

Memo Regarding the Recent California State Supreme Court Decision

In late July, the California State Supreme Court issued its decision in a case generally referred to as the "Alameda Decision". The case combined several outstanding issues brought by various labor associations around the State regarding the inclusion of certain types of pay elements in the calculation of final average salary. Final average salary ultimately determines the size of a member's retirement benefit and, the larger the final average salary, the larger the retirement benefit. The issue at hand here is whether these pay elements should have been included in the calculation of final average salary at retirement for certain StanCERA members.

In the Alameda Decision, the Court said that any pay element associated with *on-call service* should not have been/be used in the calculation of final average salary and ultimately, the member's retirement benefit. This ruling may apply to current active members today and those that retired on or after January 1, 2013. It was on this date that the California Legislature enacted AB 197, which changed the definition of pensionable salary and was a companion to the PEPRA (Public Employee Pension Reform Act) legislation at the time.

As a result, we anticipate that at StanCERA's next Board Meeting on August 20th, staff will be recommending to the Board of Retirement, two changes that may affect retirement benefits being paid today and those that may be paid in the future to current members that have not yet retired.

Change to current retiree benefits

We estimate the number of retirees whose benefits will be affected by the Alameda Decision to be quite small. In fact, today we estimate that number to be less than 100. For the most part, retirement benefits being paid today to those affected retirees will decrease by an amount directly related to the percentage of on call pay elements used in the calculation of their final average salary. For example, if a retiree had 5% of their final average salary calculated using on-call pay elements, then they would experience roughly a 5% decrease in their future monthly benefit payment as well.

Change to future benefits for those not yet retired

For those StanCERA members that have yet to retire, any on-call pay element submitted to StanCERA today as pensionable salary and having associated employee contributions will no longer be allowed or taken. This means that final average salary used to calculate a retirement benefit or future estimate will no longer contain any on-call pay elements.

Please see our StanCERA agenda for August 20th to find more information. There you will find staff's agenda memo to the Board of Retirement on this matter.

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