STATE OF CALIFORNIA

California Actuarial Advisory Panel

November 7, 2014

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 2015.

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". In 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 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 agreed to calculate the dollar amounts of the pension compensation limits for 2014 and future years, 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.

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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.*
> *(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 annual compensation pensionable compensation limit computed by the Panel for 2014 was $115,064 for those included in the federal Social Security system and $138,077 for those not included.)

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The Consumer Price Indices for All Urban Consumers (CPI-U) U.S. City Average for the months of September 2013 and 2014 are as follows[1]:

- September, 2014: 238.031
- September, 2013: 234.149

The annual change, computed by dividing the 2014 Index by the 2013 Index, rounded to the nearest thousandth is as follows:

- 238.031 ÷ 234.149 = 1.017

Applying this annual adjustment to the 2014 limits yields the following limits for calendar year 2015:

- $115,064 x 1.017 = $117,020 (included in federal system)
- $138,077 x 1.017 = $140,424 (not included in federal system)

The indexation of the maximum compensation to be used by CalSTRS using the February CPI-U, based on AB 1381 passed by the legislature in 2013, is not addressed in this letter.

[1] http://data.bls.gov/timeseries/CUUR0000SA0

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Conclusion:

The calculations described above indicate the use of a compensation limit for new PEPRA members for Calendar Year 2015 of $117,020 for members participating in the federal system (7522.10(c)(1) limit) and $140,424 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,

Leslie P Finertie

Leslie P. Finertie
Chair, California Actuarial Advisory Panel

cc: Panel members:
Paul Angelo, Vice Chair
Ian Altman
John E. Bartel
Harold A. Loeb
Alan Milligan
Rick Reed
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