

Various Employee Compensation and Retirement Agenda Items Overview of LAO Recommendations and Updated Estimates

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- ☑ ***Figures Reflect Current Law, Not Recent Labor Agreements.*** We recommend the actions described on the following pages to modify the budget bill and related budget scoring concerning 2010-11 state employee pension and health care costs. The dollar figures listed reflect pension and health care contribution requirements adopted by the CalPERS Board of Administration under *current law*. The Legislature will have the opportunity to approve or reject the administration's recent collective bargaining agreements with various unions in legislation separate from the budget act. That legislation may amend existing appropriations, thereby increasing or decreasing budgeted costs, as appropriate.

- ☑ ***Technical Language Items Not in Conference (NIC).*** We recommend amending the budget bill to include two NIC items that allow for technical adjustments consistent with all versions of the budget now before the Conference Committee.

- ☑ ***Health and Pension Costs Add \$225 Million to 2010-11 Budget Problem.*** The state employee health and retirement-related costs listed in this handout add a net amount of \$225 million to the 2010-11 General Fund budget problem, compared to all three budget packages now before the Conference Committee.
 - The bulk of this \$225 million relates to a lower, updated estimate of federal funding under a part of the recent health care reform legislation. Higher pension costs add \$87 million, and higher-than-expected health premiums also add tens of millions of dollars to the budget problem.

General Government (II): Page 19/Issue 501 Health and Dental Benefits for Annuitants

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- Recommended Current Law State Contribution Estimate for 2010-11.** For Item 9650-001-0001, the estimated General Fund contribution for these benefits is the Assembly amount plus \$156.432 million, for a total of \$1.36 billion.

- Savings Able to Be Scored for 2009-10.** Based on lower-than-expected costs in 2009-10, the administration may be directed to score \$20 million of General Fund savings in current-year retiree health and dental benefit costs.

- Explanation.** The increased costs result largely from a much lower estimate than that included in the May Revision of 2010-11 benefits due to the temporary early retiree health reinsurance program—a component of the federal health care reform legislation. (In addition to providing some savings in this item, the health reinsurance program also reduces state employee health benefit costs.)

General Government (II): Page 20/Issue 401 Augmentation for Employee Compensation

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- Recommended Cost Estimates Under Current Law.** Item 9800 includes the funds necessary to augment departmental budgets for increased salary and benefit costs (excluding pension contributions) under current law and salary schedules. Estimated 2010-11 amounts are as follows:
 - **General Fund Costs (Item 9800-001-0001).** Assembly amount plus \$1.847 million, for a total of \$27.484 million.
 - **Other Funds' Costs (Items 9800-001-0494 and 9800-001-0988).** Assembly amounts plus \$6.074 million (special funds) and \$2.993 million (nongovernmental cost funds), for a total of \$57.581 million between these two items.

- Explanation.** Under current law and the various expired labor agreements, virtually no state employees are expected to receive salary increases in 2010-11. The costs in this budget item, therefore, consist mainly of increased state contributions to health, dental, and vision benefits under some prior state employee contracts, the provisions of which generally continue in effect until a new labor agreement is approved. The recent CalPERS board action to increase 2011 state employee health premiums by an average of 9.1 percent was somewhat higher than estimated in the *2010-11 Governor's Budget*.

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- 2010-11 State Pension Contribution Requirements Under Current Law.** Control Section 3.60 includes a listing of current-law 2010-11 state pension contribution rates (as a percentage of state employee salaries and wages). The figure below includes a listing of the 2010-11 rates recently adopted by the CalPERS board, which are recommended for inclusion in the budget bill:

Retirement Category	2009-10 Employer Contribution Rate ^a	2010-11 Employer Contribution Rate ^a	
		May Revision	Adopted by CalPERS (Recommended for Inclusion in Budget Bill)
Miscellaneous, First Tier	16.917%	17.500%	19.922%
Miscellaneous, Second Tier	16.737	17.400	19.622
State Industrial	17.251	17.600	18.183
State Safety	18.099	18.300	20.672
Peace Officer/Firefighter	25.848	26.400	28.887
Highway Patrol	28.438	29.200	32.625
Judges' Retirement System II	20.358	20.358	24.041

^a As percent of salaries and wages by state employee retirement category.

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Contribution to Public Employees' Retirement Benefits (Continued)**

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Summary of Non-Budget-Act Expenditures Resulting From This Action. Changes in expenditures resulting from any required increases in state pension contributions are scored as “non-budget-act” items. During the course of the fiscal year, the administration will augment departments’ budgets to cover these increased costs, as authorized by Control Section 3.60. Not including judges’ retirement costs, the recommended amendments to Control Section 3.60 listed on page 4 result in the following *net* changes in non-budget-act pension contribution expenses, compared to the May Revision:

Non-Budget-Act Expenditure Item	May Revision	Revised Amounts Based on CalPERS Board Action	Net Increases
Net Control Section 3.60 rate adjustments to departmental budgets	\$390 million (\$129.56 million General Fund)	\$481 million (\$274 million General Fund)	\$91 million (\$144.44 million General Fund)
Deferred payment of fourth-quarter 2009-10 CalPERS contributions	447.21 million General Fund	447.21 million General Fund	—
Deferral of fourth-quarter 2010-11 CalPERS contributions	-479.6 million General Fund	-537 million General Fund	-57.4 million General Fund
Total Non-Budget Act Net Adjustments for Pension Rate Increase	\$357.61 million (\$97.17 million General Fund)	\$391.21 million (\$184.21 million General Fund)	\$33.6 million (\$87.04 million General Fund)

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- Recommend Additional Language Related to Future MOUs.*** To provide flexibility to the executive branch in administering pension provisions of future MOUs adopted both by the Legislature and rank-and-file bargaining units, we recommend that the following language be added to Control Section 3.60:

SEC. 3.60 (d). In the event that a memorandum of understanding goes into effect pursuant to the Ralph C. Dills Act (Chapter 10.3 [commencing with Section 3512] of Division 4 of Title 1 of the Government Code) and that memorandum of understanding contains an increase in state employee retirement contributions, the Director of Finance shall reduce the percentage levels of the employers' retirement contributions listed in subdivision (a) of this section by the directly comparable amount necessary to reflect the increased contributions of the employees. The Director of Finance also may reduce the percentage level of the employers' retirement contributions listed in subdivision (a) related to nonrepresented employees based on increases in nonrepresented employees' retirement contributions that are adopted to make these contributions consistent with those of related classifications and groups of represented employees, provided that such changes in retirement contributions related to nonrepresented employees may affect only nonrepresented employees for which the administration has existing authority to adjust salaries or benefits. The Director of Finance shall notify the State Controller's Office via Executive Order of these reductions in employers' retirement contributions, provided that the reductions in employers' retirement contributions referenced in this subdivision and in the Executive Order shall not take effect unless the Board of Administration of the California Public Employees' Retirement System concurs with the reductions.

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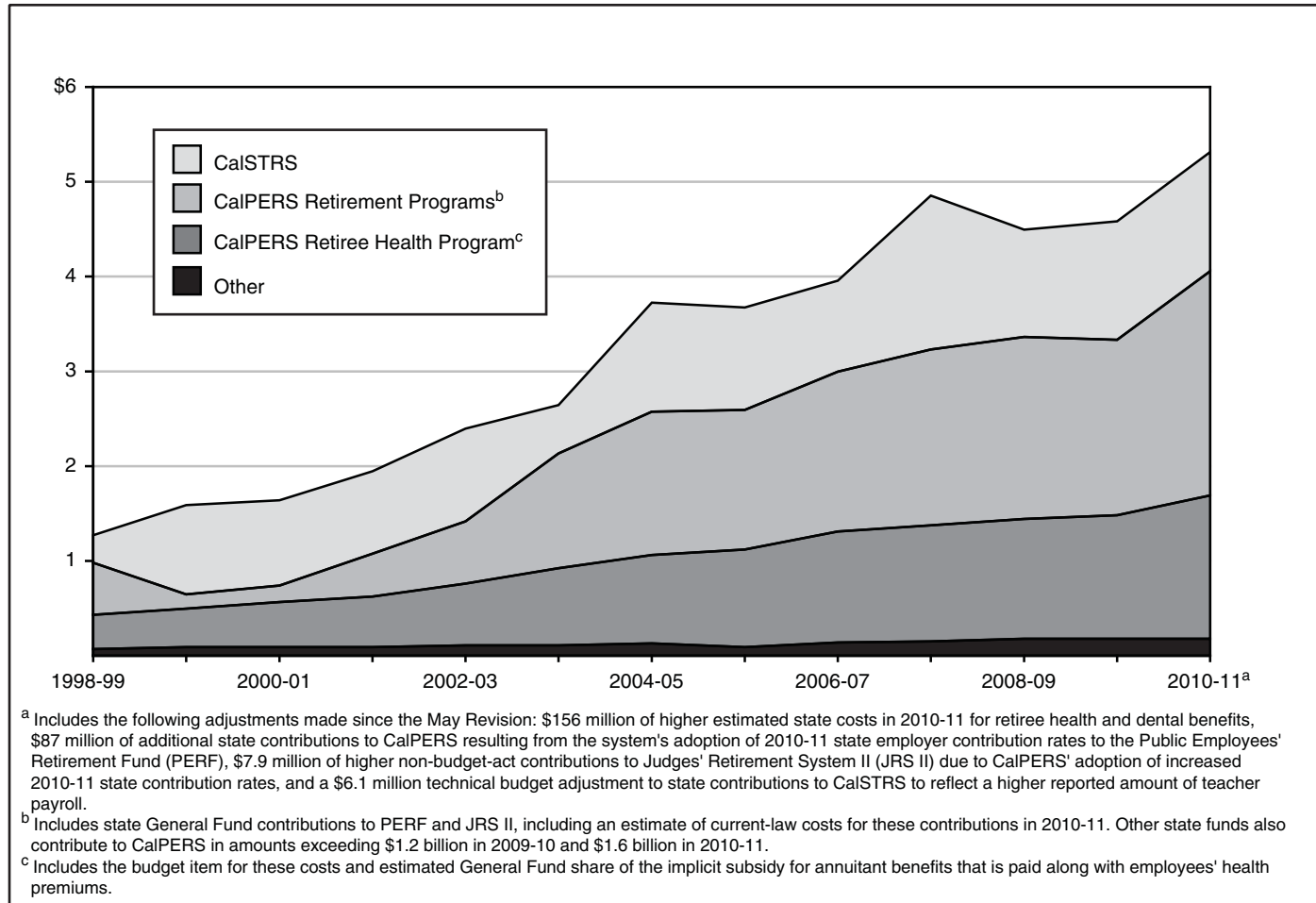
Background on State Pension Contribution Trends. We estimate that the state pension contribution rates listed on page 4 will result in state pension contributions of \$3.8 billion (\$2.1 billion General Fund) that are attributable to 2010-11. (The routine deferral of fourth-quarter payments to the subsequent fiscal year will result in a somewhat lower amount of costs reflected in the 2010-11 budget package itself.) Legislative action to approve proposed MOUs may lower state pension contributions below this level.

- **2010-11 Growth Due to Furloughs Ending and Increased Rates.** Data provided by CalPERS suggest that *actual* state pension contributions attributable to 2009-10 will total \$2.9 billion (\$1.6 billion General Fund). The vast majority of the substantial estimated growth in state pension contributions between 2009-10 and 2010-11 already was reflected in the Governor's budget and both houses' budget packages. This growth in contributions reflects an estimated (1) \$427 million (\$244 million General Fund) of technical budget adjustments due to the planned end of the state employee furlough program and (2) \$481 million (\$274 million General Fund) due to higher 2010-11 state contribution rates adopted by the CalPERS board. The higher 2010-11 contribution rates result primarily from poor investment returns in 2008 and demographic factors.

Trend of State Retirement Costs

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(General Fund, in Billions)



NIC Item Control Section 12.45

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- Technical Language Needed to Implement Ongoing One-Day Pay Delay.*** In order to allow the executive branch to implement the ongoing, one-day June-to-July payroll delay adopted as part of the 2009-10 budget package, we recommend adding a control section to the budget bill—similar to one included in the *2009-10 Budget Act*—to allow technical adjustments necessary to comply with this statute, as follows:

SEC. 12.45. The Director of Finance shall, for all agencies and departments paid through the Uniform State Payroll System, adjust as necessary any items to recognize the change in the accounting method for the payment of state employee salaries pursuant to Section 13302 of the Government Code.

This item is expected to be a recurring annual item in budget bills due to the ongoing effects of the 2009 statutory action.

NIC Item Administration of Federal Early Retiree Reinsurance Funds

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- Technical Language Needed to Ensure CalPERS Can Administer These Funds.*** To help ensure that CalPERS can administer budgeted federal early retiree reinsurance funds, we recommend amending Item 1900-001-0950 of the budget act to include the following additional provision:

Provision 5. Upon order of the Director of Finance, the amount available for expenditure in this item may be augmented by the amount of any resources available in the Contingency Reserve Fund that are in addition to the amount appropriated in this item and only for funds associated with the Patient Protection and Affordability Care Act of March 2010 that will be available on a limited term basis for the temporary Early Retiree Reinsurance Program. Any augmentation shall be authorized no sooner than 30 days after notification in writing to the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson or his or her designee may determine.