



# BOARD OF RETIREMENT

## Staff Report

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**File #:** 19-1105.1

**Agenda Date:** 11/5/2020

**Agenda #:** 21.

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**FROM:** Barbara Hannah, Chief Counsel

**SUBJECT:** Benefits Policy No. 026 (Compensation Earnable and Pensionable Compensation Assessment).

**RECOMMENDATION:**

Approve updates to Benefits Policy No. 026 (Compensation Earnable and Pensionable Compensation Assessment).

**BACKGROUND:**

With the enactment of the Public Employees' Pension Reform Act (PEPRA), the Legislature effected significant changes and reforms for governmental plans in California. Included among these changes was a recognition that retirement boards have both the authority and obligation to review final average compensation of a member, which may include pay items intended to enhance a member's retirement benefit. Thus, effective January 1, 2013, Government Code section 31542 requires the Board to "establish a procedure for assessing and determining whether an element of compensation was paid to enhance a member's retirement benefit." Additionally, the Board is required by Government Code section 31461 and 7522.34 to determine what items of a member's compensation are included or excluded in the employee compensation upon which appropriate contribution rates should be applied and upon which retirement benefits are calculated.

The revisions to Benefits Policy No. 026 establish parameters for identifying and reviewing potential cases of enhancements to a member's benefits. These parameters will consider circumstances related to an increase in a member's compensation earnable or pensionable compensation in (or soon before) the member's one year or three year final compensation period. A small increase in compensation in the final average compensation period will be of less concern than a larger increase (i.e. 12.5% increase). When the compensation has been identified for review, SBCERA staff will assess whether an element of compensation appears to have been paid to enhance a member's retirement benefit. Along with the other factors outlined in Section 5 of the Policy, the Administrative Committee members recommended an additional factor of considering other facts relevant to the Board's determination to be used when assessing whether an item of compensation was paid to enhance a member's retirement.

If it is determined the compensation was paid to enhance a member's retirement benefit and such compensation should be excluded, then the member may appeal the determination in accordance with Benefits Policy No. 025, Requests and Appeals for Pension Benefits. However, if in the alternative, the compensation should be included, then staff will adjust the benefit to include the pay item.

In sum, the parameters outlined in the policy provide for consistency in the application of reviewing a

member's final average compensation, especially if any pay items have been paid to enhance the member's retirement benefit.

**COMMITTEE REVIEW:**

This item was reviewed by the Administrative Committee on October 15, 2020; the Committee voted 4-0 to recommend Board approval.

**BUDGET IMPACT:**

None.

**STRATEGIC PLANNING GOAL/OBJECTIVE:**

Operational Excellence & Efficiency

Prudent Fiscal Management

**STAFF CONTACT:**

Barbara Hannah

**ATTACHMENTS:**

Exhibit A: Proposed Benefits Policy No. 026 (Compensation Earnable and Pensionable Compensation Assessment) - Redline