San Diego County Taxpayers Association
Taxpayers watchdog since 1945
707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

Pension costs are increasing in most local cities and the total debt stands at approximately $800 million, according to a new SDCTA analysis

March 13, 2014

Eleven of 17 cities in San Diego County will see an increase in pension payments in the upcoming fiscal year.[1] The 17 cities have a combined pension debt of close to **$800 million** and annual costs per household as high as **$572**, according to a new analysis by the **San Diego County Taxpayers Association** (SDCTA).

The analysis in last year's report saw increased pension costs in 14 of the 17 cities. Despite the fact that three fewer cities will see pension payment increases in the upcoming year, this report shows that there are still significant upward pressures on pension costs for municipalities overall.

According to SDCTA's latest analysis, the cities that will see the largest increases in their pension costs in FY 2015, which begins this July, are:

- El Cajon: 10.28% increase
- La Mesa: 8.31% increase
- San Marcos: 6.94% increase

The cities that will see the largest decreases in pension costs are:

- Del Mar: 35.58% decline
- Escondido: 11.38% decline
- Santee: 6.92% decline

SDCTA found **Coronado** taxpayers will shoulder the largest burden of pension costs on a per-household basis this upcoming fiscal year. $572 will be paid on behalf of each household and each household is effectively responsible for $2,561 of the unfunded pension debt.

Each household will pay $572 toward pension costs this upcoming fiscal year and will be responsible for more than $2,561 of the unfunded pension debt. **Imperial Beach** has both the lowest pension costs and unfunded pension debt per household this year at $89 and $506, respectively.

This report is based on each city's FY 2011 and FY 2012 actuarial pension valuation, which outlines the costs paid in FY 2014 and costs to be paid in FY 2015.

Background
The 17 cities analyzed in this report are members of the **California Public Employees' Retirement System** (CalPERS), which recently released its annual pension valuations for the 2012 fiscal year. Those valuations dictate each city's pension payment for fiscal year 2015. SDCTA's analysis does not include the City of San Diego, whose employees are in a separate pension system. SDCTA has released a series of reports examining the region's government employee pension plans, focusing on the impact upon local governments' budgets. In 2009, SDCTA issued a study with formal recommendations on pension reform for the 17 incorporated cities enrolled in CalPERS. In 2013, SDCTA issued statewide pension reform recommendations.

SDCTA also developed a Pension Certification Program to educate public officials, civic leaders and members of the news media on the complex issues encompassing local government retirement benefits.

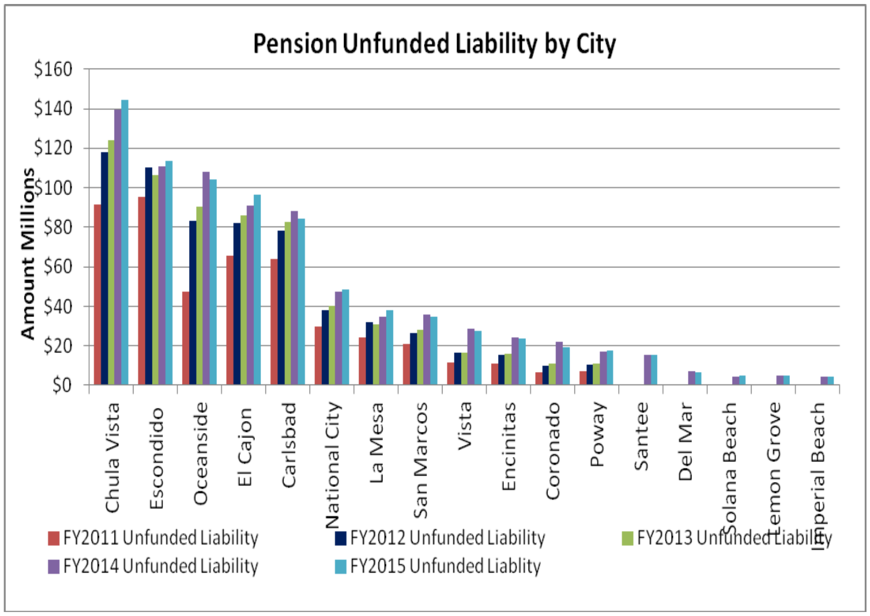
This annual report examines what taxpayers can expect their respective cities to pay in pension costs for the upcoming fiscal year. Despite many reforms implemented at the local level, including the elimination of pension cost subsidies and the introduction of lower-cost pension benefits for new employees, pension costs have still increased in eleven cities included in this study.

Cities have begun to implement reforms outlined under the California Public Employees' Pension Reform Act of 2013 (PEPRA). Cities in which labor agreements expired after the effective date of the law are required to implement reforms, which include mandating adoption of lower-cost pension benefits for new hires, requiring employees to share in pension costs and redefining what types of compensation are "pensionable."[2]

[1] This analysis of pension costs assumes each city utilizes the Annual Lump Sum Prepayment Option offered by CalPERS.

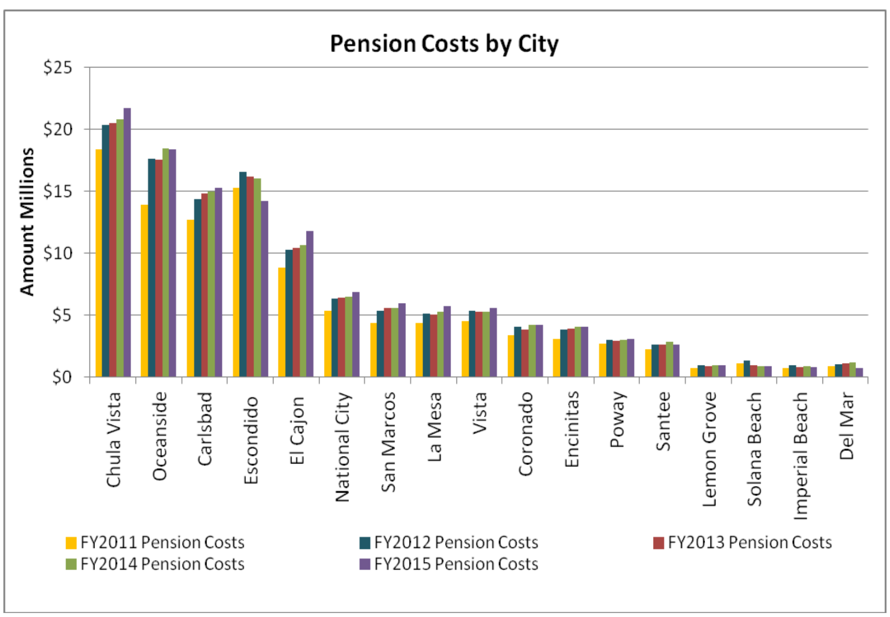
[2] Please refer to SDCTA Backgrounder: Review of California Public Employees' Pension Reform Act of 2013 for more information.

Some labor agreements that took effect prior to the implementation of PEPRA have yet to expire, but new employees hired after January 1, 2013 are required to comply with new standards. Carlsbad, Lemon Grove, Poway, and San Marcos are currently using retirement formulas that meet PEPRA standards and have Memorandums of Understanding (MOUs) that reflect these standards. Chula Vista, Coronado, Del Mar, El Cajon, Escondido, Imperial Beach, La Mesa, National City, Oceanside, Santee, Solana Beach, and Vista have confirmed implementation of PEPRA standards for new employees, but have some MOUs that have not included these standards or are in the process of negotiating new MOUs. Encinitas has not confirmed implementation of PEPRA standards, and has some MOUs that have not included these standards or are in the process of negotiating new MOUs.



In FY 2016, cities may see a decrease in their unfunded liabilities because CalPERS achieved a 16.2 percent rate of return on its investments in FY 2012.[3]

The life expectancy of state employees in CalPERS plans is also steadily increasing, which will increase pension costs by about $1.2 billion a year statewide.[4] CalPERS recently voted to change their funding assumptions to offset these increases, which will increase the rate for pension payments. These factors may increase the cost of pension contributions in the near future.



Findings:

Unfunded Liabilities by the Numbers

Some cities can expect to see an increase in pension costs for the upcoming fiscal year due to an increase in unfunded liabilities. An **unfunded liability** occurs when factors such as investments and employee costs do not match assumptions made by CalPERS to forecast costs. For example, if investment returns are lower than expected, or salary increases are greater than expected, an unfunded liability is created. The total amount of the unfunded liability is not paid all at once, but rather in annual payments set by CalPERS. Increases in the unfunded liability and the resulting increases in annual payments place greater pressure on municipal budgets that are already stressed.

While some cities have implemented significant reforms in an effort to reduce annual pension costs, actuarial assumption changes made by CalPERS have led to an increase in unfunded liabilities for cities for the upcoming year. Two years ago, CalPERS reduced its assumed rate of return from 7.75% to 7.5%. This decision changed the unfunded liability calculation for each city.

The total reported unfunded liability for the 17 cities combined is **$788 million**.

Between FY 2014 and FY 2015, the **City of La Mesa** held the highest increase in its reported unfunded liability at 9.65%, followed by **El Cajon** at 5.82% and **Solana Beach** at

[3] http://articles.latimes.com/2014/jan/13/business/la-fi-calpers-investment-return 20140114
[4] http://www.reuters.com/article/2014/02/19/us-usa-pensions-calpers-idUSBREA1I08120140219

3.62%. Last year, no cities saw a decrease in their unfunded liability. This year, seven cities saw a decrease in their unfunded liability.

Annual Required Contributions by the Numbers

All but six cities within the county will see an increase in their **Annual Required Contribution (ARC)** payments for FY 2015. This is due in part to increases in each city's unfunded liability. Cities may have also hired new employees or increased salaries, both of which can contribute to the increase in pension costs.

For the upcoming year, the cities of **El Cajon**, **La Mesa** and **San Marcos** will see ARC payment increases of 10.28%, 8.31% and 6.94%, respectively. The **City of Del Mar** will see the largest decline in its pension cost at -35.58%. The cities of **Escondido** and **Santee** will see less dramatic declines in pension costs at -11.38% and -6.92%, respectively. Del Mar, Escondido, and Santee had reductions in the number of employees and payroll, which led to a decline in pension costs.

While examining the ARC is one way to measure pension costs, comparing **employer contribution rates** allows for the comparison of pension costs among cities. The employer contribution rate is the cost to each city to provide pension benefits, shown as a percentage of the payroll. It includes both the normal cost of the benefit and the payment on the unfunded liability.

Table 1 highlights the cities with the five highest contribution rates.

Table 1: Most Expensive Pension Plans for FY 2012

Safety Employees		*Misc. Employees*	
City	Contribution Rate	City	Contribution Rate
El Cajon	42.06%	El Cajon	30.15%
National City	40.59%	San Marcos	27.44%
Escondido	36.92%	Escondido	26.92%
La Mesa	36.77%	La Mesa	26.59%
Vista	35.36%	Chula Vista	26.24%
Source: FY 2012 CalPERS Actuarial Valuations			

Costs by Household

Another way to compare costs among cities is on a per household basis. While the nominal dollar amount each city pays toward pensions may not seem relatively high when compared to others, when analyzed on a per household basis, we can gain an understanding of how much each household is contributing toward pension costs via their tax dollars – similar to a household budget.

In FY 2014, **Del Mar** paid $1.1 million for employee pensions, amounting to $573 per household. The annual pension cost per household was the highest of the 17 CalPERS cities. Del Mar's unfunded liability per household was $3,300, which was also higher than the other cities. In FY 2015, **Del Mar** will pay $369 per household toward employee pension costs, with each household effectively responsible for $3,271 of their city's unfunded pension bill. Both will be significantly less than FY 2014, but the unfunded liability for this upcoming fiscal year is still higher than any other city. This year, **Coronado**'s annual pension cost per household of $572 exceeded Del Mar's.

Coronado's annual pension cost per household is more than 600 percent higher than **Imperial Beach's,** which has the lowest annual pension cost per household. Imperial Beach also had the lowest annual pension cost per household last year.

Table 2: Evaluation by Population

City	FY2014 Unfunded Liability Per Household	FY2014 Annual Pension Cost Per Household	FY2015 Unfunded Liability Per Household	FY2015 Annual Pension Cost Per Household
Del Mar	$3,331	$573	$3,271	$369
National City	$3,059	$419	$3,120	$442
El Cajon	$2,664	$313	$2,819	$345
Coronado	$2,992	$565	$2,561	$572
Escondido	$2,431	$353	$2,492	$313
Carlsbad	$2,129	$363	$2,045	$370
Chula Vista	$1,850	$276	$1,913	$287
Oceanside	$1,822	$312	$1,755	$310
La Mesa	$1,422	$215	$1,559	$233
San Marcos	$1,310	$205	$1,283	$219
Poway	$1,053	$185	$1,085	$189
Encinitas	$1,008	$169	$988	$170
Vista	$976	$179	$948	$191
Solana Beach	$814	$158	$844	$160
Santee	$789	$146	$806	$136
Lemon Grove	$558	$116	$563	$113
Imperial Beach	$489	$92	$506	$89
Sources: 2010 Census, FY 2011 and FY 2012 Actuarial Valuations				

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Have Cities Made Reforms?

Many cities have adopted lower pension benefits for newly hired employees. As mentioned previously, beginning January 1, 2013 new employees under new labor contracts are to be enrolled in lower tier retirement benefits. A lower level of benefit allows cities to reduce future retirement costs for their employees. Depending on the implementation of each city's reforms, it may take some time before the effects will be realized and included in each actuarial valuation completed by CalPERS. The more employees added under the new pension benefit plans, the slower the growth in cost over time.

CalPERS requires that employees contribute a certain amount of their pay to their pension plan. However, cities have previously been allowed to **"pick up"** a portion or the entire employee share of the employees' pension costs. Each city that has done so has increased the pension burden to taxpayers and its budget. Since the release of SDCTA's first pension report in 2009, a number of cities have implemented reforms and reduced the pick-up amount of employee pension costs. Under PEPRA, new employees are required to pay at least half of the normal cost and cities are prohibited from "picking up" a portion of the employee share.

Table 3: FY 2012 Funding States for Pension Plans (Actuarial Value of Assets)

City	Safety Employees	Miscellaneous Employees
Carlsbad	82.5%	81.4%
Chula Vista	85.7%	75.7%
Coronado	88.0%	80.0%
Del Mar	Fire, Tier 1: 79.3% Lifeguard: 91.7%	77.7%
El Cajon	75.8%	78.4%
Encinitas	Fire, Tier 1: 90.2% Fire, Tier 2: 83.3% Lifeguard: 90.2%	76.5%
Escondido	82.9%	78.2%
Imperial Beach	Fire: 88.0% Lifeguard, Tier 1: 89.6% Lifeguard, Tier 2: 89.5%	85.4%
La Mesa	82.9%	81.2%
Lemon Grove	84.1%	Tier 1: 76.8% Tier 2: 95.0%
National City	75.8%	86.1%
Oceanside	86.2%	83.5%
Poway	Tier 1: 88.0% Fire, Tier 2: 90.3%	84.6%
San Marcos	88.0%	68.3%
Santee	Tier 1: 87.3% Tier 2: 90.3%	82.7%
Solana Beach	Fire, Tier 1: 88.0% Fire, Tier 2: 89.5% Lifeguard: 88.0%	Tier 1: 85.6% Tier 2: 94.9%
Vista	81.6%	85.1%

Source: FY 2012 CalPERS Actuarial Valuations

The **funding status** of a pension plan gives a more comprehensive picture of its current condition. The funding status is a ratio that measures the plan's anticipated ability to pay for the benefits committed to employees.

Investment losses and benefit increases contribute to the drop in the funding status of each city's pension plan. Table 3 depicts the funding status of each city.

Conclusions

Although many cities have made reforms, 11 of 17 are still seeing an increase in pension payments and 10 of 17 are still seeing an increase in their unfunded pension liability.

La Mesa and **El Cajon** will see large increases in their unfunded liabilities this year, at **9.65 percent** and **5.82 percent** respectively. **El Cajon** and **La Mesa** will also see large increases in their annual pension costs for the new fiscal year beginning July 1, at **10.28 percent** and **8.31 percent** respectively. **Del Mar** households are effectively responsible for the largest unfunded liability per household this year, while **Imperial Beach** households are effectively responsible for the smallest. **Coronado** households will pay the most in pension costs per household this year, while **Imperial Beach** households will pay the least.

City officials might see a decrease in unfunded liabilities in FY 2016 as a result of much higher than expected investment returns by CalPERS. The recent CalPERS payment change may result in an increase in employer contributions in the future as well.

Since SDCTA's first pension report in 2009, cities across the county have implemented a number of reforms in an effort to reduce costs. However, it will take some time for savings from these reforms to be realized.

*The **San Diego County Taxpayers Association** is a non-profit, non-partisan organization, dedicated to promoting accountable, cost-effective and efficient government and opposing unnecessary taxes and fees. Founded in 1945, SDCTA has spent the past six decades saving the region's taxpayers billions of dollars, as well as generating information to help educate the public.*

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Table 4: Comparison of Pension Costs and Unfunded Liabilities Among CalPERS Cities

City	FY2014 Total Contribution	FY2014 Unfunded Liability	FY2015 Total Contribution	FY2015 Unfunded Liability	Contribution Increase as a percentage	Increase in Unfunded Liability as a percentage
Carlsbad	$15,012,254	$88,032,688	$15,307,143	$84,535,485	1.96%	-3.97%
Chula Vista	$20,809,418	$139,726,604	$21,698,324*	$144,423,702	4.27%	3.36%
Coronado	$4,183,084	$22,170,725	$4,239,273*	$18,973,511 **	1.34%	-14.42%
Del Mar	$1,183,124	$6,874,170	$762,207	$6,752,020	-35.58%	-1.78%
El Cajon	$10,683,319	$90,918,890	$11,781,843*	$96,207,582	10.28%	5.82%
Encinitas	$4,075,851	$24,274,377	$4,088,787*	$23,803,501*	0.32%	-1.94%
Escondido	$16,046,768	$110,585,642	$14,221,222*	$113,351,297	-11.38%	2.50%
Imperial Beach	$841,270	$4,453,419	$807,745	$4,610,160	-3.99%	3.52%
La Mesa	$5,265,043	$34,858,617	$5,702,775	$38,223,077	8.31%	9.65%
Lemon Grove	$980,555	$4,706,708	$956,000*	$4,747,293	-2.50%	0.86%
National City	$6,501,153	$47,414,751	$6,848,570*	$48,360,950	5.34%	2.00%
Oceanside	$18,464,163	$107,949,532	$18,376,254	$103,945,627	-0.48%	-3.71%
Poway	$2,987,831	$16,980,017	$3,046,348	$17,491,261	1.96%	3.01%
San Marcos	$5,581,048	$35,631,932	$5,968,213*	$34,904,881	6.94%	-2.04%
Santee	$2,813,751	$15,230,682	$2,619,024*	$15,558,131	-6.92%	2.15%
Solana Beach	$890,990	$4,601,177	$902,022	$4,767,735	1.24%	3.62%
Vista	$5,258,359	$28,624,197	$5,612,279*	$27,783,852***	6.73%	-2.94%

Source: FY 2011 & FY 2012 CalPERS Actuarial Valuations
**Amount confirmed by city is different than SDCTA's analysis of CalPERS Actuarial Valuations*
***Made an advanced lump-sum payment, lowering the unfunded liability*
**** City was unable to confirm SDCTA's analysis of CalPERS Actuarial Valuations*