision (c).
(c) The pensionable compensation used to calculate the defined benefit paid to a new member who retires from the system shall not exceed the following applicable percentage of the contribution and benefit base specified in Section 430(b) of Title 42 of the United States Code on January 1, 2013:

(1) One hundred percent for a member whose service is included in the federal system.

(2) One hundred twenty percent for a member whose service is not included in the federal system.

(d) (1) The retirement system shall adjust the pensionable compensation described in subdivision (c) based on the annual changes to the Consumer Price Index for All Urban Consumers: U.S. City Average, calculated by dividing the Consumer Price Index for All Urban Consumers: U.S. City Average, for the month of September in the calendar year preceding the adjustment by the Consumer Price Index for All Urban Consumers: U.S. City Average, for the month of September of the previous year rounded to the nearest thousandth. The adjustment shall be effective annually on January 1, beginning in 2014.

The maximum pensionable compensation specified under Section 430(b) of Title 42 of the United States Code for 2013 is \$113,700[1]. For public pension system members who are new members under PEPRA and whose service is included in the federal Social Security system, their compensation used to calculate a defined benefit and their member contributions are limited to this amount (\$113,700) during calendar year 2013. For new members whose service is not included in the federal system, the limit is 120% of this amount (\$136,440).

The Consumer Price Indices for All Urban Consumers (CPI-U) U.S. City Average for the months of September 2012 and 2013 are as follows[2]:

- September, 2013: 234.149
- September, 2012: 231.407

[1] http://www.ssa.gov/oact/cola/cbb.html
[2] http://data.bls.gov/timeseries/CUUR0000SA0

State Controller's Office
Division of Accounting and Reporting
P.O. Box 942850, Sacramento, CA 94250
Phone: 916-327-4144 Fax: 916-323-4807

STATE OF CALIFORNIA

California Actuarial Advisory Panel

The annual change, computed by dividing the 2013 Index by the 2012 Index, rounded to the nearest thousandth is as follows:

- $234.149 \div 231.407 = 1.012$

Applying this annual adjustment to the 2013 limits yields the following limits for calendar year 2014:

- $113,700 x 1.012 = $115,064 (included in federal system)
- $136,440 x 1.012 = $138,077 (not included in federal system)

Conclusion:

The calculations described above indicate the use of a compensation limit for new PEPRA members for Calendar Year 2014 of $115,064 for members participating in the federal system (7522.10(c)(1) limit) and $138,077 for members not participating in the federal system (7522.10(c)(2) limit). The Panel intends to provide similar calculations in future years. The contents of this letter are nonbinding and advisory only, and we encourage each public retirement system to independently evaluate these calculations.

Sincerely,

Alan Milligan

Alan Milligan, FSA, FCA, MAAA
Chair, California Actuarial Advisory Panel

cc: Panel members:
Paul Angelo, Vice Chair
John E. Bartel
Leslie Finertie
Harold A. Loeb
Rick Reed
Graham Schmidt

State Controller's Office
Division of Accounting and Reporting
P.O. Box 942850, Sacramento, CA 94250
Phone: 916-327-4144 Fax: 916-323-4807