San Diego County Taxpayers Association

Targeting Waste • Promoting Efficiency

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An open letter from SDCTA to all Mayors and Councilmembers in San Diego County regarding the implementation of real pension reform...

March 29, 2011

Dear Honorable Mayors and Councilmembers:

The San Diego County Taxpayers Association (SDCTA) is aware that many cities across the county are either about to begin or are in the process of negotiating employment contracts for their respective bargaining units. After reviewing recently approved contracts within the county, SDCTA is concerned that not all cities are pursuing comprehensive pension reform aggressively in the interest of taxpayers.

Our review of recently approved contracts found that while cities are touting "pension reform" by requiring employees to contribute either a minimal or the full "required" amount of their pension costs, this has been offset by multi-year salary increases (which obviously increase pension costs). Furthermore, many cities are not creating a new pension tier that would help to control costs in the long-term. Lastly, and perhaps most disturbing, contracts are being approved that contain a "sleight of hand" that allows employees to receive as much as an extra 9% of their salary to be calculated as part of their final pensionable salary. This is accomplished by having employees pay the "employer" portion of the pension contribution. This maneuver allows cities to continue to offer the "Reporting Employer Paid Member Contribution" benefit to employees, thereby increasing employee pension payment.

As cities are developing their budgets for the 2012 fiscal year, they are doing so with stagnant or limited growth in revenues and sizable increases in expenditures, most notably pension costs. In total, the 17 cities in the California Public Employees Retirement System (CalPERS) within San Diego County will see a 16% increase in pension costs, and a 31% increase in the unfunded pension liability above fiscal year 2011 figures.

The taxpayers within the San Diego region deserve to see aggressive, comprehensive pension reform implemented rather than service cuts. While a number of cities have made these difficult decisions, which we applaud, many have a long way to go. Recent polling shows that the public wants to see an end to pension spiking.

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We urge all elected officials to demand access to the full language of the labor agreements they are being asked to approve, before casting their votes. If you have any questions about this specific pension spiking issue or any aspect of SDCTA's recommendations on pension reform, please do not hesitate to contact us at 619-234-6423.

Sincerely,

Lani Lutar
President & CEO

Enclosure (1)

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The following are examples of language recently adopted by cities as it pertains to employees paying the “employer” portion of pension contributions:

> “Effective the first full pay period after ratification by the City Council, all bargaining unit members will commence paying 4.5% of PERSable wages, of the employer portion, to CalPERS in accordance with Government Code Section 20516(f).”
>
> “[Bargaining Unit] shall make contributions, which will be applied to the City’s contribution to CalPERS under Government Code section 20516 for optional benefits…”
>
> “Effective the first full pay period after ratification by the City Council, all bargaining unit members will commence paying 4% of the employer portion to CalPERS.”

CalPERS allows cities to report their subsidy of an employee’s required pension contribution (referred to as Employer Paid Member Contribution, or EPMC) as additional compensation for the purposes of calculating their pension contribution. The following is an example of adopted language that allows cities to report EPMC as additional compensation:

> “Effective [date], the City agreed to include the Employer Paid member Contribution (EPMC) as additional compensation pursuant to Section 20692 of the California Government Code.”

The following is an example of how reporting EPMC as additional compensation increases the final pension calculation of an employee: