

Summary of AB 340, the California Public Employee's
Pension Reform Act of 2013 and its Impact on EBMUD
Employees' Retirement System ("ERS")
Effective January 1, 2013

Reform Issue	AB 340	Impact on Current Members (hired on or before 12/31/12)	Impact on New Members (hired on or after 1/1/13)
1. Require Equal Sharing of Pension Costs	Requires new members to pay at least 50% of the normal, ongoing costs of pension benefits.	Does not apply.	Applies.
2. Places a cap on salary used to calculate the retirement benefit.	The amount of compensation that can be taken into account for calculating benefits is capped at the social security limit (i.e., currently \$110,100) or 120% of the wage base for a member who is not covered by social security.	Does not apply.	Applies.
3. New lower benefit formula.	For general (i.e., non-safety) members, the new law mandates a defined benefit formula equal to 2% at age 62 with actuarial reductions for earlier retirement and an increase to 2.5% at age 67.	Does not apply.	Applies.
4. Require Three-Year Final Compensation	The new rules require every defined benefit plan to provide for 36-consecutive month highest average compensation.	Does not apply.	Applies.
5. Replacement Benefits Program	If an employer currently does not sponsor a plan that makes up for benefits limited by IRC section 415, commonly called a section 415 replacement plan on Dec. 31, 2012, it cannot adopt one in the future.	Does not apply.	Applies.

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6. Calculate Benefits Based on Regular, Recurring Pay	New law provides changes to the definitions of compensation used to determine benefits to eliminate what has been perceived as an ability to increase compensation in the final year of service to “spike” the value of the member’s benefits. Many of the new prohibitions are directed to voluntary actions that have led to spiking of final year compensation. For example: conversion of in kind to cash payment; one time ad hoc payments; cash out of leave time; overtime pay; bonus on top of normal monthly rate of pay or base.	Does not apply.	Applies.
7. Rehired Retiree Restrictions	A retiree may not be rehired by EBMUD without reinstatement to the ERS except as specifically allowed under the new rules. These exceptions include rehires during an emergency to prevent stoppage of public business or because the person has skills necessary to perform work of limited duration. Any rehire must be limited to 960 hours or other equivalent in a fiscal or calendar year. Other restrictions apply.	Likely applies, however, requires further legal review.	Applies.
8. Felons Forfeit Pension Benefits	The new law includes provisions providing for a forfeiture of benefits under	Applies.	Applies.

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	the ERS upon the conviction of a member of certain felonies associated with their employment for or elected office with EBMUD.		
9. Prohibit Retroactive Benefit Increases	Prohibits applying pension improvements to prior service.	Applies.	Applies.
10. Prohibit Pension Holidays	Prohibits all employers from suspending employer and/or employee contributions necessary to fund annual pension costs. Contributions may not be less than the normal cost.	Applies.	Applies
11. Prohibit Purchase of Nonqualified Service	Prohibits the purchase of nonqualified service, or "airtime" for requests submitted on or after January 1, 2013. The new rules continue to allow service credit purchases for limited amounts of actual prior governmental service so long as requirements for "qualified" service credit under IRS Code section 415(n) are met.	Requires further legal review.	Applies.
12. New Funding Requirements	The new law requires that EBMUD's contributions, together with any employee contributions, for each year must not be less than the normal cost rate for the Retirement System. There are provisions regarding suspensions of contributions when the funding ration exceeds	Requires further legal review.	Applies.

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	120%, but there are conditions that may make it very difficult, if not impossible, for the suspension of contributions to apply.		
13. Health Benefit Vesting Restrictions.	The new rules prohibit EBMUD from providing a more advantageous health benefit vesting schedule to electeds, appointeds, civil-service exempt or otherwise non-represented managerial employees than what is provided to represented employees (or the majority of District employees) in related membership classifications.	Applies.	Applies.
14. Reciprocity	If an employee of a public sector employer is "subject to reciprocity", the employee can be treated as an existing member. In that case, the new hire is treated as if he or she was an existing member of the retirement system on December 31, 2012.	Does not apply.	Applies.