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CITY PENSION COSTS LINKED TO HIGHER TAXES

San Diego, CA October 7, 2009 – High employee pension costs are helping push some cities to raise taxes, according to a new study by the San Diego County Taxpayers Association.

On average, an amount equal to ten percent of city general funds in San Diego County is consumed by pension costs alone. Four of the five cities with the highest pension burdens have sought sales tax increases in the past three years. El Cajon and National City are tied for the highest tax rates in San Diego County and have the highest pension costs. La Mesa, with the third highest pension burden, raised sales taxes in 2008 and now has the second highest tax rate in the County. Voters in Chula Vista, with the fifth highest pension burden, rejected efforts by its city council to raise sales taxes earlier this year following a campaign by SDCTA to alert voters about runaway spending in that city.

Only Escondido, with the fourth highest ratio of its general fund dedicated to pension payments, has resisted pressure to raise taxes. Instead, the city pursued cost-cutting measures during the last round of labor negotiations, rather than ask residents to increase their tax burden.

Encinitas has the lowest pension costs at 4.66 percent of its general fund and El Cajon the greatest burden at 19.84 percent.

First Ever Study of Pension Impacts in Region

The findings come from a report issued today by the San Diego County Taxpayers Association (SDCTA). It analyzes 17 city governments in San Diego County that participate in the California Public Employee Retirement System (CalPERS). Future reports will analyze the City and County of San Diego, whose independently administered plans are not part of CalPERS.

“This is the first time any group in San Diego County has taken such a detailed look at the region’s municipal pensions. As near as we can tell, it is the first such comprehensive study in the state,” said SDCTA president and chief executive officer Lani Lutar.

Local governments are increasingly struggling with pension costs. Cities are required to make pension payments for current employees. They are also required to pay for “unfunded liabilities” to make up for shortfalls in their pension funds.

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Pension costs have become a growing concern as they consume a larger share of city budgets and are more difficult for cities to fund in an era of declining revenues.

"City pension costs are skyrocketing as the chickens come home to roost," Lutar said. "Pension costs are drowning our cities in debt and taking money away from vital services because of short-sighted decisions of past politicians. If cities do not trim back these pension benefits we are likely to see further cuts to services, depletion of reserves and a push for higher taxes," Lutar said.

Variety of Pension Plans and Wide Range of Taxpayer Costs

In 11 cities, taxpayers pay the total pension bill for their public safety employees. In five cities, non-safety employees contribute nothing toward their pensions. In only three cities– Del Mar, La Mesa, and Vista – non-safety employees pay their full share of pension costs.

"There can be no definition of a 'fair' pension plan that makes taxpayers pay the entire cost with employees contributing nothing. That doesn't happen with Social Security or with private pensions, and it shouldn't happen for city employees either," Lutar said.

CalPERS offers a variety of pension plans for cities to select from with costs related to the generosity of the chosen plan. No city uses the least expensive formula.

As one typical example, the report shows that a city administrator with 30 years of service earning $75,000 at the peak of her career would receive an annual pension of $72,900 plus yearly cost of living increases. An equivalent benefit for an employee in the private sector retiring at age 60 would require an individual to have an IRA, 401k or other pension account worth more than $1.8 million.

"We don't oppose the idea of pensions for city employees, but it's not fair to make taxpayers fund pensions that are so generous that they are putting cities at the brink of insolvency," Lutar said. "The City of Vallejo, north of San Francisco, has been forced into bankruptcy by their labor costs. The same could happen here if cities don't get their benefit costs under control," Lutar added.

SDCTA Recommendations to Reform Pensions

SDCTA has been involved in pension reform for years. On June 19th, SDCTA's board of directors approved pension reform recommendations specific to CalPERS.

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"It is imperative that local governments take steps to address unsustainable pension costs now to avoid financial ruin and to maintain good financial health," Lutar added.

SDCTA's report recommends the following reforms:

- Cities should require employees to pay a normal share of pension costs as soon as possible.
- Retirement benefit formulas should be reduced for new hires.
- Pensions should be calculated based on an average of the highest paid 36 months of salary, not the highest paid 12 months to ensure the most conservative pension payout.

The entire report and the compiled data can be viewed online or downloaded at www.sdcta.org.

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.

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San Diego County Taxpayers Association

SAN DIEGO PENSION PLANS

PHASE I: CALPERS-CONTRACTED MUNICIPALITIES

October 2009

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- City of Poway
- City of San Marcos
- City of Santee
- City of Solana Beach
- City of Vista

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Executive Summary

Forward

When discussing public pensions, it is impossible to avoid technical terms. For this reason, we have outlined two basic terms that are critical to understand before proceeding.

Defined benefit plans are pension plans that specify (define) the benefit that an employee will receive at retirement. The contributions made into this plan by the employer and employees are determined by an actuary. These plans promise a specific benefit to retirees for life—regardless of investment returns. For instance, Sally Baldwin has worked thirty (30) years at a public agency and plans to retire this year. At her peak, Sally made $80,000. She was hired with a promise that after thirty years, she would earn 75% of her highest year's income. Upon retirement, Sally will earn $60,000 in annual pension benefits (with annual cost of living increases) for life.

This is in contrast to a **defined contribution plan**, which defines the amount an employer and employee can or must contribute to an individual account. It does not specify the benefit one will receive at retirement. Instead, contributions are made by employers and employees, which are then invested. The retirement benefit is based upon the total amount in the account after considering losses and expenses. The most common example of a defined contribution plan is a 401(k) plan.

Note: It is assumed that the reader has a basic understanding of public pensions.

It is recommended that those not familiar with public pensions and the California Public Employees' Retirement System (CalPERS) review the **Glossary of Terms** located on page fifty (50).

Introduction

With annual pension expenditures hovering near $100 million (and growing) for San Diego's seventeen (17) cities enrolled in the California Public Employees' Retirement System (CalPERS), it is apparent that the cost to provide public pensions is placing a significant burden on local government coffers. Local governments in the region contract with CalPERS to administer their public pension plans. These governments are given a set of benefits to choose from and, through negotiations with labor groups, these benefits are then offered to public employees.

The San Diego County Taxpayers Association (SDCTA) is a nonprofit, nonpartisan organization dedicated to promoting accountable, cost-effective, and efficient government. Prior to this report, SDCTA focused most of its pension reform efforts on the City and County of San Diego. This document is the result of our effort to better understand the region's pension plans—the variation and similarities of pension benefits offered, the cost to taxpayers, and their impact on municipality budgets. When we first attempted to gather this information, it quickly became evident that the information was not readily available to members of the public, and in some instances was cumbersome and costly to obtain. It was at that point that we determined it would benefit the public as a whole—citizens, government, elected officials, taxpayers and pension reform advocates— if the comprehensive data was gathered, organized and analyzed to serve as a resource for decision-makers and taxpayers. *To our knowledge, this is the first comprehensive regional pension report* *issued in the State of California*. The first phase of this report deals solely with CalPERS and the cities that use it to manage their public pension plans—hereafter referred to as San Diego CalPERS-contracted municipalities. More specifically, we have taken a look at the benefit formulas offered, the costs incurred by employers (governments) to provide these benefits, and the contributions (or lack thereof) of employees into their respective pension plans.

While we provide a lot of information pertaining to the basic pension benefits that are offered to employees of these seventeen (17) cities, there are also significant issues that are not addressed. Future phases will review additional benefits offered to public employees, such as retiree healthcare, and their costs to taxpayers. Subsequent reports will also examine the City of San Diego and County of San Diego pension plans, neither of which are part of CalPERS.

Background

CalPERS is a public pension system that manages retirement plans for 1.6 million public employees throughout the state, including: school employees, state employees, and local governments. We do not address the benefit systems of the California State Teachers' Retirement System (CalSTRS), the Public Agency Retirement System (PARS), or the benefits afforded by the City and County of San Diego.

There are seventeen (17) cities in San Diego that use CalPERS; the City and County of San Diego have their own pension systems. For each city, these pension benefits are separated into two categories—miscellaneous employees and safety employees. Safety employees are typically sworn officers (firefighters, police officers, and lifeguards), whereas miscellaneous employees are all other employees, such as engineers, city administrators, clerks, etc.

Public pensions are benefits that are afforded to most public agency employees as part of an employee's total compensation package. Most cities in the region do not offer Social Security as part of employee benefits, so pensions may prove to be the only retirement plan offered for city employees. The amounts that are contributed by employers and employees are determined actuarially; theoretically, these invested contributions will be sufficient to provide a specified retirement benefit with cost-of-living increases until the employee's death.

In the past decade, there have been significant policy shifts that have resulted in more generous pension benefits that consume a larger share of local government funds. In 1999, California Senate Bill (SB) 400 (Ortiz) provided an opportunity for state and local public safety officers to receive an additional 50% in retirement income with the creation of an additional, more generous retirement formula. In 2001, California Assembly Bill (AB) 616 (Calderon) offered three additional, increased formulas for all other employees. Both of these changes were approved in "good years" when investment returns were strong and pension obligations were significantly less than they are today. Following these legislative changes, many public agencies increased pension benefits.

The defined benefit formula that is used to calculate how much an employee will receive is as follows:

Annual Pension Benefits

=

years of service

(the number of years an employee worked at an agency)

x

final compensation

(the highest consecutive 12 or 36 months of salary)

x

benefit factor

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

An example of a miscellaneous employee with one of these newly adopted benefit formulas is provided below.

Example 1: Miscellaneous Employee Retirement Benefit

Assume Joe Smith, a city administrator, is working for the City of Happiness and has a 3% @ age 60 retirement formula with a final compensation of the 12 highest consecutive months of salary.

Using the formula provided, if Joe worked for the City for 25 years, retired at age 60, and made $100,000 at his peak, then he would receive $75,000 annually in retirement benefits (plus annual cost of living adjustments).

In addition to this benefit, there are various other benefits that are provided to public employees as well. One of the most important ones, which tends to get left out of the equation, is the additional amount employers pick up on the employees' behalf. CalPERS "requires" that employees contribute a certain amount to their public pension—dependent upon the benefit formula they are enrolled in; the higher the formula pays out, the more CalPERS "requires" employees to contribute. However, some cities offer to pay (or pick up) some or all of the employees' share (which ranges from 0%-9% of payroll). For cities that pick up some or all of the employee costs, CalPERS allows cities to report this as additional compensation, which increases the retirement payout of employees. See Example 2.

Example 2: Miscellaneous Employee Retirement Benefit with Pick-up Reported

The City of Happiness has offered to pick up the full 8% Joe Smith is "required" to contribute toward his pension plan. This means that Joe is now contributing *nothing* toward his retirement.

The City has also decided to report this pick up as additional compensation, which has increased his retirement payout by 8%. This means that instead of receiving $75,000 annually, Joe receives $81,000.

($75,000 +8%=$81,000)

Key Findings

There are significant trends as well as unique occurrences regarding pension benefits in San Diego's CalPERS-contracted municipalities, which are highlighted below. For more information on any one item, please review the pages associated with it below.

- Most public employees in San Diego contribute little to nothing toward their pension benefits. In eleven (11) cities, taxpayers pay the total pension bill for their public safety employees. In five (5) cities, non-safety employees contribute nothing toward their pensions—**page 24**.

- Cities offer employees the opportunity to pick up contributions (and report the value of these contributions) on their behalf, which increases annual pension payments by up to 9%. Sixteen (16) out of the seventeen (17) cities offer this benefit for at least some employees. In Chula Vista, for instance, this benefit alone cost the City $7.6 million in Fiscal Year 2007/2008, which resulted in a total pension cost of over $25 million—**page 24**.

- Higher pension costs may be correlated with efforts to increase taxes. Four (4) of the five (5) cities with the highest ratio of pension costs to General Fund (El Cajon, National City, La Mesa, and Chula Vista) have recently sought tax increases—**page 22**.

- El Cajon spends the most (as a ratio of pension costs to General Fund) on pensions: 19.84%, while Encinitas spends the least: 4.66%—**page 22**.

- In 2000 and again in 2002, state legislation was enacted that increased pension benefits for local public employees. As a result, of the plans reviewed, 76% of all public safety employee plans offer the most generous formula available (3% @ age 50) and half of all cities offer the most generous formula available for miscellaneous employees (3% @ age 60)—**page 14**.

- If the highest benefit formula (3% @ age 60) is offered for miscellaneous employees, and they contribute nothing to their pension plans, they have the opportunity to earn 97.2% of their highest year's salary after thirty years of service. For example, if an employee who contributes nothing to his pension plan retires after thirty years making $100,000 at his peak with 3% @ age 60 benefit formula, his base annual retirement benefit will be $97,200 ($97,200 = ($100,000+8%) x 30 x 3%). In comparison, the equivalent payout would require $2.4 million in a 401(k) account—**page 12**.

Conclusions & Recommendations

While legislative constraints limit the ability of cities to implement the type of pension reform SDCTA believes is necessary to achieve sustainability, cities can modify their plan benefits which would result in short-term and long-term savings. All of the seventeen (17) cities reviewed within this report have the opportunity to reduce their pension burden and thereby improve their financial health.

SDCTA recommends that cities begin to negotiate with their labor groups to achieve the following:

- Ensure public employees are contributing toward their pension. Too often public employees contribute little to nothing toward their retirement plan.

- Since retirement formulas cannot be lowered for active employees, a second, lower tier should be created for new hires. This tier should be created with the most conservative options available:

    a. Safety employees – 2% @ age 55 formula

    b. Miscellaneous employees:

        i. 1.5% @ age 65 if Social Security is offered

        ii. 2% @ age 60 formula if Social Security is not offered

    c. The average of the highest consecutive 36 months of salary should be used as the final compensation rather than the highest consecutive 12 months of salary to ensure the most conservative pension payout.

Methodology

Financial statements, valuations, and other information available from city websites, CalPERS, or through various public records requests were collected and analyzed. Significant efforts were made to ensure that all information contained in this report is as accurate as possible, reflecting plans and data made available through July 2009. After compilation of the materials, staff presented findings to each municipality for the opportunity to respond in a specific time frame to provide corrections; most cities have verified the information presented in this document.

Efforts have also been made to ensure consistency in reporting throughout the cities. However, since cities report data differently, SDCTA had to establish a standard from which to report information. This became especially relevant for presentation of General Fund costs. Due to the inconsistencies among the ways cities report, "General Fund" includes total actual General Fund expenditures and total actual "transfers out"—money transferred out of the General Fund to other funds or for other expenditures not otherwise included in expenditures—as reflected in fiscal year 2007/2008 financial statements for each city.

Nine (9) of the seventeen (17) cities contract with the County of San Diego for law enforcement; however, not every one of these cities provides the costs of these contracts in their financial statements. For this reason, these costs have not been taken out of the General Fund calculations for cities.

Section 1: Background of CalPERS and Public Pensions

There are two basic retirement plans: defined benefit and defined contribution. **Defined benefit pension plans** are those in which current employees as well as the pension plan sponsor make annual contributions to the plan (a trust). Theoretically, these contributions and the investment earnings of the plan will be sufficient to fund retirement benefits. This is a guaranteed annual pension that is based on a formula of variables (retirement age, years of service, salary, etc.). **Defined contribution plans** specify contributions at a fixed-dollar or fixed-rate amount. The benefits of these plans, e.g. 401(k) plans, are based on contributions and investment earnings.

Throughout San Diego, there are several different pension systems. The California Public Employees Retirement System (**CalPERS**) is the pension system that governs most cities in the region, while the City of San Diego and the County of San Diego have their own retirement systems, San Diego City Employees' Retirement System (**SDCERS**) and San Diego County Employees Retirement Association (**SDCERA**), respectively.

CalPERS, SDCERS, and SDCERA have administered defined benefit plans for decades. CalPERS was originally established for state public employees under California law in 1931. This option was extended to local governments in 1939, and now there are over 1.6 million members participating in CalPERS—making it the largest public pension system in the nation. Cities contract with CalPERS to provide pension benefits to their employees. Retirees of CalPERS-contracted cities fall into two categories: miscellaneous employees and safety employees. Safety employees are those working as police officers, fire fighters, and lifeguards (with some exceptions), while miscellaneous employees are the general employees (e.g. city administrators).

CalPERS operates off of several different **benefit formulas**—dependent upon the employer, occupation, and contract. An important component of the benefit formula is the **final compensation**, which is either an average of the highest consecutive 36 months of salary or the highest consecutive 12 months of salary. Final compensation is critical in determining the amount one will receive upon retirement. Figure 1 shows the formula that calculates how much a retiree will receive in annual pension benefits upon retirement.

Defined benefit pension plan: employees and employers make annual contributions into a plan that defines the level of benefit received at retirement.

Defined contribution pension plan: contributions are specified at a fixed dollar or percentage amount and the benefits of these plans are based upon contributions and investment earnings.

CalPERS: California Public Employees' Retirement System, established in 1931. CalPERS offers a defined benefit pension plan for contracted public agencies.

SDCERS: San Diego City Employees' Retirement System, established in 1927. SDCERS offers a defined benefit pension plan for employees in the City of San Diego.

SDCERA: San Diego County Employees' Retirement Association, established in 1939. SDCERA offers a defined benefit pension plan for employees in the County of San Diego and specific entities associated with it.

Benefit formula: specifies the level of benefits an employee will receive based upon a specified formula, e.g. 2% @ 50. The formula is based upon the years of service, final average compensation, and a benefit factor.

Final compensation: average highest consecutive 12 or 36 months of salary that is used as part of the benefit formula that will determine the annual retirement benefit.

Figure 1: CalPERS Annual Pension Benefit Formula

Annual Pension Benefits

=

years of service[1]

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

x

final compensation

(the highest consecutive 12 or 36 months of salary)

x

benefit factor

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

Table 1 shows the "menu" of options CalPERS-contracted municipalities can choose from for their employee pension benefit formulas.

Table 1: CalPERS Retirement Formulas

Employee Formula Type - Miscellaneous					
Formula	2% @ 55	2.5% @ 55	2.7% @ 55	2% @ 60	3% @ 60
Employee Formula Type - Safety					
Formula	2% @ 50	2% @ 55	3% @ 50	3% @ 55	

These benefit formulas have been created by state legislation as contract options for local governments. However, some of these benefit formulas are recent additions. Senate Bill (SB) 400 (Ortiz), which was signed by Governor Gray Davis in 1999, created an additional level of benefits for state and local public safety workers. SB 400 not only introduced the costly 3% @ 50 formula (the most generous available), but it also mandated that when agencies upgrade to that formula, they offer the benefits for all active employees from the date of hire. The last floor analysis read this:

> *"The new formula would provide a retirement benefit factor of 3% at age 50 and would be available as a contract option for local contracting agencies. This formula would supersede the present 2% at age 50 formula for both past and future service."* [2]

In 1999, CalPERS experienced strong investment returns that exceeded expectations. The last Senate Floor analysis determined that there was little fiscal impact if SB 400 were adopted, since CalPERS had "superior return on system assets in recent years."[3] Many cities in the region saw this as a low-cost option to reward government employees. Public pensions were consuming much less of their budget, and many cities even had "super-funded status" by the time they adopted this formula, which meant that they did not have to (and in most cases did not) contribute anything to CalPERS.

Two years later, Governor Gray Davis signed Assembly Bill (AB) 616 (Calderon) offering three additional, increased benefit formulas for miscellaneous employees: 2.5% @ 55, 2.7% @ 55, and 3% @ 60.

The last Assembly Floor analysis stated the following:

> *"Supporters further state that with the passage of SB 400 (Ortiz), Chapter 555, Statutes of 1999, local safety members received authorization to negotiate a 50% increase in their benefit while local miscellaneous members were not offered a commensurate formula. This bill seeks to provide a local option formula for these members that would increase their retirement benefits by 33%."* [4]

An example of a 3% @ 60 benefit formula and its annual pension benefit is provided below in Example 1.

Example 1: Miscellaneous Employee Retirement Benefit

Assume Joe Smith, a city administrator, is working for the City of Happiness and has a 3% @ 60 retirement formula with a final compensation of the 12 highest consecutive months of salary.

Using the formula provided in Figure 1, if Joe worked for the City for 25 years, retired at age 60, and made $100,000 per year at his peak, then he would receive $75,000 annually in retirement benefits (plus annual cost of living adjustments).

To determine an equivalent annual benefit for a 401(k) retirement account with annual cost of living increases and survivor benefits, the following formula was used (which assumes a conservative 4% rate of return on investments):[5]

Figure 2: 401(k) Investment Formula

401(k) investment
=
(85 - years old at retirement)
x
annual pension salary

Example 2 shows the amount that would be needed using the formula in Figure 2 to reach the same retirement benefit illustrated in Example 1.

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

Using the formula from Figure 2, to retire at age 60 with a $75,000 retirement, $1.875 million is needed in a 401(k) account.

Section 2: San Diego Pension Plans for CalPERS-Contracted Municipalities

This section provides aggregate information on San Diego's seventeen (17) cities enrolled in CalPERS. There are nine (9) cities in the region that contract for law enforcement with the County: Del Mar, Encinitas, Imperial Beach, Lemon Grove, Poway, San Marcos, Santee, Solana Beach, and Vista. This report focuses solely on the benefits and related costs provided by contracting with CalPERS, and it does not consider the indirect pension funds provided to the County of San Diego's retirement system. See Table 2 for the municipalities reviewed.

Table 2: San Diego Municipalities Reviewed

Municipality	Population (2008 Census Est.)
Carlsbad	96,374
Chula Vista	219,318
Coronado	22,633
Del Mar	4,447
El Cajon	92,718
Encinitas	60,372
Escondido	137,103
Imperial Beach	26,543
La Mesa	54,673
Lemon Grove	24,089
National City	58,680
Oceanside	169,684
Poway	48,858
San Marcos	79,114
Santee	53,860
Solana Beach	12,825
Vista	91,144

Benefit Formulas

CalPERS currently has five (5) formulas available for miscellaneous employees and four (4) formulas for safety employees at the local level. Based upon the benefit factor and retirement age in the benefit formulas, SDCTA has ranked these formulas from most conservative to most generous. See Figure 3.

Figure 3: SDCTA's Sliding Scale of Pension Benefits

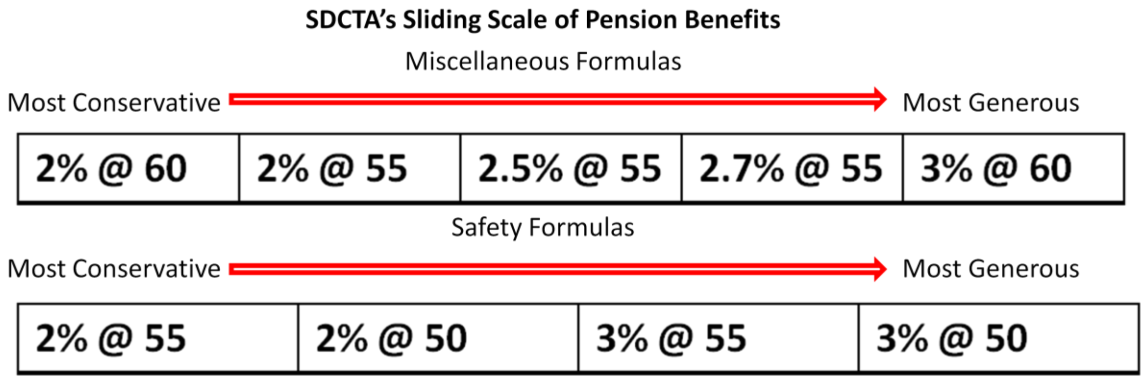

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Table 3 shows these formulas and final compensation methods for each of the CalPERS-contracted cities in San Diego.

Table 3: Retirement Formulas and Final Compensation Method for San Diego's CalPERS-Contracted Municipalities

City	Miscellaneous Workers		Safety Workers	
	Retirement Formula	Final Compensation	Retirement Formula	Final Compensation
Carlsbad	3% @ 60	12-month	3% @ 50	12-month
Chula Vista	3% @ 60	12-month	3% @ 50	12-month
Coronado	3% @ 60	12-month	3% @ 50	12-month
Del Mar	3% @ 60	36-month	3% @ 50 (fire)	36-month
			2% @ 50 (lifeguard)	36-month
El Cajon	3% @ 60	12-month	3% @ 50	12-month
Encinitas	2.7% @ 55	12-month	3% @ 55 (fire)	12-month
			3% @ 55 (lifeguard)	12-month
Escondido	3% @ 60	12-month	3% @ 50	12-month
Imperial Beach	2.7% @ 55	12-month	3% @ 50 (fire)	12-month
			2% @ 50 (lifeguard)	12-month
La Mesa	3% @ 60	12-month	3% @ 50	12-month
Lemon Grove	2.5% @ 55	12-month	3% @ 55	12-month
National City	3% @ 60	12-month	3% @ 50	12-month
Oceanside	2.7% @ 55*	12-month	3% @ 50	12-month
Poway	2% @ 55	12-month	3% @ 50	36-month
San Marcos	2.7% @ 55	12-month	3% @ 50	12-month
Santee	2.7% @ 55	12-month	3% @ 50	12-month
Solana Beach	2.5% @ 55	12-month	3% @ 50 (fire)	12-month
			3% @ 50 (lifeguard)	12-month
Vista	3% @ 60	12-month	3% @ 50	12-month

Source: CalPERS Annual Employer Statements, City Memorandums of Understanding with Labor Unions, and interviews with city staff.
*Oceanside switched in the summer of 2009 to a 2.7% @ 55 for its miscellaneous members.

Findings for San Diego Benefit Formulas for Miscellaneous Plans:

- There are no cities that operate with the most conservative (or least generous) formula available (2% @ 60).
- Poway is the only city that operates with the second most conservative formula (2% @ 55).
- Only two cities operate with 2.5% @ 55 (Lemon Grove and Solana Beach), while five operate with 2.7% @ 55 (Encinitas, Imperial beach, Oceanside, San Marcos, and Santee).
- 3% @ 60 (the most generous option available) is the most commonly used formula. The following cities use this formula: Carlsbad, Chula Vista, Coronado, Del Mar, El Cajon, Escondido, La Mesa, National City, and Vista.
- Only one city offers a 36 month final compensation period (Del Mar).
- The sixteen (16) other cities offer 12-month final compensation periods.

- There are only four (4) cities that offer Social Security benefits for miscellaneous employees: Coronado, Imperial Beach, La Mesa, and San Marcos.

Findings for San Diego Benefit Formulas for Safety Plans:

- There are no cities or plans that operate with the most conservative formula available (2% @ 55).
- Del Mar's Lifeguard plan and Imperial Beach's Lifeguard plan operate with the second most conservative formula available (2% @ 50), while two cities operate with 3% @ 55 (Encinitas and Lemon Grove).
- 3% @ 50 (the most generous option available) is the most commonly used formula. The following cities/plans use this formula: Carlsbad, Chula Vista, Coronado, Del Mar (Fire), El Cajon, Escondido, Imperial Beach (Fire), La Mesa, National City, Oceanside, Poway, San Marcos, Santee, Solana Beach, and Vista.
- Only three plans offer 36-month final compensation (Del Mar's Fire and Lifeguard plans and Poway's safety).
- Eighteen (18) other plans offer 12-month final compensation periods.
- Imperial Beach is the only city that has safety plans participating in Social Security in addition to CalPERS.

Employer Pension Costs

Personnel costs, including public pensions, consume an increasing portion of public agencies' **General Funds**. This is for many reasons, including but not limited to: increasing costs of benefits, excessive unfunded liability payments, underfunding of pension obligations, and less-than-expected investment returns. To capture how much taxpayer money is going into public pensions, we have provided an overview of each city's employer contribution rate, normal cost, and payment on unfunded liability. In addition, we have also included what this illustrates as a ratio of pension costs to General Fund. To provide more detailed information, a snapshot for each city is located in the appendix.

CalPERS actuaries analyze and assess assets and liabilities of a municipality's pension plan to determine the level of contribution needed to achieve a specified benefit level. One important component of pension obligations is the employer contribution. The **employer contribution rate** for most cities is the **normal cost** plus a payment on the amortization of the **unfunded liability**, expressed as a percentage of payroll. Unfunded liability is created when actual experience does not match the assumptions used—requiring the city to participate in a payment plan to make up the difference. Rarely is there a perfect match between actuarial assumptions and actual experience. Some of the circumstances that can create large unfunded liabilities include: less-than-assumed investment returns, benefit improvements with retroactive applicability for all prior years of service, demographic changes, or when actual experience does not directly match actuarial assumptions (e.g. low employee turnover, pay increases above those assumed, etc.). This unfunded liability is amortized, and cities pay the interest on it each year in their employer contribution rate.

To determine how much each city owes in pension obligations, the employer contribution rate is multiplied by the payroll of those enrolled in the system (**annual covered payroll**). This is known as the **annual required contribution (ARC)**. There are separate employer contribution rates for each plan a city is enrolled in. For most city plans, the total employer contribution rate is a combination of the normal cost and an amortized payment of unfunded liability. However, some cities and plans are **risk pooled**, so their employer contribution rates are made up of a variety of factors, including: normal cost, payment on the pool's unfunded liability, a phase out of the normal cost difference, surcharges on certain classes of benefits, and amortization of their side fund.[6] For purposes of this report, we have only included payment on unfunded liability (amortization of side fund plus payment on the pool's unfunded liability) and normal cost. It is also important to remember that some cities may have lower payments on their identified unfunded liability due to issuing **pension obligation bonds** (POBs) in prior years.

General Fund: a government fund that typically serves as the main operating fund for governments.

Employer contribution rate: required contribution of employers into the pension system. It is based on a percentage of payroll. It is typically made up of the normal cost of a system and the payment on the amortization of unfunded liability.

Normal cost: the cost of service for all active employees in the fiscal year.

Unfunded liability: shortfall due to demographic changes, actuarial assumptions not equaling actual experience, and higher or lower than expected investment returns. This is amortized and included as a payment within the employer contribution rate.

Annual covered payroll: payroll eligible for pension benefits; the employer contribution rate is shown as a percentage of the annual covered payroll.

Annual required contribution (ARC): contribution required to the pension system based upon payroll and actuarial assumptions. It is determined by multiplying the employer contribution rate by the annual covered payroll.

Risk pooled: CalPERS risk pools are multiple plans that share the risk of investment returns. All of the assets and liabilities are pooled together so there is less rate volatility.

Pension obligation bonds (POBs): bonds issued to fund all or a portion of unfunded liability.

A city's total pension costs may not be limited to the annual required contribution. Some cities also pick up the employee's share of contributions, which is referred to as the employer paid member contribution. See Figure 4. The details of this will be discussed in the next section of this report.

Figure 4: Formula on Pension Costs to a City

Pension Costs to a City

=

Annual Required Contribution (ARC)

(Employer Contribution Rate x Annual Covered Payroll)

+

Employer Paid Member Contribution (EPMC)

(The amount picked up on behalf of the employee)

Note: Some cities may have additional pension obligations, such as debt payments on pension obligation bonds.

Table 4 shows each city's components of the Annual Required Contribution payment. As shown, there is the least variability among normal cost rates.

Table 4: Miscellaneous Plans' Normal Costs, Unfunded Liability Payments, and Employer Contribution Rates for San Diego CalPERS-Contracted Municipalities as a Percentage of Annual Covered Payroll

City	Miscellaneous Plans		
	2009/2010 Normal Cost	2009/2010 Payment of Unfunded Liability	2009/2010 Employer Contribution Rate (total to pay as % of payroll)
Carlsbad	12.20%	8.96%	21.15%
Chula Vista	12.24%	5.91%	18.15%
Coronado	10.41%	5.04%	15.41%
Del Mar*	10.47%	9.30%	20.46%
El Cajon	9.85%	11.55%	21.39%
Encinitas	10.04%	6.23%	16.27%
Escondido	10.12%	8.57%	18.68%
Imperial Beach*	9.74%	2.86%	13.18%
La Mesa	10.23%	8.51%	18.74%
Lemon Grove*	8.40%	5.71%	14.95%
National City	11.69%	4.70%	16.40%
Oceanside	8.37%	0.78%	9.15%
Poway	8.12%	3.50%	11.62%
San Marcos	9.78%	10.99%	20.76%
Santee*	9.74%	3.00%	13.51%
Solana Beach*	8.40%	4.69%	14.09%
Vista	10.74%	5.09%	15.83%

Source: CalPERS Valuation Reports, October 2008 (based on FY 2007/2008)
* Denotes plan is risk pooled.

Findings for San Diego Employer Costs for Miscellaneous Plans:

- Employer contribution rates range anywhere from 9.15% (Oceanside) to 21.39% (El Cajon) of annual covered payroll. The average employer contribution rate is 16.46% of annual covered payroll.
- Unfunded liability payments range anywhere from .78% (Oceanside) to 11.55% (El Cajon) of annual covered payroll. The average unfunded liability payment is 6.20% of annual covered payroll.
- Employer normal costs range anywhere from 8.12% (Poway) to 12.24% (Chula Vista) of annual covered payroll. The average employer normal cost is 10.03% of annual covered payroll.

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Table 5 shows the components of the annual required contribution payment for safety plans. Similar to miscellaneous plans, normal cost has the least variability.

Table 5: Safety Plans' Normal Costs, Unfunded Liability Payments, and Employer Contribution Rates for San Diego CalPERS-Contracted Municipalities as a Percentage of Annual Covered Payroll

City	Safety Plans		
	2009/2010 Normal Cost	2009/2010 Payment of Unfunded Liability	2009/2010 Employer Contribution Rate (total to pay as % of payroll)
Carlsbad	18.09%	10.34%	28.43%
Chula Vista	18.16%	5.07%	23.23%
Coronado*	15.59%	11.40%	28.11%
Del Mar-Fire*	15.59%	28.11%	43.23%
Del Mar -Lifeguard*	11.46%	-0.78%	11.02%
El Cajon	16.30%	12.96%	29.26%
Encinitas-Fire*	13.36%	1.68%	17.47%
Encinitas-Lifeguard*	13.36%	1.68%	16.38%
Escondido	18.74%	11.35%	30.10%
Imperial Beach-Lifeguard*	11.46%	1.93%	15.00%
Imperial Beach-Fire*	15.59%	9.78%	26.32%
La Mesa	16.71%	7.45%	24.16%
Lemon Grove*	13.36%	4.53%	18.70%
National City	18.21%	10.19%	28.40%
Oceanside	18.16%	4.05%	22.21%
Poway*	15.59%	8.20%	23.56%
San Marcos*	15.59%	5.26%	23.15%
Santee*	15.59%	6.66%	24.31%
Solana Beach-Fire*	15.59%	16.00%	32.26%
Solana Beach -Lifeguard*	15.59%	12.92%	30.43%
Vista*	15.59%	9.20%	25.42%

Source: CalPERS Valuation Reports, October 2008 (based on FY 2007/2008)
* Denotes plan is risk pooled.

Findings for San Diego Employer Costs for Safety Plans:

- Employer contribution rates range anywhere from 11.02% (Del Mar-Lifeguard) to 43.23% (Del Mar-Fire). The average employer contribution rate is 24.82%.
- Unfunded liability payments range anywhere from -.78% (Del Mar-Lifeguard) to 28.11% (Del Mar-Fire). The average unfunded liability payment is 8.47%.
- Employer normal costs range anywhere from 11.46% (Del Mar-Lifeguard) to 18.74%

(Escondido). The average employer normal cost is 15.61%.

Table 6 provides detailed information on cities that have an unfunded liability associated with their pension plans. As shown below, all cities in San Diego have some type of unfunded liability—even if risk pooled. Risk pool rates are not shown here, since they provide the unfunded liability for the entire pool and not just the city enrolled in it.

Table 6: Unfunded Liabilities for San Diego's CalPERS-Contracted Municipalities

Cities/Plans	Unfunded Liability for 2007/2008
Carlsbad - All	$ 59,763,034
Chula Vista - All	$ 89,937,245
Coronado- Miscellaneous	$ 5,861,121
Coronado- Safety	risk pooled
Del Mar - All	risk pooled
El Cajon - All	$ 65,316,286
Encinitas-Miscellaneous	$ 10,987,279
Encinitas-Safety	risk pooled
Escondido - All	$ 87,454,816
Imperial Beach - All	risk pooled
La Mesa - All	$ 21,729,341
Lemon Grove - All	risk pooled
National City - All	$ 25,291,355
Oceanside - All	$ 24,269,326
Poway-Miscellaneous	$ 6,849,992
Poway-Safety	risk pooled
San Marcos-Miscellaneous	$ 19,283,550
San Marcos-Safety	risk pooled
Santee - All	risk pooled
Solana Beach - All	risk pooled
Vista-Miscellaneous	$ 9,702,467
Vista-Safety	risk pooled
Total non-risk pool unfunded liability:	$ 426,445,812

Source: CalPERS Valuation Reports, October 2008 (based on FY 2007/2008)

Through city financial statements, we have determined what each municipality is spending as a ratio of their annual required contribution to their General Fund. See methodology within the Executive Summary for more detail. This helps to put the impact of pension obligations on city budgets into context. See Table 7 for the ratios on the cities reviewed.

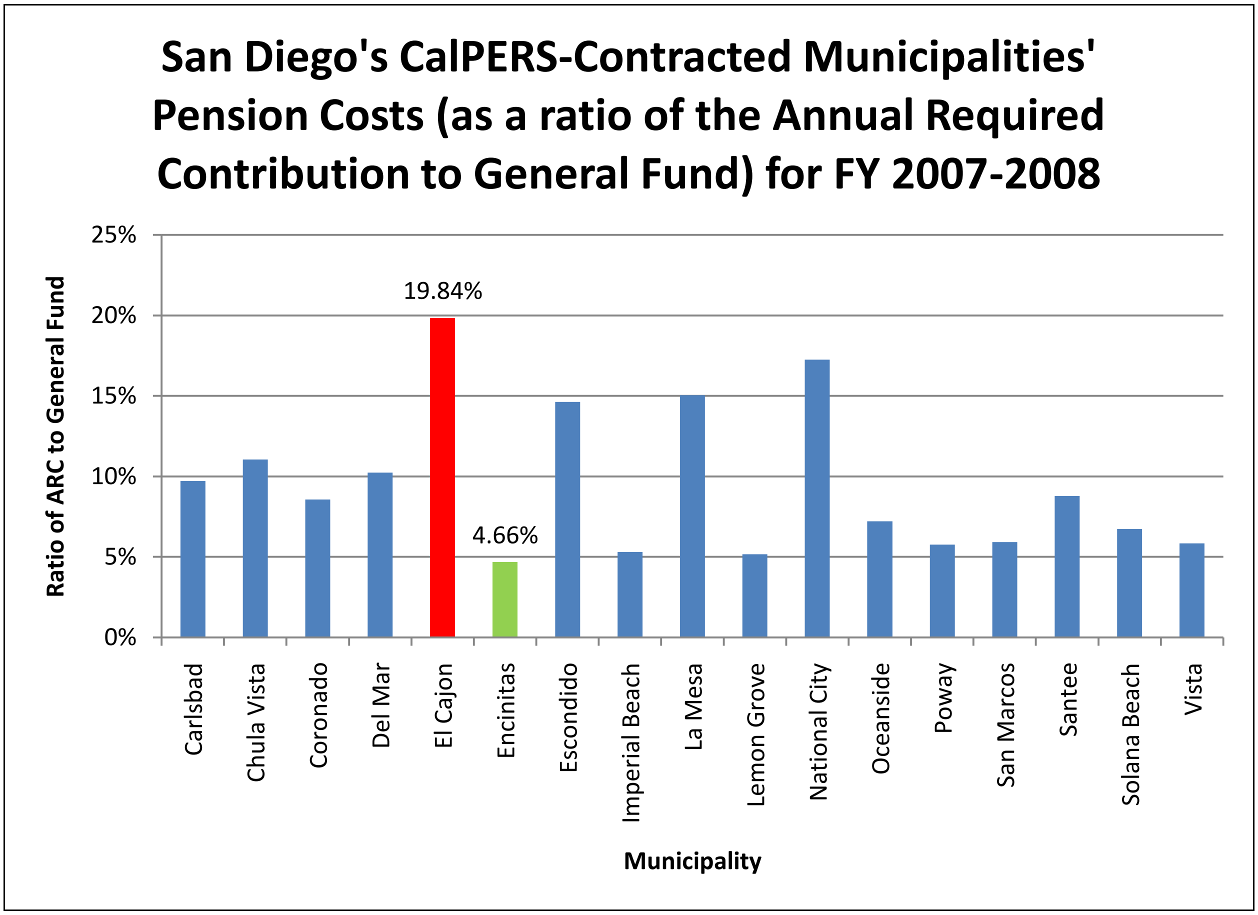
Table 7: Ratio of Annual Required Contribution to General Fund for San Diego CalPERS-Contracted Municipalities in Fiscal Year 2007/2008

City	Annual Required Contribution for FY 2007/2008	Ratio of Annual Required Contribution (ARC) to General Fund for FY 2007/2008
Carlsbad	$ 11,935,983	9.71%
Chula Vista	$ 17,545,936	11.05%
Coronado	$ 3,162,622	8.57%
Del Mar	$ 1,226,004	10.23%
El Cajon	$ 11,137,506	19.84%
Encinitas	$ 2,891,341	4.66%
Escondido	$ 13,873,838	14.64%
Imperial Beach	$ 770,665	5.31%
La Mesa	$ 5,594,910	15.05%
Lemon Grove	$ 693,369	5.17%
National City	$ 6,431,090	17.25%
Oceanside	$ 8,917,132	7.21%
Poway	$ 2,423,000	5.77%
San Marcos	$ 3,689,508	5.93%
Santee	$ 2,783,201	8.79%
Solana Beach	$ 968,988	6.75%
Vista	$ 4,140,340	5.85%

Source: 2007/2008 Financial Statements.

Figure 5 shows how much each city is spending on pensions as a ratio of their ARC to their General Fund. As shown below, there is a lot of variability in the amounts expended by cities to maintain their public pension system.

Figure 5: San Diego's CalPERS-Contracted Municipalities' Pension Costs for FY 2007/2008



Source: 2007/2008 Financial Statements.

Employer Paid Member Contributions –The Pick Up

Employers (governments) have the ability to pick up a portion or all of the **normal employee contribution rate** into CalPERS. This is referred to as **employer paid member contributions** (EPMC). The amount that employees are "required" to pick up is dependent upon the retirement formula they are enrolled in. Higher benefit formulas "require" a higher contribution from employees. See Table 8.

Table 8: CalPERS Employee Formulas and Corresponding Normal Employee Contribution Rates

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.

The benefits, however, are not strictly limited to employers picking up the employee share. There is also the opportunity for employers to report the value of this pick up (EPMC) as additional compensation. Reporting the value of EPMC gives employees a pension boost of the equivalent pick up rate. See Figure 6 and Example 3.

Figure 6: Annual Pension Benefit Formula with EPMC Reported

Annual Pension Benefits

=

years of service

(the number of years an employee worked at an agency)

x

final compensation

(the highest consecutive 12 or 36 months of salary)

x

benefit factor

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

+

EPMC offered

(the amount that the employer picks up—and reports—on behalf of the employee)

Employer paid member contribution (EPMC): Share of the "normal employee contribution rate" that is picked up by the employer.

Normal employee contribution rate: Amount "required" by CalPERS that the employee contributes into the system; it is based off of the pension benefit formula.

Reporting the value of EPMC: CalPERS affords the opportunity for cities that choose to offer Employer-Paid Member Contributions to report those contributions as additional income. This amount is then calculated into the final compensation period, increasing the annual pension benefit of employees.

Example 3: Miscellaneous Employee Retirement Benefit with EPMC Reported

If Joe Smith, the city administrator working for the City of Happiness, has a 3% @ 60 retirement formula with a final compensation of the 12 highest consecutive months of salary, he would be "required" to contribute 8% of his salary into his pension plan.

However, if the City decides to pick up the 8% contribution on his behalf and reports the value of that contribution as additional compensation, Joe Smith would receive an 8% increase in his annual pension benefit.

Using the formula provided, if Joe worked for the City for 25 years, retired at age 60, and made $100,000 at his peak, he would receive $81,000 annually in retirement benefits (plus annual cost of living adjustments).

As explained in Example 3, Figure 7 shows the effect EPMC can have on annual retirement benefits for miscellaneous and safety employees with the most generous formulas.

Figure 7: Effect of Reporting the Value of EPMC on Annual Pension Benefits

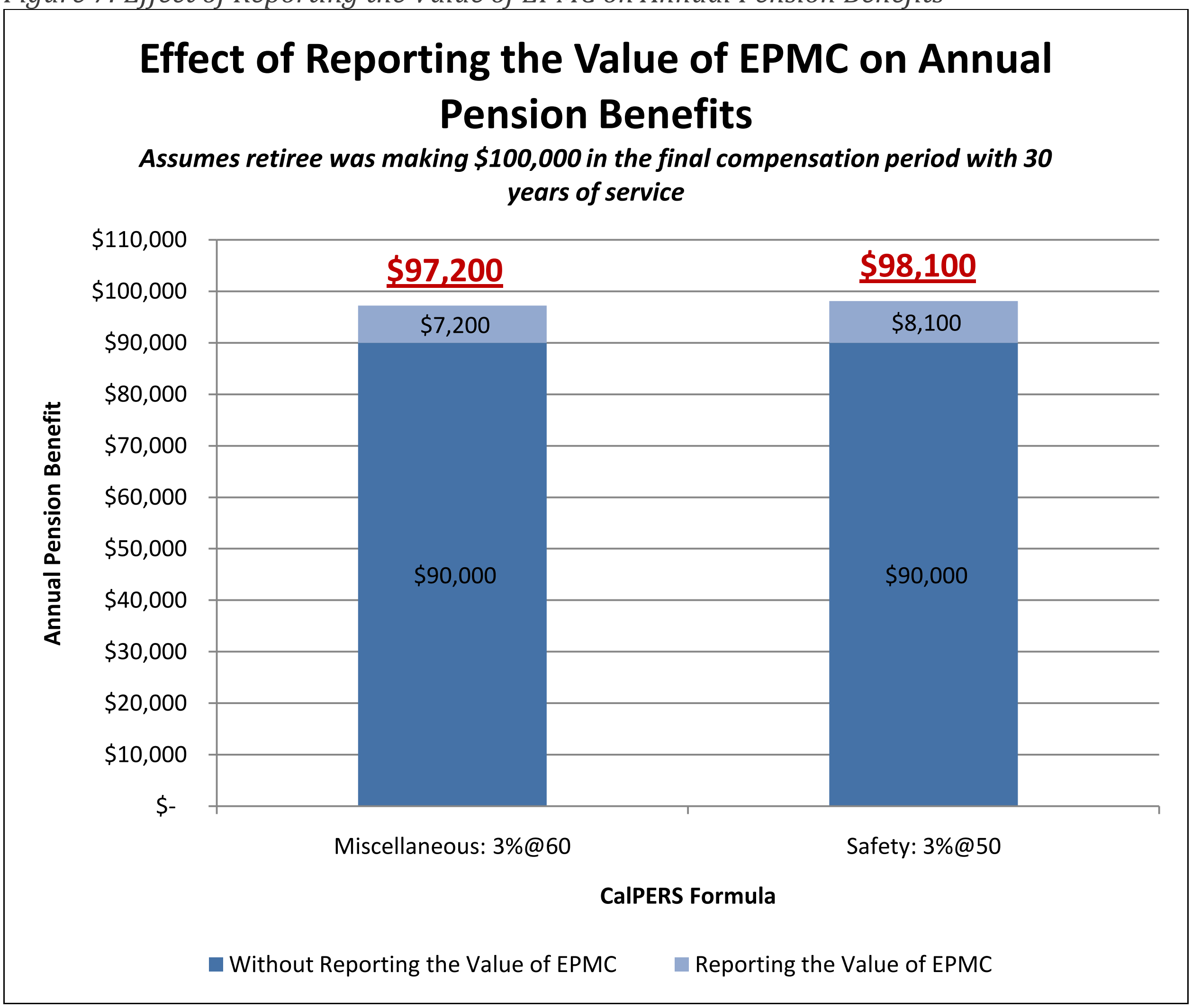


Table 9 below shows how much miscellaneous employees are "required" to contribute, what they *actually* end up contributing, the amount picked up by employers (EPMC), and whether or not cities report the value of that pick up to CalPERS as additional compensation.

Table 9: Miscellaneous Member Contribution Rates for San Diego's CalPERS-Contracted Municipalities

City	Miscellaneous Workers			
	Normal Employee Contribution Rate	Actual Employee Contribution Rate	EPMC	Reports the Value of EPMC
Carlsbad	8.0%	1.0%	7.0%	✗
Chula Vista	8.0%	0.0%	8.0%	✓
Coronado	8.0%	0.0%	8.0%	✓ *
Del Mar	8.0%	8.0%	0.0%	✗
El Cajon	8.0%	0.0%	8.0%	✓
Encinitas	8.0%	4.4%	3.6%	✓
Escondido	8.0%	1.0%	7.0%	✓
Imperial Beach	8.0%	6.0%	2.0%	✗
La Mesa	8.0%	8.0%	0.0%	✗
Lemon Grove	8.0%	1.0%	7.0%	✗
National City	8.0%	2.0%	6.0%	✗
Oceanside	8.0%	4.0%	4.0%	✓
Poway	7.0%	3.0%	4.0%	✓
San Marcos	8.0%	0.0%	8.0%	✓
Santee	8.0%	0.0%	8.0%	✓
Solana Beach	8.0%	1.5%	6.5%	✓
Vista	8.0%	8.0%	0.0%	✗
*denotes that only some members in the plan receive this benefit				

Source: Memorandums of Understanding and Interviews with Staff of Cities.

Findings for San Diego EPMC for Miscellaneous Plans:

- Five (5) cities offer full EPMC, i.e. employees contribute *nothing* into their pension plan: Chula Vista, Coronado, El Cajon, San Marcos, and Santee.
- Three (3) cities pick up all but 1% of the employee contribution: Carlsbad, Escondido, and Lemon Grove.

- Three (3) cities do not pick up any of the employee contribution, in other words the employees of these cities pay their full contribution: Del Mar, La Mesa, and Vista.
- Out of the fourteen (14) cities that offer EPMC, ten (10) report the value of it as additional compensation for at least some of their employees: Chula Vista, Coronado, El Cajon, Encinitas, Escondido, Oceanside, Poway, San Marcos, Santee, and Solana Beach.

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Table 10 below shows how much safety employees are "required" to contribute, what they *actually* end up contributing, the amount picked up by employers (EPMC), and whether or not cities report the value of that pick up to CalPERS as additional compensation.

Table 10: San Diego's CalPERS-Contracted Municipalities' Safety Member Contribution Rates

City	Safety Workers			
	Normal Employee Contribution Rate	Actual Employee Contribution Rate	EPMC	Reports the Value of EPMC
Carlsbad	9.0%	1.0%	8.0%	✓
Chula Vista	9.0%	0.0%	9.0%	✓
Coronado	9.0%	0.0%	9.0%	✓
Del Mar	9.0%	5.0%	4.0%	✗
El Cajon	9.0%	0.0%	9.0%	✓
Encinitas	9.0%	0.0%	9.0%	✓
Escondido	9.0%	0.0%	9.0%	✓
Imperial Beach	9.0%	0.0%	9.0%	✓ *
La Mesa-Fire	9.0%	9.0%	0.0%	✗
La Mesa-Police	9.0%	0.0%	9.0%	✓
Lemon Grove	9.0%	0.0%	9.0%	✓
National City	9.0%	0.0%	9.0%	✓ *
Oceanside	9.0%	0.0%	9.0%	✓
Poway	9.0%	3.0%	6.0%	✓
San Marcos	9.0%	0.0%	9.0%	✓
Santee	9.0%	0.0%	9.0%	✓
Solana Beach-Fire	9.0%	2.0%	7.0%	✓
Solana Beach-Lifeguard	9.0%	1.7%	7.3%	✓
Vista	9.0%	8.0%	1.0%	✓
*denotes that only some members in the plan receive this benefit				

Source: Memorandums of Understanding and Interviews with Staff of Cities.

Findings for San Diego EPMC for Safety Plans:

- Eleven (11) cities offer full EPMC, i.e. employees contribute *nothing* into their pension plan: Chula Vista, Coronado, El Cajon, Encinitas, Escondido, Imperial Beach, Lemon Grove, National City, Oceanside, San Marcos, and Santee.
- La Mesa's Police Plan offers full EPMC, but La Mesa's Fire Plan does not offer EPMC at all.
- Nearly all cities report the value of EPMC as additional compensation for at least some of their public safety employees. Only one city (Del Mar) does not offer the additional benefit of reporting the value of EPMC as additional compensation for all public safety employees.

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Conclusions

The cost of providing the current level of public pension benefits in the San Diego region is significant. In some instances, pension costs consume nearly 20% of the entire General Fund. CalPERS has reported that public sector employer rates for pension costs are expected to increase every year for the next 30 years.

At a recent seminar in Sacramento, CalPERS' Chief Actuary, Ron Seeling, was quoted as saying,

> *"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."*

For many years we have advocated for pension reform in local government because we share this concern that pension costs are unsustainable. The current market losses amplify and exacerbate the problem, but it should be clear that these pension costs were unsustainable prior to the current economic downturn, and they will continue to threaten financial stability for local governments even when markets regain their strength. The problems are systemic; unless they are corrected they will continue to undermine the ability of cities to deliver basic services to their residents.

In recent years, we have witnessed several cities deplete their reserves to dangerously low levels, then ask voters to increase taxes or suffer service losses. Those same cities have blamed their fiscal calamities on the State of California or the economy. While both of those factors have unarguably contributed to their challenges, it is also true that the increased cost of pensions is significant, if not the chief cause of their fiscal situation.

Our evaluation of the seventeen (17) CalPERS-contracted cities in San Diego County clearly shows that local governments have several options by which they can reduce their pension costs. The reforms we suggest should become the cornerstone of future negotiations with employee representatives, and we urge cities to do so at the earliest possible date. First and foremost, cities should stop picking up the employees' share of pension contributions. This can save cities as much as 9% of payroll for public safety employees and 8% of payroll for miscellaneous employees. Second, pension benefits for new employees should be rolled back using a 2% at age 55 formula for public safety employees, currently the most conservative option available under CalPERS. For miscellaneous employees enrolled in Social Security, a 1.5% at age 65 formula should be provided; for those without Social Security, a 2% at age 60 formula. Finally, to ensure the most conservative pension payout, the average of the highest consecutive 36 months of salary should be used as the final compensation method.

It is critical to understand that our recommendations are limited to those which can be implemented under current legislative constraints, as these pension formula options are regulated by the State. While implementation of our recommendations will result in substantial savings, SDCTA strongly believes that State legislation must be modified to achieve sustainable retirement benefits.

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Appendix 1A: City of Carlsbad Pension Profile

City of Carlsbad Pension System

	Miscellaneous	Fire & Police
Formula	3% @ 60	3% @ 50
Risk Pooled	no	no
Social Security	no	no
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	21.15%	28.43%
Employer Paid Member Contributions (EPMC)	7%	8%
Employee Paid	1%	1%
Unfunded Liability (as of 2007)	$35,578,595	$24,184,439

City of Carlsbad Pension Obligations

	Miscellaneous	Fire & Police	Total
Annual Required Contribution (2007/2008)	$6,737,651	$5,198,332	$11,935,983
Ratio of the Annual Required Contribution to General Fund (2007/2008)	5.48%	4.23%	9.71%
Additional Amount Expended for EPMC (2007/2008)	$2,657,076	$1,677,263	$4,334,339
Pension Costs (2007/2008)	$9,394,727	$7,855,408	$14,593,059
Ratio of Pension Costs to General Fund (2007/2008)	7.64%	6.39%	11.86%
General Fund # used for 2007/2008:	--	--	$122,993,024

Appendix 1B: City of Chula Vista Pension Profile

City of Chula Vista Pension System

	Miscellaneous	Fire & Police
Formula	3% @ 60	3% @ 50
Risk Pooled	no	no
Social Security	no	no
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	18.15%	23.23%
Employer Paid Member Contributions	8%	9%
Employee Paid	0%	0%
Unfunded Liability (as of 2007)	$58,887,926	$31,049,319

City of Chula Vista Pension Obligations

	Total
Annual Required Contribution (2007/2008)	$17,545,936
Ratio of the Annual Required Contribution to General Fund (2007/2008)	11.05%
Additional Amount Expended for EPMC (2007/2008)	$7,599,297
Pension Costs (2007/2008)	$25,145,233
Ratio of Pension Costs to General Fund (2007/2008)	15.83%
General Fund # used for 2007/2008:	$158,813,370

Appendix 1C: City of Coronado Pension Profile

City of Coronado Pension System		
	Miscellaneous	**Fire & Police**
Formula	3% @ 60	3% @ 50
Risk Pooled	No	Yes
Social Security	Yes	No
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	15.45%	28.11%
Employer Paid Member Contributions	8%	9%
Employee Paid	0%	0%
Unfunded Liability (as of 2007)	$5,861,121	risk pooled

City of Coronado Pension Obligations			
	Miscellaneous	**Fire & Police**	**Total**
Annual Required Contribution (2007/2008)	$1,440,019	$1,722,603	$3,162,622
Ratio of the Annual Required Contribution to General Fund (2007/2008)	3.90%	4.67%	8.57%
Additional Amount Expended for EPMC (2007/2008)	$753,591	$543,178	$1,296,769
Pension Costs (2007/2008)	$2,193,610	$2,265,781	$4,459,391
Ratio of Pension Costs to General Fund (2007/2008)	5.94%	6.14%	12.08%
General Fund # used for 2007/2008:	--	--	$36,914,672

Appendix 1D: City of Del Mar Pension Profile

City of Del Mar Pension System

	Miscellaneous	Fire	Lifeguard
Formula	3% @ 60	3% @ 50	2% @ 50
Risk Pooled	Yes	Yes	Yes
Social Security	No	No	No
Final Compensation	36 months	36 months	36 months
Employer Contribution Rate 2009/2010	20.46%	43.23%	11.02%
Employer Paid Member Contributions	0%	4%	4%
Employee Paid	8%	5%	5%
Unfunded Liability (as of 2007)	risk pooled	risk pooled	risk pooled

City of Del Mar Pension Obligations

	Miscellaneous	Fire & Lifeguard	Total
Annual Required Contribution (2007/2008)	$729,861	$496,143	$1,226,004
Ratio of the Annual Required Contribution to General Fund (2007/2008)	6.09%	4.14%	10.23%
Additional Amount Expended for EPMC (2007/2008)	--	--	not reported
General Fund # used for 2007/2008:	--	--	$11,984,459

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Appendix 1E: City of El Cajon Pension Profile

City of El Cajon Pension System

	Miscellaneous	Fire & Police
Formula	3% @ 60	3% @ 50
Risk Pooled	No	No
Social Security	No	No
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	21.39%	29.26%
Employer Paid Member Contributions	8%	9%
Employee Paid	0%	0%
Unfunded Liability (as of 2007)	$27,391,713	$37,924,573

City of El Cajon Pension Obligations

	Total
Annual Required Contribution (2007/2008)	$11,137,506
Ratio of the Annual Required Contribution to General Fund (2007/2008)	19.84%
Additional Amount Expended for EPMC (2007/2008)	not reported
General Fund # used for 2007/2008:	$56,143,204

Appendix 1F: City of Encinitas Pension Profile

City of Encinitas Pension System

	Miscellaneous	Fire	Lifeguard
Formula	2.7% @ 55	3% @ 55	3% @ 55
Risk Pooled	no	yes	yes
Social Security	no	no	no
Final Compensation	12 months	12 months	12 months
Employer Contribution Rate 2009/2010	16.27%	17.47%	16.38%
Employer Paid Member Contributions	3.6%	9.0%	9.0%
Employee Paid	4.40%*	0.0%	0.0%
Unfunded Liability (as of 2007)	$10,987,279	risk pooled	risk pooled

*Note: Employees in the miscellaneous group pay up to 5% for any given year. In 2008/2009, the employees paid 4.4%.

City of Encinitas Pension Obligations

	Total
Annual Required Contribution (2007/2008)	$2,891,341
Ratio of the Annual Required Contribution to General Fund (2007/2008)	4.66%
Additional Amount Expended for EPMC (2007/2008)	not reported
General Fund # used for 2007/2008:	$62,063,887

Appendix 1G: City of Escondido Pension Profile

City of Escondido Pension System

	Miscellaneous	Fire & Police
Formula	3% @ 60	3% @ 50
Risk Pooled	No	No
Social Security	No	No
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	18.68%	30.10%
Employer Paid Member Contributions	7.00%	9%
Employee Paid	1.00%	0%
Unfunded Liability (as of 2007)	$46,883,619	$40,571,197

City of Escondido Pension Obligations

	Miscellaneous	Fire & Police	Total
Annual Required Contribution (2007/2008)	$7,228,241	$6,645,597	$13,873,838
Ratio of the Annual Required Contribution to General Fund (2007/2008)	7.63%	7.01%	14.64%
Additional Amount Expended for EPMC (2007/2008)	--	--	not reported
General Fund # used for 2007/2008:	--	--	$94,796,147

Appendix 1H: City of Imperial Beach Pension Profile

City of Imperial Beach Pension System

	Miscellaneous	Lifeguard	Fire
Formula	2.7% @ 55	2% @ 50	3% @ 50
Risk Pooled	yes	yes	yes
Social Security	yes*	yes*	yes*
Final Compensation	12 months	12 months	12 months
Employer Contribution Rate 2009/2010	13.18%	15.00%	26.32%
Employer Paid Member Contributions	2%	9%	9%
Employee Paid	6%	0%	0%
Unfunded Liability (as of 2007)	risk pooled	risk pooled	risk pooled

* City website and staff state that employees participate in Social Security; however, CalPERS does not report that they do.

City of Imperial Beach Pension Obligations

	Miscellaneous	Fire & Lifeguard	Total
Annual Required Contribution (2007/2008)	$450,619	$320,046	$770,665
Ratio of the Annual Required Contribution to General Fund (2007/2008)	3.10%	2.20%	5.31%
Additional Amount Expended for EPMC (2007/2008)	--	--	not reported
General Fund # used for 2007/2008:	--	--	$14,524,656

Appendix 11: City of La Mesa Pension Profile

City of La Mesa Pension System

	Miscellaneous	Fire & Police
Formula	3% @ 60	3% @ 50
Risk Pooled	No	No
Social Security	Yes	No
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	18.74%	24.16%
Employer Paid Member Contributions	0.00%	0% and 9% (respectively)
Employee Paid	8.00%	9% and 0% (respectively)
Unfunded Liability (as of 2007)	$10,005,013	$11,724,328

City of La Mesa Pension Obligations

	Total
Annual Required Contribution (2007/2008)	$5,594,910
Ratio of the Annual Required Contribution to General Fund (2007/2008)	15.05%
Additional Amount Expended for EPMC (2007/2008)	not reported
General Fund # used for 2007/2008:	$37,182,727

Appendix 1J: City of Lemon Grove Pension Profile

City of Lemon Grove Pension System

	Miscellaneous	Fire
Formula	2.5% @ 55	3% @ 55
Risk Pooled	Yes	Yes
Social Security	No	No
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	14.95%	18.70%
Employer Paid Member Contributions	7.00%	9.00%
Employee Paid	1.00%	0.00%
Unfunded Liability (as of 2007)	risk pooled	risk pooled

City of Lemon Grove Pension Obligations

	Total
Annual Required Contribution (2007/2008)	$693,369
Ratio of the Annual Required Contribution to General Fund (2007/2008)	5.17%
Additional Amount Expended for EPMC (2007/2008)	not reported
General Fund # used for 2007/2008:	$13,422,484

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Appendix 1K: City of National City Pension Profile

City of National City Pension System		
	Miscellaneous	**Police & Fire**
Formula	3% @ 60	3% @ 50
Risk Pooled	No	No
Social Security	No	No
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	16.40%	28.40%
Employer Paid Member Contributions	6%	9%
Employee Paid	2%	0%
Unfunded Liability (as of 2007)	$8,355,864	$16,935,491

City of National City Pension Obligations			
	Miscellaneous	**Fire & Police**	**Total**
Annual Required Contribution (2007/2008)	$2,565,047	$3,866,043	$6,431,090
Ratio of the Annual Required Contribution to General Fund (2007/2008)	6.88%	10.37%	17.25%
Additional Amount Expended for EPMC (2007/2008)	--	--	not reported
General Fund # used for 2007/2008:	--	--	$37,282,256

Appendix 1L: City of Oceanside Pension Profile

City of Oceanside Pension System

	Miscellaneous	Fire, Police & Lifeguard
Formula	2.7% @ 55	3% @ 50
Risk Pooled	no	no
Social Security	no	no
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	9.15%	22.21%
Employer Paid Member Contributions	4%	9%
Employee Paid	4%	0%
Unfunded Liability (as of 2007)	$4,863,161	$19,406,165

City of Oceanside Pension Obligations

	Miscellaneous	Fire, Police & Lifeguard	Total
Annual Required Contribution (2007/2008)	$3,379,989	$5,537,143	$8,917,132
Ratio of the Annual Required Contribution to General Fund (2007/2008)	2.73%	4.48%	7.21%
Additional Amount Expended for EPMC (2007/2008)	--	--	$5,731,920
Pension Costs (2007/2008)	--	--	$14,649,052
Ratio of Pension Costs to General Fund (2007/2008)	--	--	11.85%
General Fund # used for 2007/2008:	--	--	$123,605,796

Appendix 1M: City of Poway Pension Profile

City of Poway Pension System

	Miscellaneous	Fire
Formula	2% @ 55	3% @ 50
Risk Pooled	no	yes
Social Security	no	no
Final Compensation	12 months	36 months
Employer Contribution Rate 2009/2010	11.62%	23.56%
Employer Paid Member Contributions	4%	6%
Employee Paid	3%	3%
Unfunded Liability (as of 2007)	$6,849,992	risk pooled

City of Poway Pension Obligations

	Total
Annual Required Contribution (2007/2008)	$2,423,183
Ratio of the Annual Required Contribution to General Fund (2007/2008)	5.77%
Additional Amount Expended for EPMC (2007/2008)	$1,303,508
Pension Costs (2007/2008)	$3,726,691
Ratio of Pension Costs to General Fund (2007/2008)	8.87%
General Fund # used for 2007/2008:	$42,004,612

Appendix 1N: City of San Marcos Pension Profile

City of San Marcos Pension System

	Miscellaneous	Fire
Formula	2.7% @ 55	3% @ 50
Risk Pooled	no	yes
Social Security	yes	no
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	20.76%	23.15%
Employer Paid Member Contributions	8%	9%
Employee Paid	0%	0%
Unfunded Liability (as of 2007)	$ 19,283,550	risk pooled

City of San Marcos Pension Obligations

	Miscellaneous	Fire	Total
Annual Required Contribution (2007/2008)	$2,329,161	$1,360,347	$3,689,508
Ratio of the Annual Required Contribution to General Fund (2007/2008)	3.74%	2.18%	5.93%
Additional Amount Expended for EPMC (2007/2008)	--	--	$1,495,799
Pension Costs (2007/2008)	--	--	$5,185,307
Ratio of Pension Costs to General Fund (2007/2008)	--	--	8.33%
General Fund # used for 2007/2008:	--	--	$62,267,576

Appendix 10: City of Santee Pension Profile

City of Santee Pension System

	Miscellaneous	Fire
Formula	2.7% @ 55	3% @ 50
Risk Pooled	yes	yes
Social Security	no	no
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	13.51%	24.31%
Employer Paid Member Contributions	8%	9%
Employee Paid	0%	0%
Unfunded Liability (as of 2007)	risk pooled	risk pooled

City of Santee Pension Obligations

	Miscellaneous	Fire	Total
Annual Required Contribution (2007/2008)	$1,266,916	$1,516,285	$2,783,201
Ratio of the Annual Required Contribution to General Fund (2007/2008)	4.00%	4.79%	8.79%
Additional Amount Expended for EPMC (2007/2008)	--	--	$910,162
Pension Costs (2007/2008)	--	--	$3,693,363
Ratio of Pension Costs to General Fund (2007/2008)	--	--	11.67%
General Fund # used for 2007/2008:	--	--	$31,654,526

Appendix 1P: City of Solana Beach Pension Profile

City of Solana Beach Pension System

	Miscellaneous	Fire	Lifeguard
Formula	2.5% @ 55	3% @ 50	3% @ 50
Risk Pooled	yes	yes	yes
Social Security	no	no	no
Final Compensation	12 months	12 months	12 months
Employer Contribution Rate 2009/2010	14.09%	32.26%	30.43%
Employer Paid Member Contributions	6.50%	7.00%	7.30%
Employee Paid	1.50%	2.00%	1.70%
Unfunded Liability (as of 2007)	risk pooled	risk pooled	risk pooled

City of Solana Beach Pension Obligations

	Miscellaneous	Fire & Lifeguard	Total
Annual Required Contribution (2007/2008)	$401,098	$567,890	$968,988
Ratio of the Annual Required Contribution to General Fund (2007/2008)	2.79%	3.95%	6.75%
Additional Amount Expended for EPMC (2007/2008)	--	--	not reported
General Fund # used for 2007/2008:	--	--	$14,364,863

Appendix 1Q: City of Vista Pension Profile

City of Vista Pension System

	Miscellaneous	Fire
Formula	3% @ 60	3% @ 50
Risk Pooled	no	yes
Social Security	no	no
Final Compensation	12 months	12 months
Employer Contribution Rate 2009/2010	15.83%	25.42%
Employer Paid Member Contributions	0%	1.00%
Employee Paid	8%	8%
Unfunded Liability (as of 2007)	$9,702,467	risk pooled

City of Vista Pension Obligations

	Total
Annual Required Contribution (2007/2008)	$4,140,340
Ratio of the Annual Required Contribution to General Fund (2007/2008)	5.85%
Additional Amount Expended for EPMC (2007/2008)	$180,233
Pension Costs (2007/2008)	$4,320,573
Ratio of Pension Costs to General Fund (2007/2008)	6.10%
General Fund # used for 2007/2008:	$70,781,405

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Glossary of Terms

Annual Covered Payroll: Payroll eligible for pension benefits; the employer contribution rate is shown as a percentage of the annual covered payroll.

Annual Required Contribution (ARC): Contribution required to the pension system based upon payroll and actuarial assumptions. It is determined by multiplying the employer contribution rate by the annual covered payroll.

Benefit Factor: A specified part of the formula that shows the benefit received each year of service.

Benefit Formula: Specifies the level of benefits an employee will receive based upon a specified formula, e.g. 2% @ 50. The formula is based upon the years of service, final average compensation, and a benefit factor.

CalPERS: California Public Employees' Retirement System, established in 1931. CalPERS offers a defined benefit pension plan for contracted public agencies.

Defined Benefit Pension Plan: Employees and employers make annual contributions into a plan that defines the level of benefit received at retirement.

Defined Contribution Pension Plan: Contributions are specified at a fixed dollar or percentage amount and the benefits of these plans are based upon contributions and investment earnings.

Employer Contribution Rate: Required contribution of Employers into the pension system. It is based on a percentage of payroll. It is typically made up of the normal cost of a system and the amortization of unfunded liability.

Employer Paid Member Contribution: Share of the "normal employee contribution rate" that is picked up by the employer.

Final Compensation: An average of the highest consecutive 12 or 36 months of salary that is used as part of the benefit formula that will determine the annual retirement benefit.

GASB: Governmental Accounting Standards Board; provides accounting standards for local and state government reporting.

General Fund: A government fund that typically serves as the main operating fund for governments.

Local Miscellaneous Members: Employees not classified as a local safety member.

Local Safety Members: Typically referred to as Safety. This includes local police officers, firefighters, safety officers, etc.

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Normal Cost: The cost of service for all active employees in the fiscal year.

Normal Employee Contribution Rate: Amount Required by CalPERS that the employee contributes into the system; it is based off of the pension benefit formula.

Other Post Employment Benefits: More commonly known as OPEBs. Benefits paid out after retirement commences, such as retiree healthcare and life insurance.

Pension Obligation Bonds (POBs): Bonds issued to fund all or a portion of unfunded liability.

Retirement Formula: See benefit formula.

Reporting the Value of EPMC: CalPERS affords the opportunity for cities that choose to offer Employer Paid Member Contributions to report those contributions as additional income. This amount is then calculated into the final compensation period, increasing the annual pension benefit of employees.

Risk Pooled: CalPERS risk pools are multiple plans that share the risk of investment returns. All of the assets and liabilities are pooled together so that there is less volatility in rates. Some cities are mandated to enter a risk pool if they have fewer than 100 employees in a plan, while other cities elect to enter a risk pool.

SDCERA: San Diego County Employees' Retirement Association, established in 1939. SDCERA offers a defined benefit pension plan for employees in the County of San Diego and specific entities associated with it.

SDCERS: San Diego City Employees' Retirement System, established in 1927. SDCERS offers a defined benefit pension plan for employees in the City of San Diego.

Unfunded Liability: Shortfall or excess due to demographic changes, actuarial assumptions not equaling actual experience, and higher or lower than expected investment returns.

Unfunded Liability Payment: Payment on the shortfall that is amortized and included in the employer contribution rate.

Vested Right: A right that cannot be taken away. The California Supreme Court states that employees are vested into pension benefits and must be eligible to continue earning that benefit formula—or a greater one—that they were hired into.

End Notes

[1] Currently, the minimum age for retirement is 50 years old, and depending upon the agency's contract (and the additional service credit options awarded), this can be a negotiated number.

[2] Senate Rules Committee, Office of Senate Floor Analyses. "SB 400." Available from http://www.leginfo.ca.gov/pub/99-00/bill/sen/sb_0351-0400/sb_400_cfa_19990928_142123_sen_floor.html.

[3] Ibid.

[4] Concurrence in Senate Amendments, Bill Analysis. "AB 616." Available from http://www.leginfo.ca.gov/pub/01-02/bill/asm/ab_0601-0650/ab_616_cfa_20010925_150516_asm_floor.html.

[5] Formula obtained from Marcia Fritz, CPA and President of the California Foundation for Fiscal Responsibility. Formula also verified by several CPAs and actuaries.

[6] Some cities are mandated to enter a risk pool if they have fewer than 100 employees in a plan, while other cities elect to enter.