PEPRA COMPENSATION LIMIT POLICY

I. PURPOSE

The purpose of this Policy is to implement provisions of the California Public Employees' Pension Reform Act (PEPRA) relating to member compensation in accordance with Government Code Sections 7522.10, 7522.32 and 7522.34. Pursuant to PEPRA, each public system shall modify its plan to comply the requirements in those sections.

Pensionable compensation used in the calculation of a benefit is subject to the limitations set forth in Government Code Section 7522.10. The California Actuarial Advisory Panel calculates the compensation limit for each year in accordance with the requirements of that section.

II. OBJECTIVES

The objectives of the MCERA PEPRA Compensation Limit Policy are to ensure:

A. The efficient and timely recording of pensionable compensation and contributions;

B. The PEPRA Compensation Limits are correctly applied in the calculation of benefits;

C. Benefits allowances subject to PEPRA are accurate, consistent, and reflect the provisions of the Plan and pension law; and

D. The costs of future benefits to be paid by the System are appropriately valued under MCERA's actuarial assumptions and valuation methods when determining the annual contribution requirements of the plan, and that the final average salary used in the calculation of benefits does not knowingly result in an actuarial loss.

III. POLICY GUIDELINES

This policy and guidelines only apply to new members hired after January 1, 2013, who are subject to the provision of PEPRA.

To ensure that a member's pensionable compensation does not exceed the statutory limitation, MCERA, in conjunction with our Plan Sponsors, will apply the PEPRA compensation limit on a per paycheck basis. Plan Sponsors will limit the compensation subject to pension contributions based each paycheck. The per check compensation limit is calculated by dividing the annual compensation limit for a given calendar year by the number of pay dates in the calendar year (24, 26 or 27 depending on pay cycles). For example, in most years an employer who pays biweekly will issue 26 paychecks. The annual PEPRA compensation limit would be divided by 26 to obtain the per check compensation cap. In the years where there are 27 pay dates, the annual compensation limit would be divided by 27 to obtain the per check compensation cap. An employer who pays semi-monthly, rather than biweekly, has 24 pay dates per year and the annual compensation limit would be divided by 24 to obtain the per check compensation limit. MCERA plan sponsors will calculate, report, and pay the pension contributions based on the per check cap.

The application of the limit on a per check basis distributes the recording of a member's pensionable income and contributions throughout the entire calendar year. The MCERA Board recognizes the inherent limitations in this approach but has determined the improvements in the reporting of wages, contributions and the computation of the final average salary outweigh the imperfections, as outlined below.

Wages that were not included in pensionable compensation due to application of the per check or annual cap are referred to as "restricted wages" for the purposes of this policy.

To address instances where:

- a member's pensionable wages and contributions are capped due to special pay or other event when the member's total annual compensation does not reach the annual PEPRA compensation limit; or

- a member, subject to the projected annual limit and the per check cap, experiences a reduction in pensionable wages such that the member's annual income no longer reaches the annual PEPRA compensation limit.

MCERA will notify the member of the restricted wages that could be included in the annual pensionable compensation up to the annual PEPRA compensation limit and provide the member the opportunity to pay the associated contributions to have those wages included in their pensionable compensation for purposes of calculation of benefits.

A member may pay the contributions that would have been due on the restricted compensation, along with the interest that would have accrued on the contributions had the funds been on deposit with the system, between the pay date and the date the contributions are paid. Contributions on restricted wages that do not exceed the annual cap can be paid each semi-annual period without incurring interest. All payments for contributions on restricted wages must occur prior to retirement. A member is not required to pay the contributions and may elect to use the capped wages in calculation of benefits.

If circumstances arise which results in a member paying contributions on wages that are subject to the annual PEPRA compensation limit, MCERA will refund the contributions to the plan sponsor for refund to the member, or will refund directly to the member, if the individual is no longer employed.

IV. POLICY REVIEW

This policy is subject to change at the Board' discretion. The Board will review this policy at least every three years to ensure that it remains relevant an appropriate and consistent with state and federal laws and regulations.

V. POLICY HISTORY

The Board adopted this policy on January 18, 2023.