



San Diego County  
**Taxpayers  
Association**



# The Case for Pension Reform

**PENSION WORKSHOP CO-HOSTED  
WITH ENCINITAS TAXPAYERS  
ASSOCIATION**

**4-28-2010**

# Defined Contribution vs. Defined Benefit Plans



- There are two basic plans: defined-benefit and defined-contribution.
- Local governments contract with the California Public Employees' Retirement System (CalPERS) to provide defined-benefit pension plans to their employees.

## **Annual Pension Benefits**

=

### **years of service**

(the number of years an employee has put in at an agency)

x

### **final average compensation**

(the average 36 or 12 highest consecutive months of salary)

x

### **benefit factor**

(A multiplier received for each year of service, usually between 2% and 3% of the final average compensation)

# Miscellaneous Employee Example



## **Example 1: Miscellaneous Employee Retirement Benefit**

The City of Encinitas has a 2.7% @ 55 formula for its miscellaneous employees and has a final average compensation of the 12 highest consecutive months of salary.

Using the formula provided, if Joe Smith, a hypothetical city administrator, worked for 30 years, retired at age 55, and made \$100,000 per year at his peak, then he would receive \$81,000 annually in retirement benefits (plus cost of living adjustments).

# 401(k) Example



## **Example 2: 401(k) Investment Needed to Reach Retirement Payout in Example 1**

Under conservative assumptions, to retire at age 55 with an \$81,000 retirement, you would need approximately \$2.43 million in your 401(k) account

# Pick-up of Employee Contribution



Employees are “required” to contribute a certain percent of their income into their pension system, which varies depending upon the benefit formula.

Many cities in the region choose to “pick up” this contribution on behalf of the employees.

In addition, many cities report the value of this pick-up to CalPERS as additional compensation... thereby increasing their pension benefits.

# Employee Contribution “Requirements”



Employee Formula Type - Miscellaneous					
Formula	2% @ 55	2.5% @ 55	2.7% @ 55	2% @ 60	3% @ 60
Normal Employee Contribution Rate	7%	8%	8%	7%	8%
Employee Formula Type - Safety					
Formula	2% @ 50	2% @ 55	3% @ 50	3% @ 55	
Normal Employee Contribution Rate	9%	7%	9%	9%	

Source: CalPERS. Available from [www.calpers.ca.gov](http://www.calpers.ca.gov).

# Miscellaneous Employee Example with Pick-up Reported



## **Example 3: Miscellaneous Employee Retirement Benefit with Pick-up Reported**

If Joe Smith contributed 4.4% toward his pension—i.e. the City contributes the 3.6% on his behalf—and this cost is then reported to CalPERS, he would receive a 3.6% increase in his pension benefit.

Annual pension benefit of  $\$83,916 = \$81,000 + 3.6\%$

Joe would now receive \$83,916 annually in retirement benefits (plus cost of living adjustments) rather than \$81,000.

# The Case For Pension Reform



- Too often city employees contribute little to nothing to their pension plan
- The most generous formulas available are the most common in San Diego County
- The most generous final compensation method is the most common in San Diego County
- Pension costs are increasing at rapid rates throughout the region



# CalPERS Local Agency Retirement Formulas

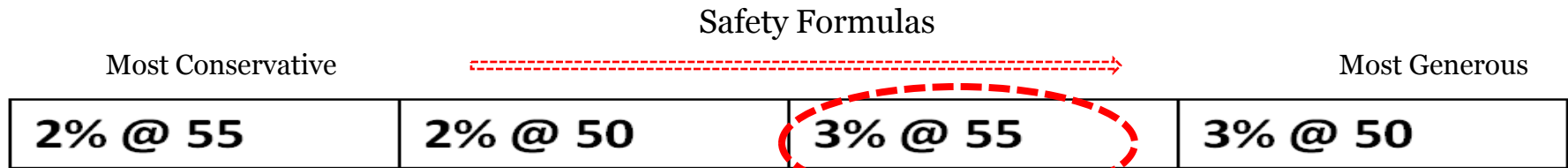
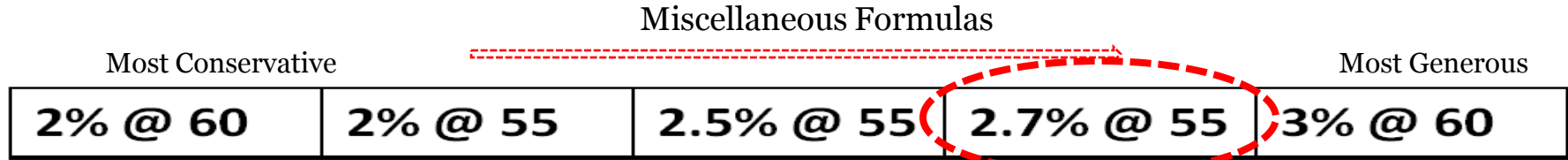


*Table 1: CalPERS Retirement Formulas*

<b>Employee Formula Type - Miscellaneous</b>					
Formula	2% @ 55	2.5% @ 55	2.7% @ 55	2% @ 60	3% @ 60
<b>Employee Formula Type - Safety</b>					
Formula	2% @ 50	2% @ 55	3% @ 50	3% @ 55	

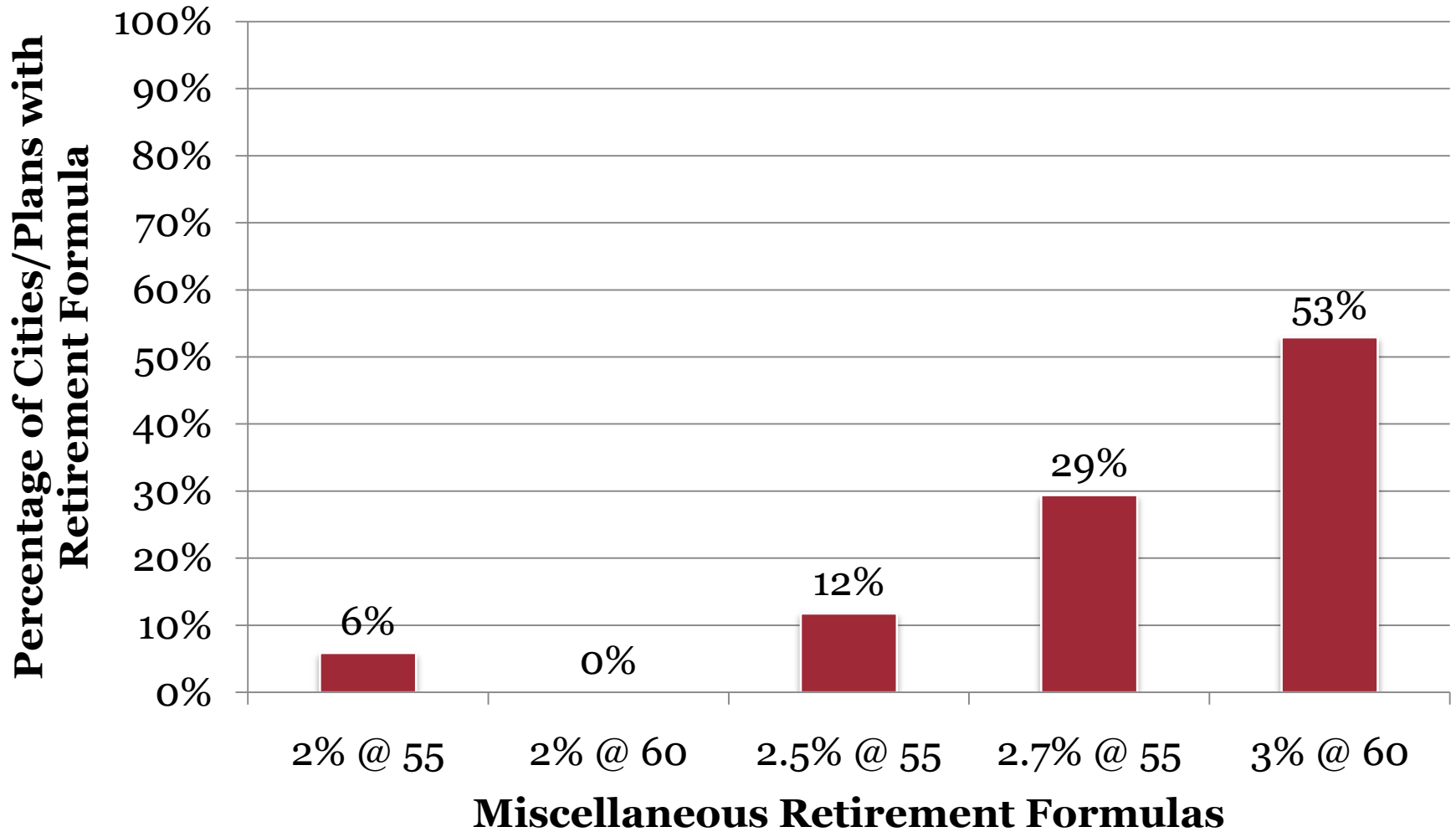
Note: miscellaneous (nonsafety) workers also have the option of 1.5% @ 65 if they are also enrolled in Social Security.

# SDCTA's Sliding Scale of Pension Formulas

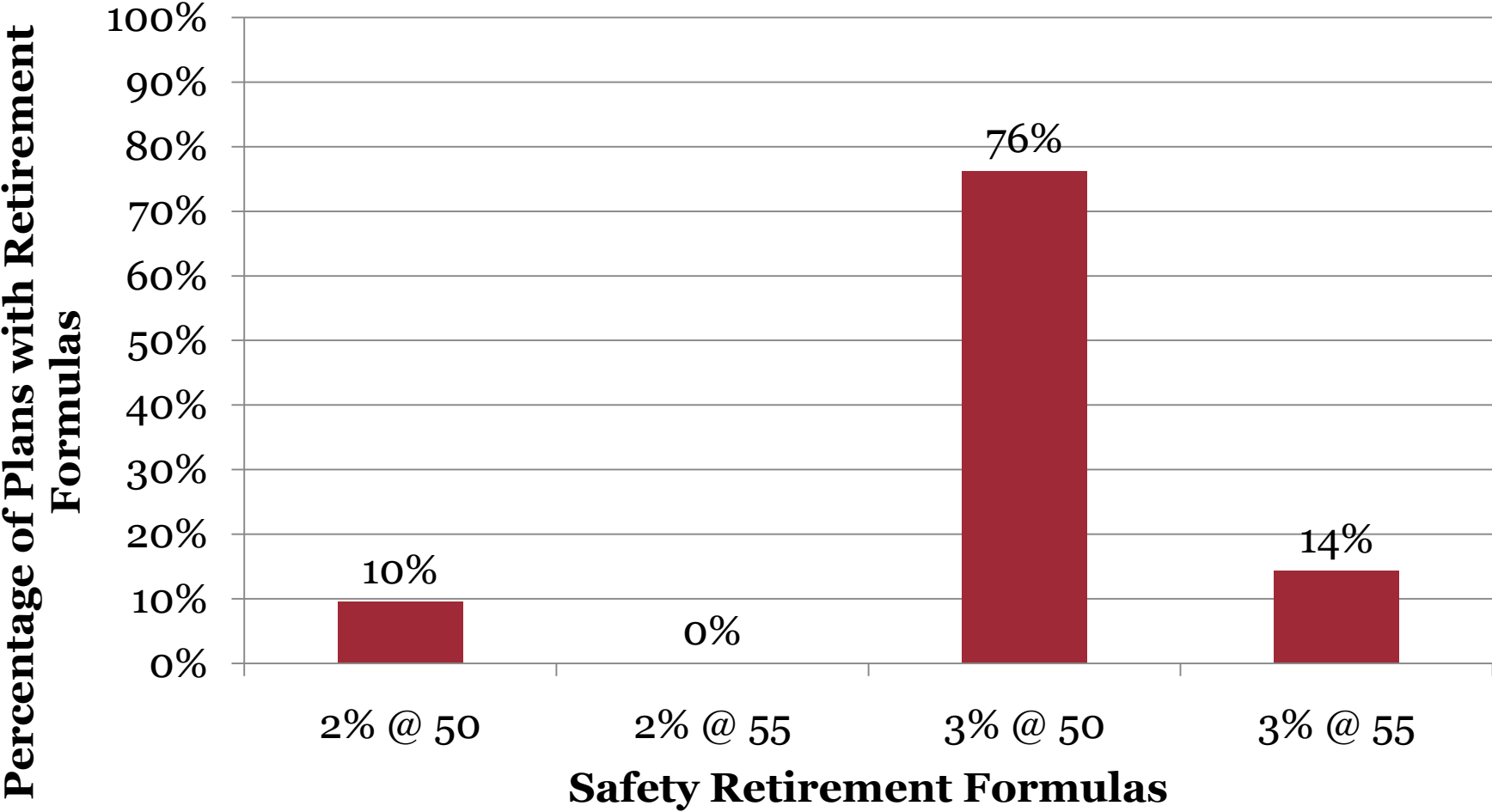


Note: the red circles indicate the placement of pension formulas offered by the City of Encinitas.

# Retirement Formulas Used in San Diego's CalPERS-Contracted Municipalities' Miscellaneous Plans



# Retirement Formulas Used in San Diego's CalPERS-Contracted Municipalities' Safety Plans



# Updated Information Since Phase I Release



**Since October 2009, the following cities have implemented pension reform:**

- City of **El Cajon** has reduced their pick-up, requiring City nonsafety employees to start contributions toward their retirement.
- City of **Escondido** has eliminated pick-up for its Firefighters Association members.
- City of **Imperial Beach** nonsafety employees will now share in increased pension costs.
- City of **La Mesa** has now eliminated pick-up contributions for all employees.

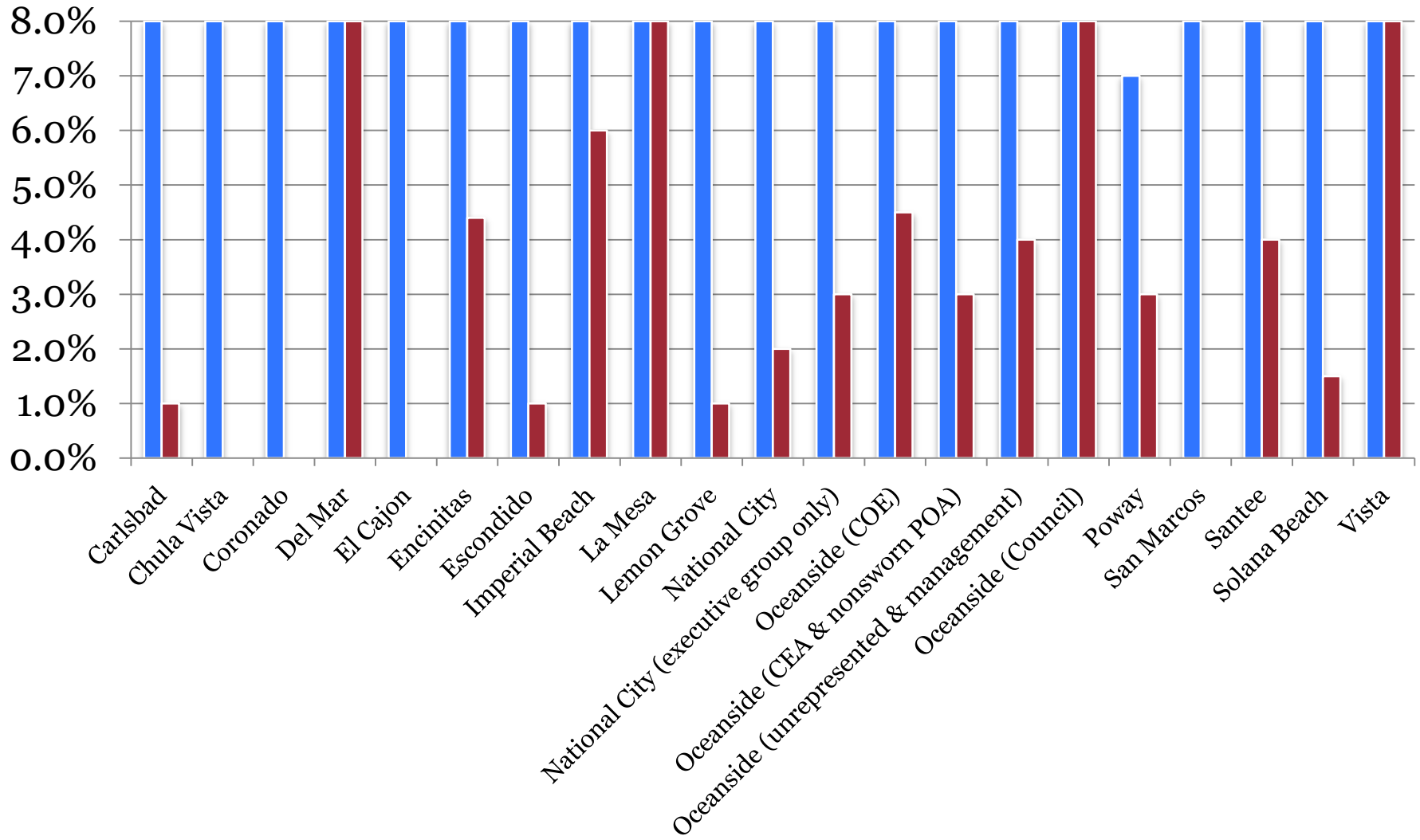
# Updated Information Since Phase I Release



- City of **National City** has introduced a second, lower tier retirement formula for new hires in police. Police (safety) are also contributing 2% toward their retirement (previously they had not contributed anything).
- City of **Oceanside** Council is now fully contributing toward their retirement (8%). The City's Western Council of Engineers, a labor organization, is now contributing an additional .5% toward their retirement (now up to 3.5%).
- City of **Poway** has decided to increase their pension contribution for FY 2010 to lower their safety plan's unfunded liability.
- City of **Santee** now has all employees contributing 4% toward their pensions (previously their contribution was 0%).

# Actual Employee Contributions (Nonsafety)

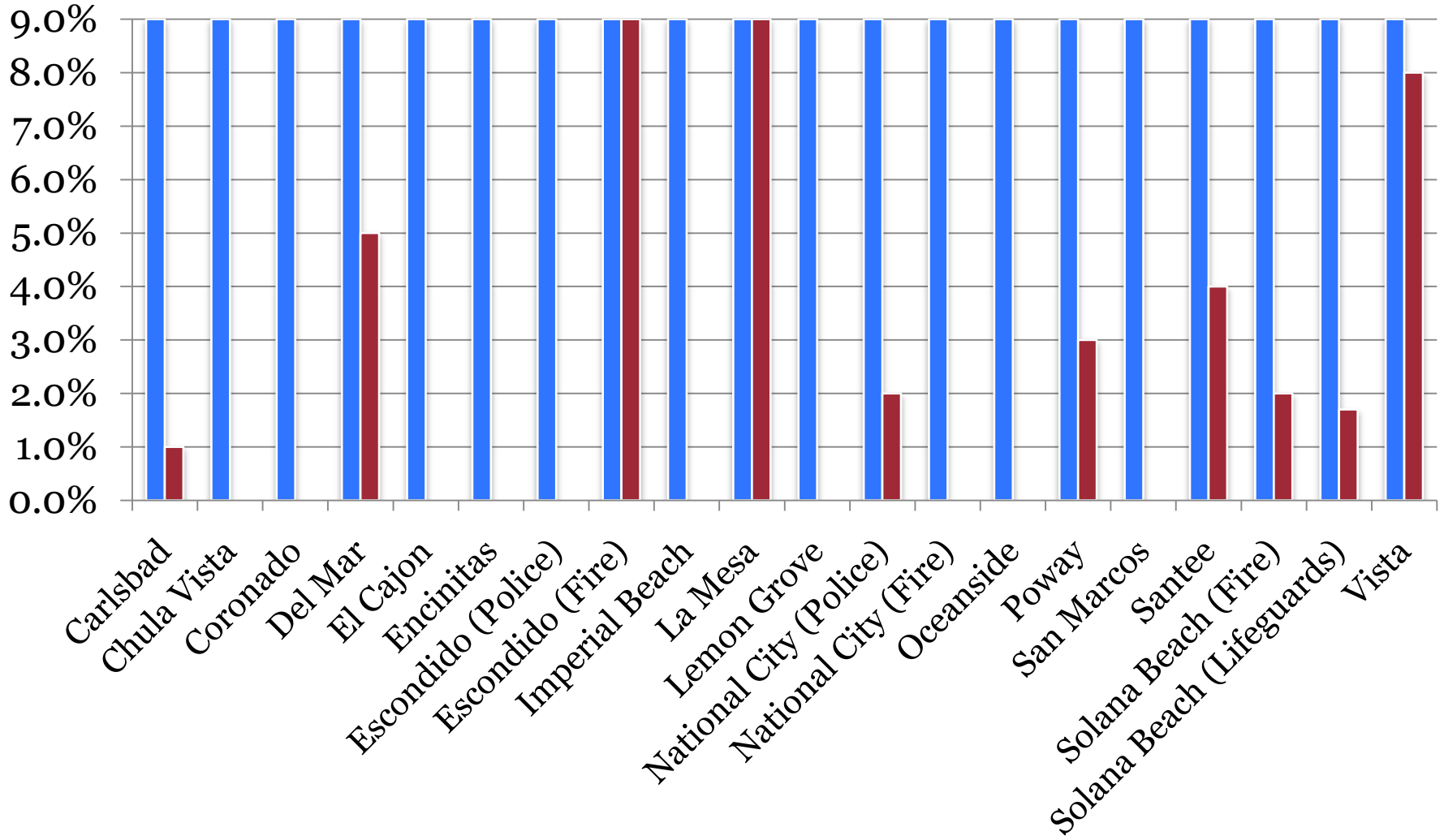
(As of 4/27/2010)



■ Normal Employee Contribution Rate ■ Actual Employee Contribution Rate

# Actual Employee Contributions (Safety)

(As of 4/27/2010)



■ Normal Employee Contribution Rate ■ Actual Employee Contribution Rate

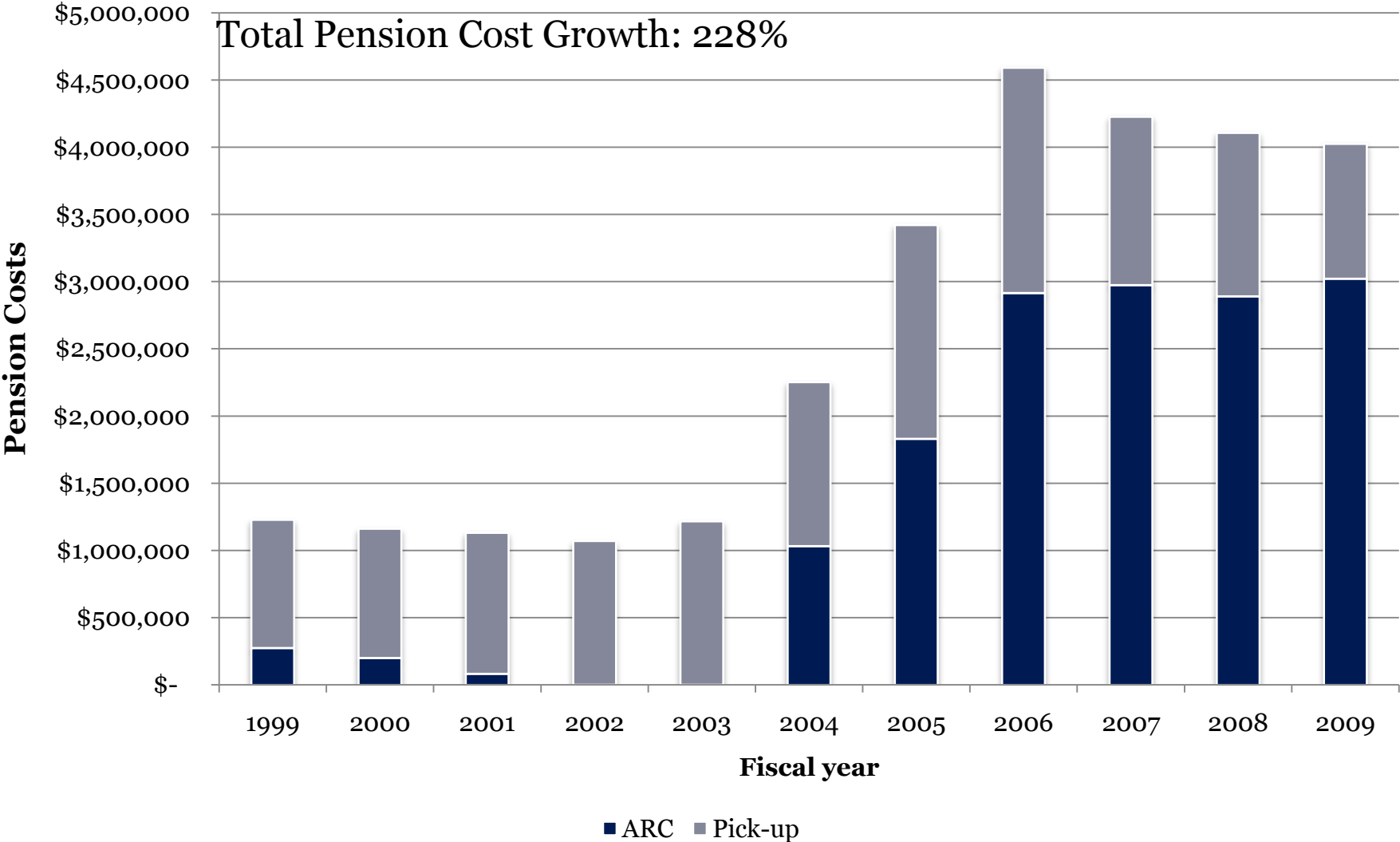


# Encinitas Pension Costs

## FY 1999 - FY 2009

(in 2009 dollars, adjusted for inflation)

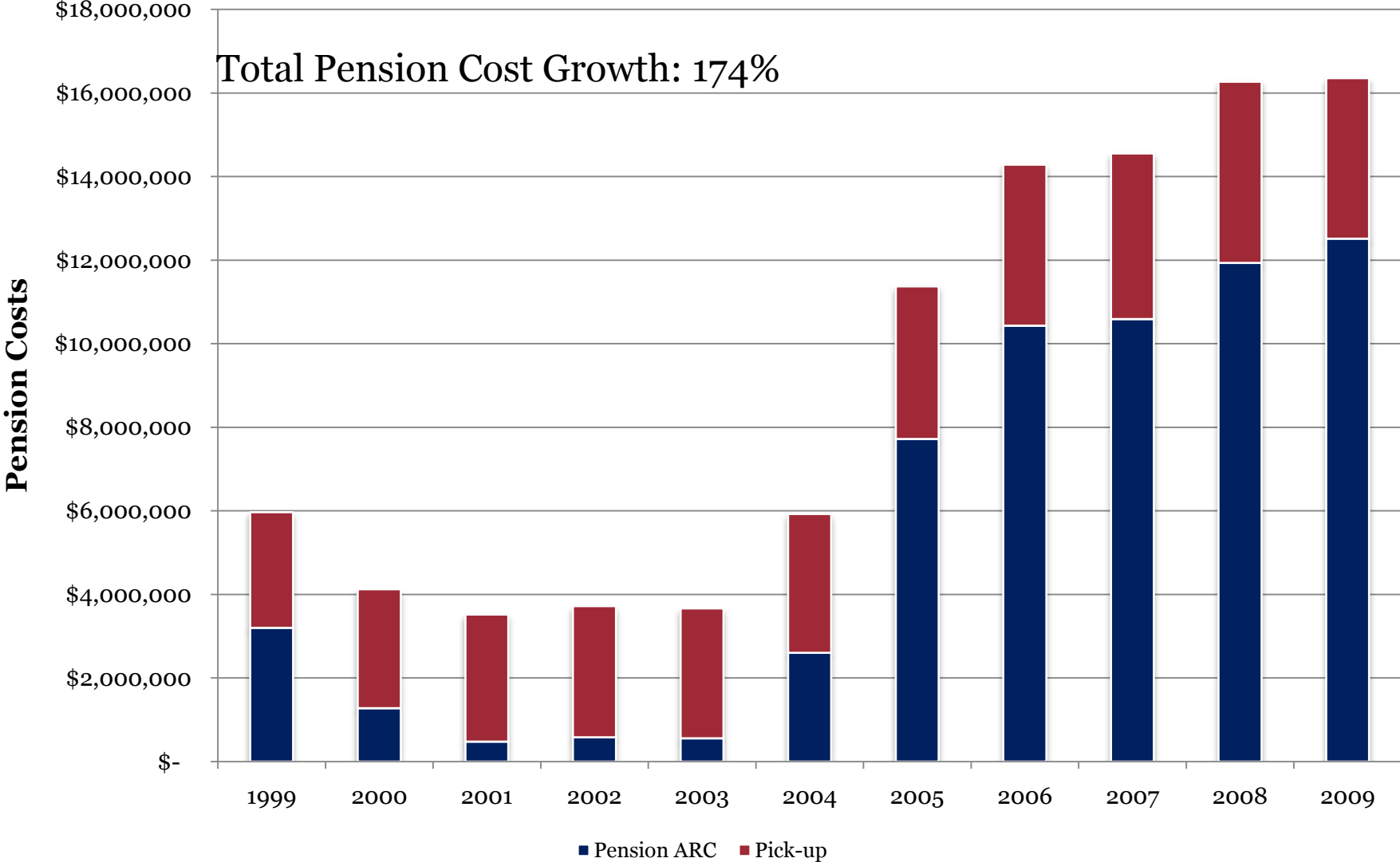
Source: Encinitas FY 1999-2009 financial statements, Public Records Act Requests



# City of Carlsbad Pension Costs

## FY 1999 - FY 2009

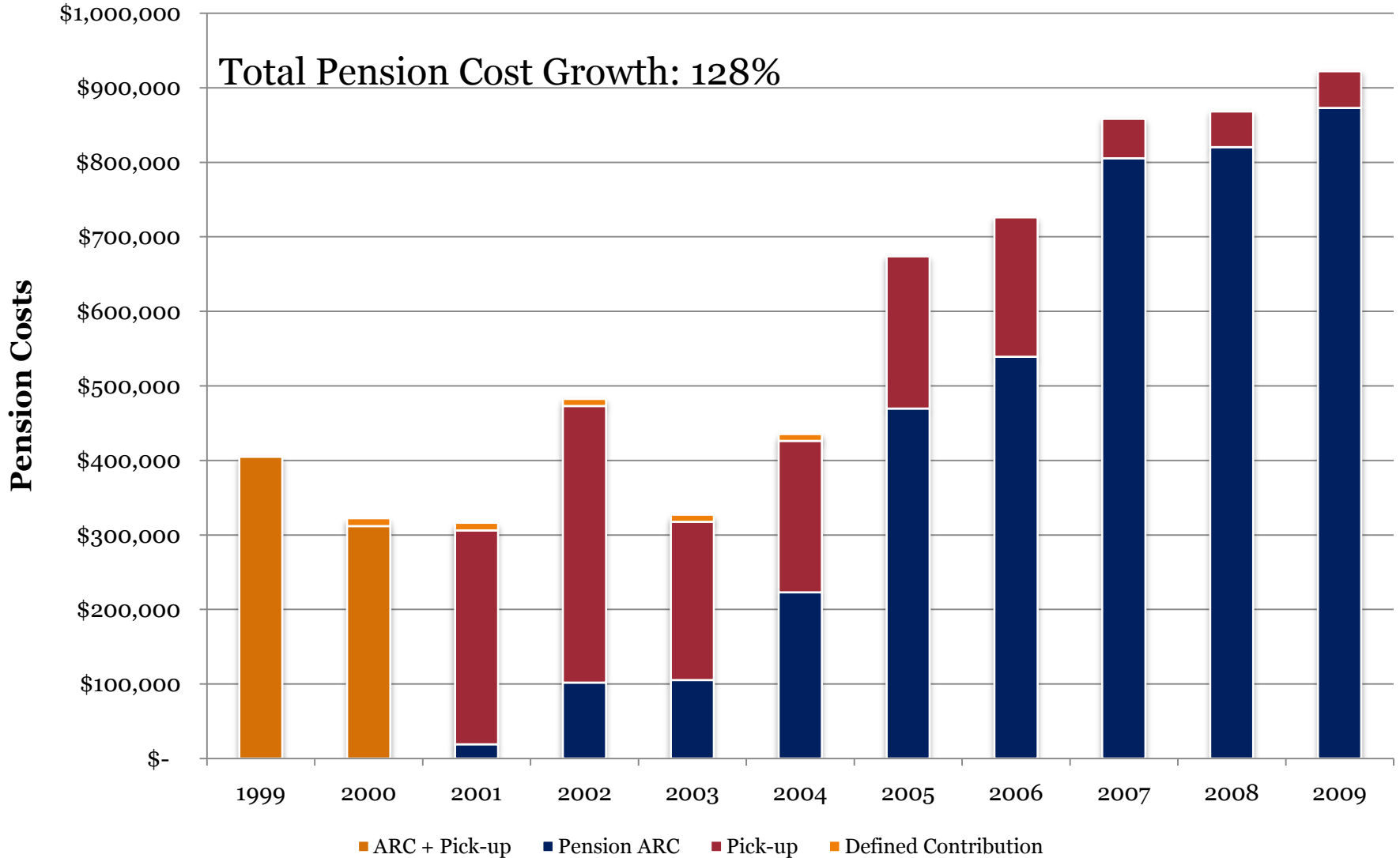
(in 2009 Dollars, adjusted for inflation)  
Sources: FY 1999 - FY 2009 financial statements



# City of Del Mar Pension Costs FY 1999 - FY 2009

(in 2009 Dollars, adjusted for inflation)

Sources: FY 1999 - FY 2009 CAFRs, Public Records Act Requests

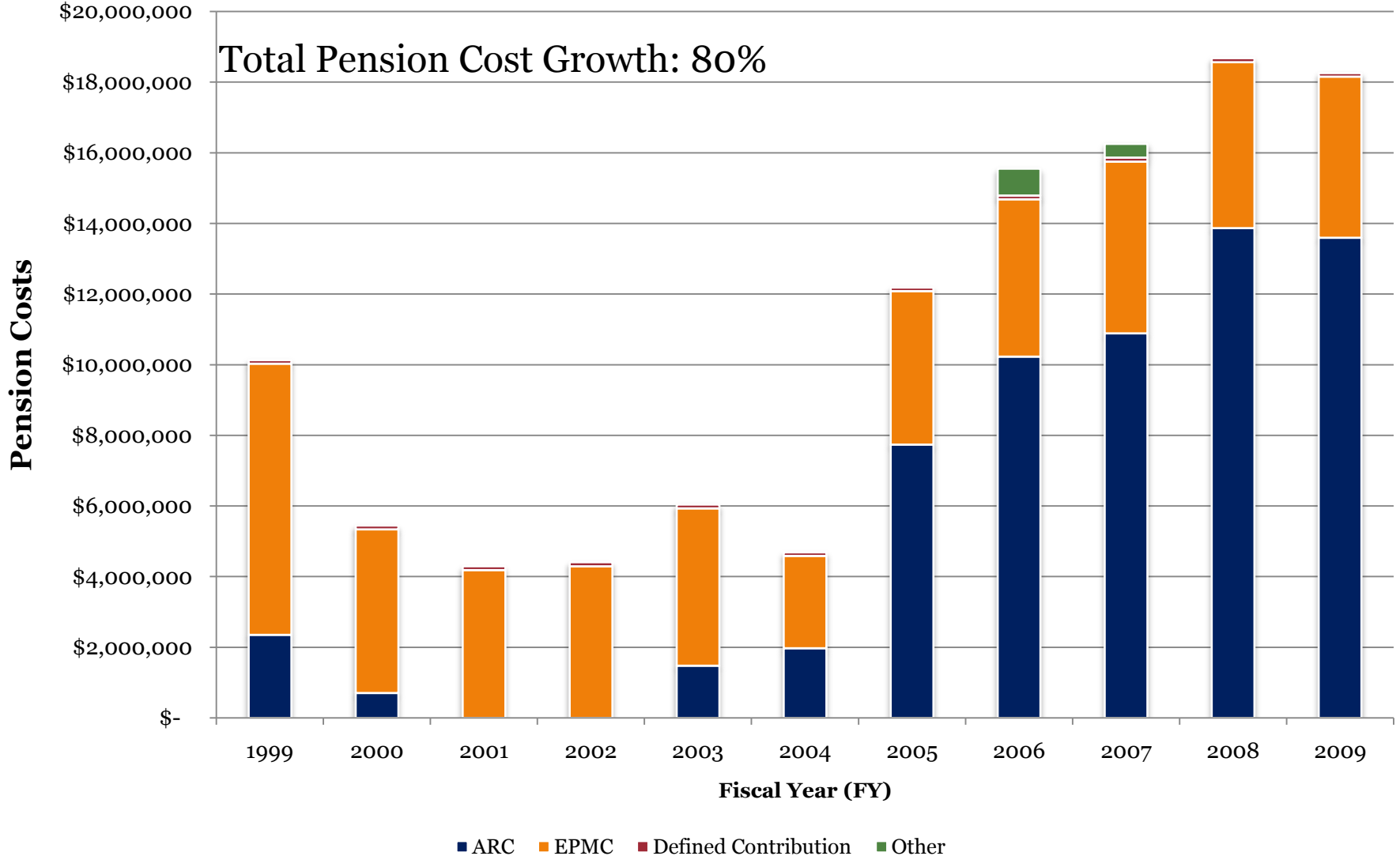


# Escondido Pension Costs

## FY 1999 - FY 2009

(in 2009 dollars, adjusted for inflation)

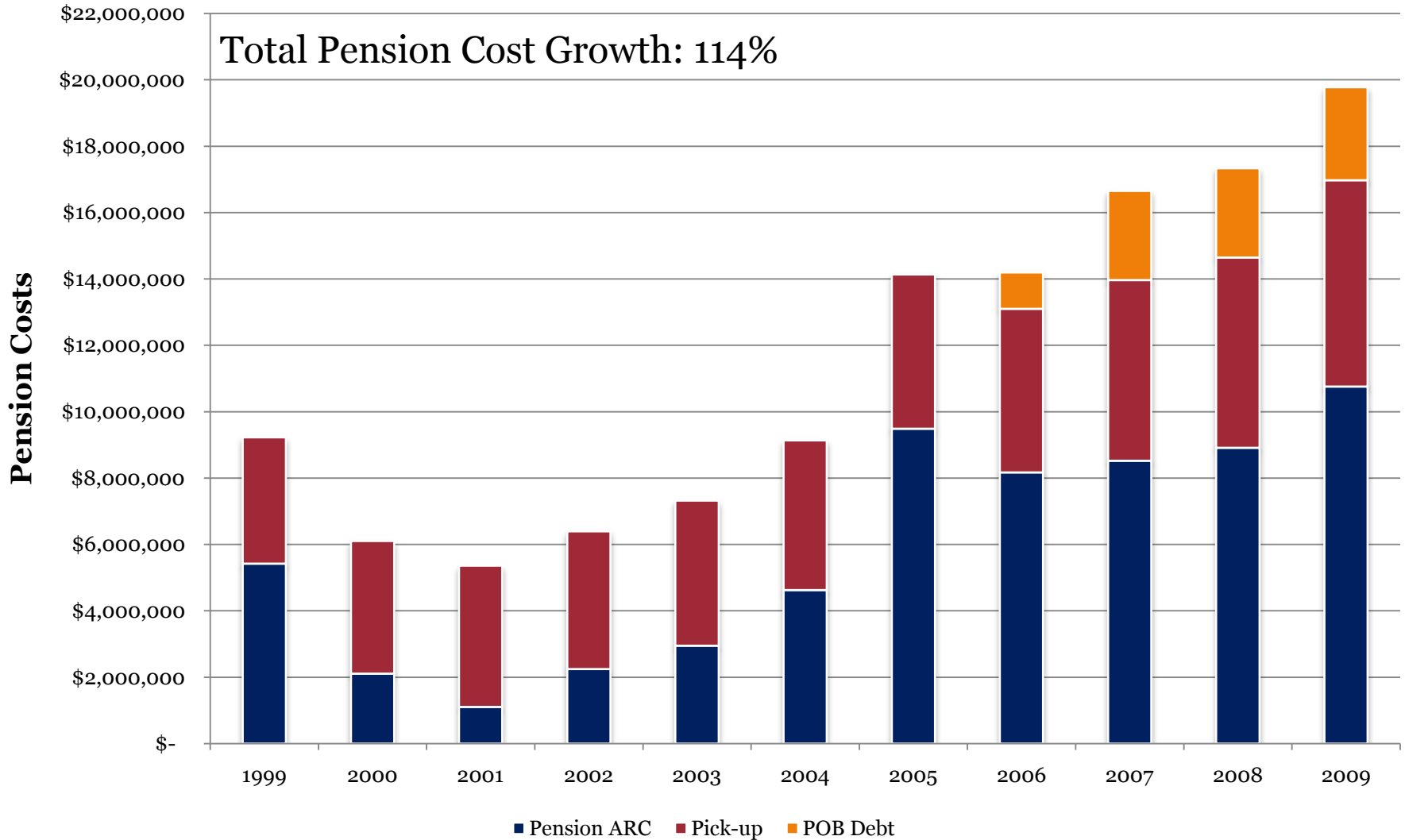
Source: Escondido FY 1999-2009 financial statements and Public Records Act Requests



# City of Oceanside Pension Costs FY 1999 - FY 2009

(in 2009 Dollars, adjusted for inflation)

Sources: FY 1999 - FY 2008 CAFRs, City of Oceanside General Fund Five Year Financial Forecast & Public Records Act Requests

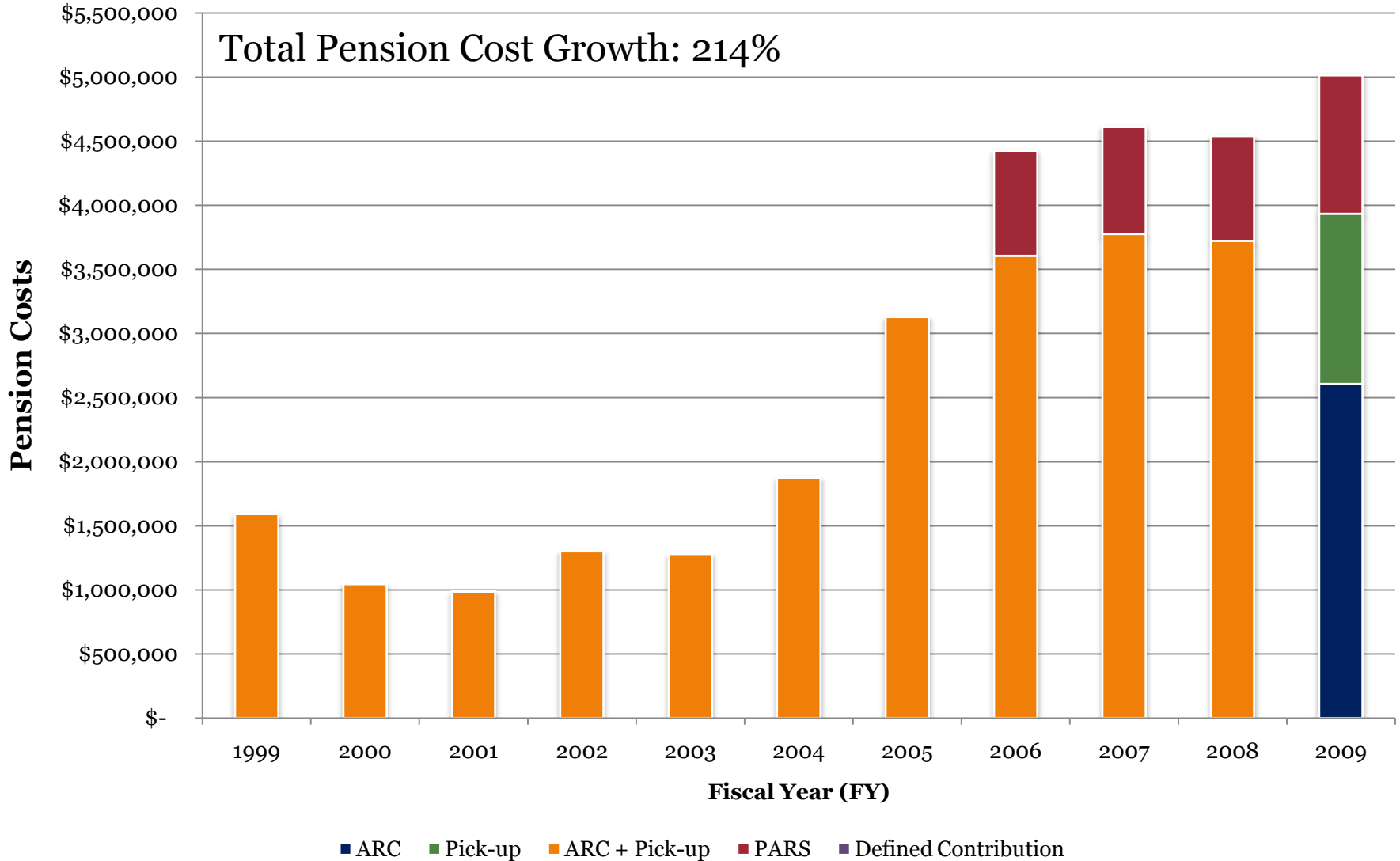


# Poway Pension Costs

## FY 1999 - FY 2009

(in 2009 dollars, adjusted for inflation)

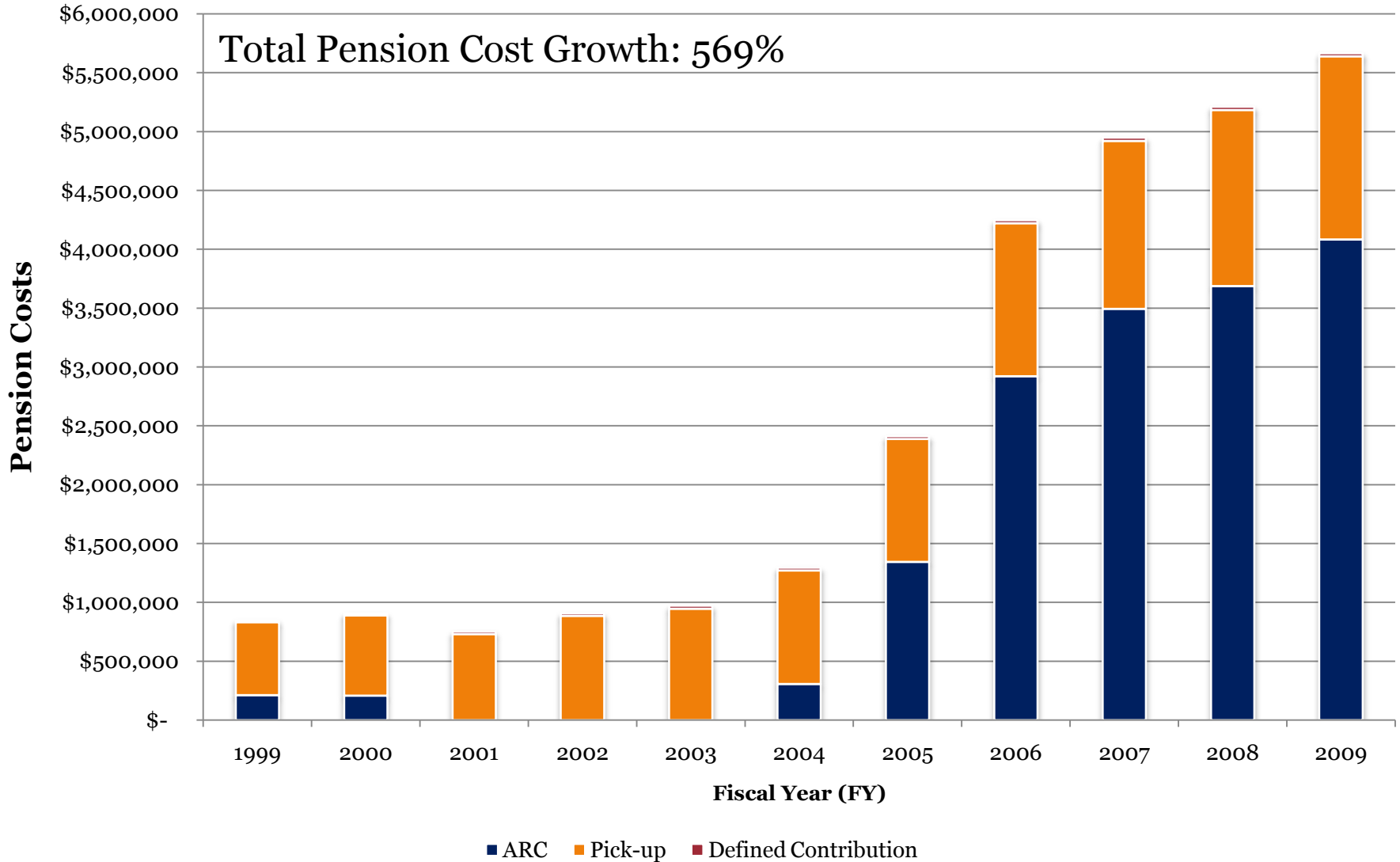
Source: Poway Financial Statements and Public Records Act Requests



# San Marcos Pension Costs FY 1999 - FY 2009

(in 2009 dollars, adjusted for inflation)

Source: San Marcos FY 1999-2009 financial statements, Public Records Act Requests

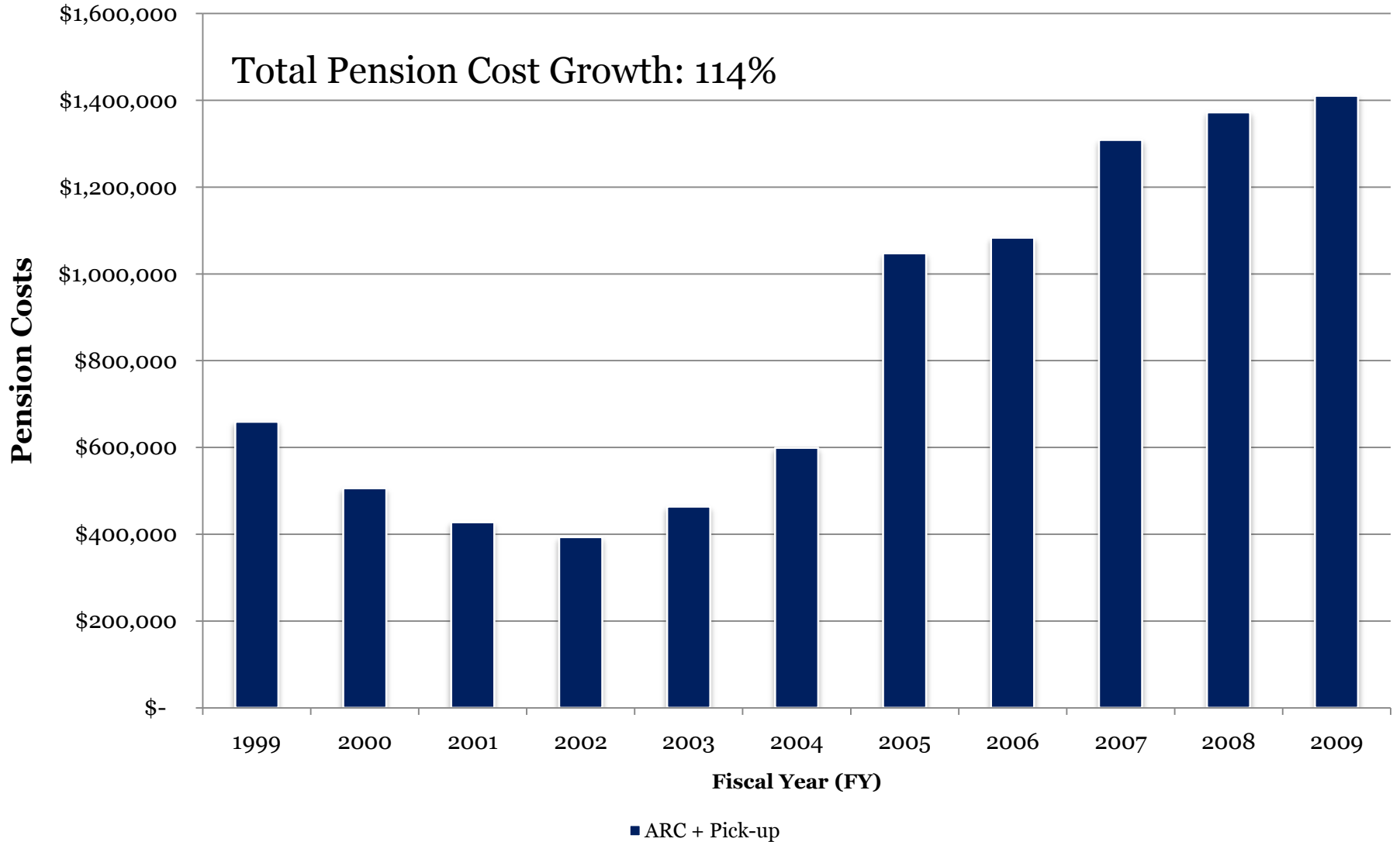


# Solana Beach Pension Costs

## FY 1999 - FY 2009

(in 2009 dollars, adjusted for inflation)

Source: FY 1999-2009 financial statements, Public Records Act Requests

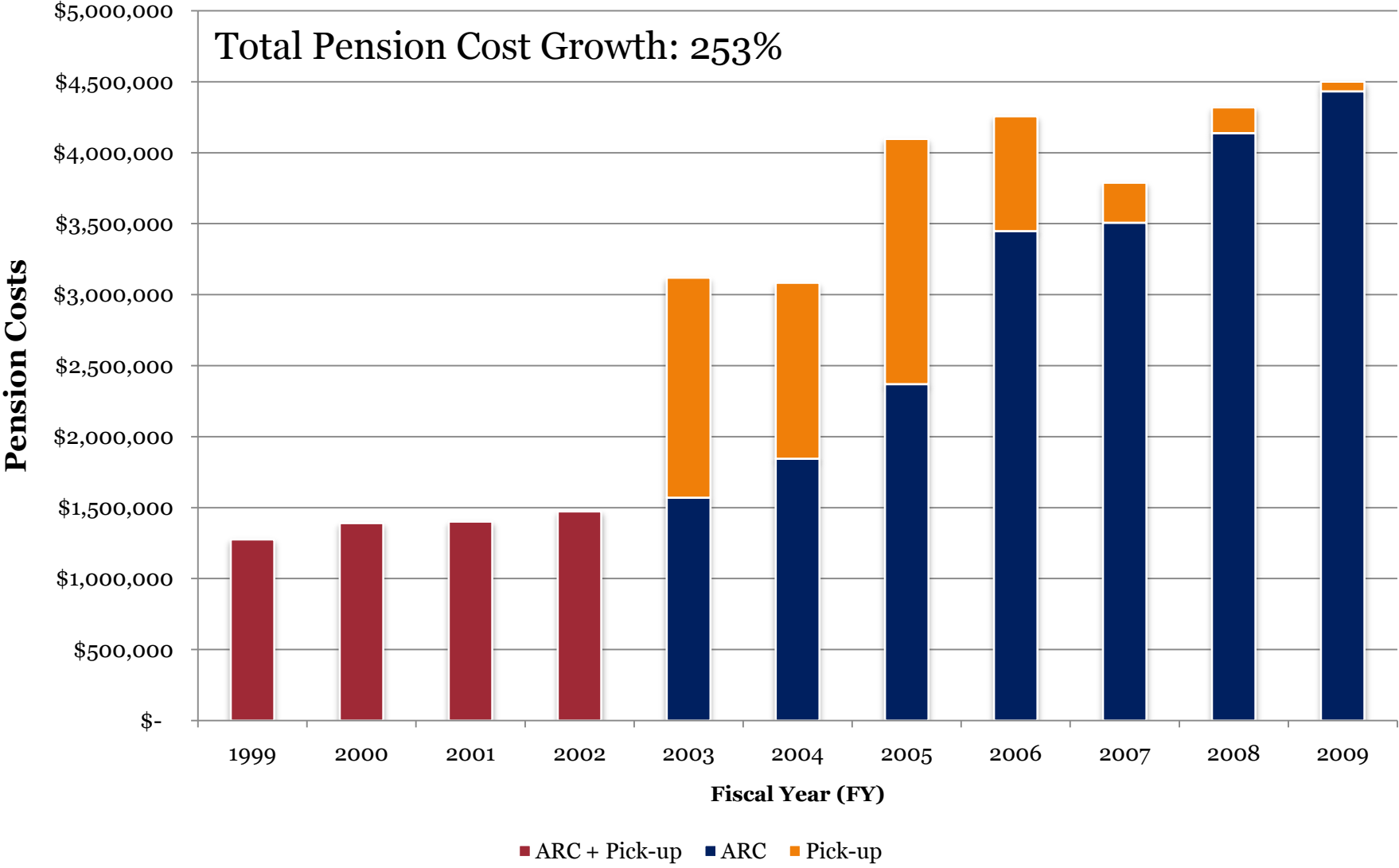




# Vista Pension Costs FY 1999 - FY 2009

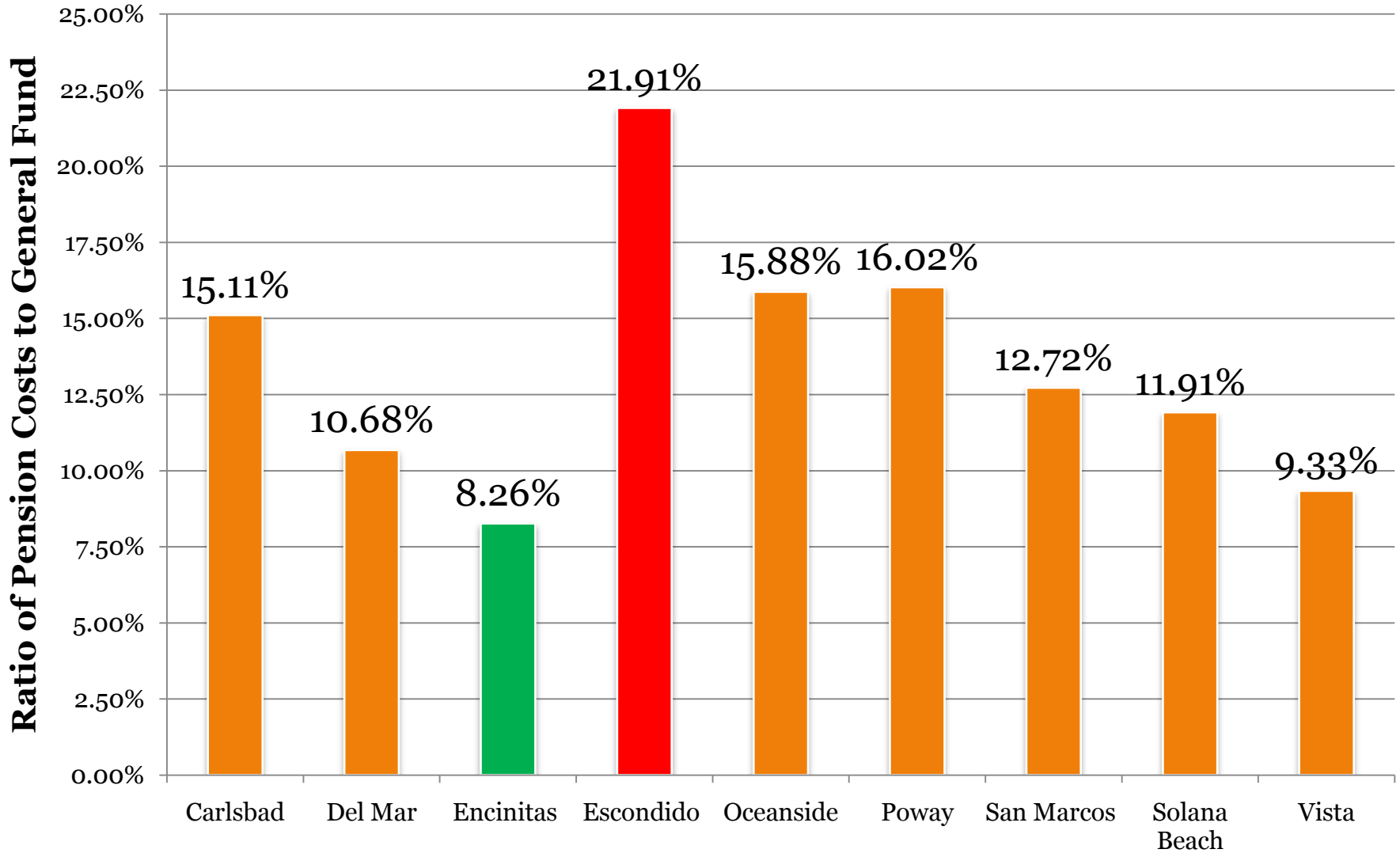
(in 2009 dollars, adjusted for inflation)

Source: Vista FY 1999-2009 financial statements, Public Records Act Requests



# San Diego North County Cities' FY 2009 Pension Costs as a Ratio to their General Fund

Note: Sheriff contract costs have been excluded from this calculation  
Source: FY 2009 financial statements and Public Records Act Requests



# Pension Costs Are Unsustainable



*“I don’t want to sugarcoat anything. We are facing decades without significant turnarounds in assets, decades of ... unsustainable pension costs of between 25 percent of pay for a miscellaneous plan and 40 to 50 percent of pay for a safety plan ... unsustainable pension costs. We’ve got to find some other solutions.”*

- Ron Seeling,  
- CalPERS Chief Actuary

# Pension Costs are Increasing



- CalPERS lost over 24% of its Market Value last fiscal year. Since they anticipate a 7.75% return on investments, CalPERS actuarial loss was over 30%.
- These shortfalls get pushed onto cities—i.e. the taxpayers.

# SDCTA Pension Reform Recommendations



- 1. Eliminate Pick-up (ensure all employees are contributing their fair and “required” share toward pensions)**
- 2. Create a second tier for new hires**
  - a) **2% @ 55 for Safety**
  - b) **2% @ 60 for Miscellaneous**
  - c) **1.5% @ 65 for Miscellaneous with Social Security**
  - d) **Highest 36 consecutive months of salary**

*Any Questions?*