FCERA

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Phillip Kapler
Retirement Administrator

DATE: January 15, 2014

TO: Trustees, Board of Retirement

FROM: Phillip Kapler
Retirement Administrator

SUBJECT: 2014 PEPRA Compensation Limit

The California Public Employees' Pension Reform Act of 2013 (PEPRA), as amended by Senate Bill No. 13 (SB 13), limits the compensation that can be used to calculate a retirement benefit and pension contributions for members subject to PEPRA.

The calculation of the limit is defined by Government Code Section 7622.10 as described in the attached letter prepared by the California Actuarial Advisory Panel (CAAP). At the request of the San Joaquin County Employees' Retirement Association, CAAP prepared the attached 2014 PEPRA Compensation Limit. FCERA staff and its actuaries, The Segal Company, have reviewed the calculation and agree that it is prepared in compliance with the law.

As a result, I recommend that your Board adopt the following compensation limits for Calendar Year 2014.

- $115,064 – employer participates in federal system (Social Security)
- $136,440 – employer does not participate in federal system (Social Security)

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From: Yeung, Andy [AYeung@segalco.com]
Sent: Tuesday, December 03, 2013 1:31 PM
To: Van Wyk, Becky
Cc: Kapler, Phil; Miller, Molly
Subject: FCERA: California Actuarial Advisory Panel (CAAP) - 2014 PEPRA Compensation Limit

Attachments: 2014 PEPRA Comp Limit.pdf
Becky,

This is just an FYI.

We have a letter from the CAAP that documents their calculation of the 2014 PEPRA Compensation Limits. We agree with the approach used by the CAAP and the resulting compensation limit (which also matches the calculation done by LACERA).

Please let us know if you need further information.

Thanks,

Andy

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.*

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> *(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

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 ÷ 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

RR

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

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