

Proposition A: City of Carlsbad Voter Approval of Pension Benefit Increases Brief Summary

SDCTA **SUPPORTS** Proposition A. The City Council passed an ordinance decreasing the pension benefit formula to 2% @ 60 for all employees hired on or after November 27, 2011. Proposition A would require a public vote to increase pension benefit formulas for all miscellaneous employees. Proposition G, supported by SDCTA and passed in 2010, created the same changes for all safety employees. Proposition A is similar but affects miscellaneous employees.

- The City of Carlsbad, like many other cities in the region, has seen increased pension expenditures over the last decade.
- Carlsbad pre-funded its pension obligations and owed no money in the early 2000s, but expenditures have increased to nearly \$7 million in fiscal year 2011.
- Proposition A applies to miscellaneous employees who enrolled in the 3% @ 60 pension benefit option prior to November 27, 2011.
- If Proposition A is approved, the new language will amend the city charter to require voter approval of pension benefit increases for miscellaneous employees.
- The existing language regarding safety employees was added in 2010 after Proposition G passed.
- The City Council retains the power to lower the pension benefit formula without a public vote.
- This measure may also have impacts on the collective bargaining process as there are benefits that can be increased that do not fall under the requirement of a public vote (i.e. salary increases).
- Approval of the proposed measure would limit the ability of the Council to unilaterally increase pension benefits and incur further pension obligations without voter approval.

Proposition A: City of Carlsbad Voter Approval of Pension Benefit Increases

Board Action:

SUPPORT

Rationale:

The City of Carlsbad continues to make significant process in reforming public pensions. Proposition A continues that process by requiring voter approval of pension increases for public miscellaneous employees. Proposition G, which made similar changes for safety employees, passed in November 2010. These measures are comparable to the City of San Diego's 2006 Proposition B which SDCTA supported and voters approved. Proposition B requires voter approval of increases for any employee retirement benefits (with the exception of cost of living adjustments). Our rationale for Proposition B was as follows:

“While recognizing that Prop B alone will not solve our pension system problems, this measure allows for additional voter scrutiny that may prevent the City from assuming additional unfunded pension obligations in the future. The measure will provide for disclosure of the actuarial analysis of any potential pension benefit cost increase. This is critical because pension benefits, once approved, create long-term obligations for taxpayers.”

Proposition G in November 2012 required voter approval of pension benefit increases for safety employees within the 2% @ 50 formula. Under Proposition A, public miscellaneous employees' pension benefit formula will change to 2% @ 60.

Background:

City of Carlsbad Miscellaneous Employee Pension Benefits

Previously all Carlsbad miscellaneous employees fell within the public safety 3% at 50 retirement formula and used the highest single year salary for reporting purposes. Safety employees contributed one percent (1%) of their salary to their pension plans while the City “picked-up” the remaining seven percent (7%). Additionally, the value of the “pick-up” paid by the City was reported as additional compensation when calculating the final retirement benefit. Figure 1 shows how pension formulas work:

Figure 1: Pension Benefit Calculation

Annual Pension Benefits
=
years of service
(the number of years an employee worked at an agency)
x
final average compensation (FAC)
(the average 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 average compensation)

Example 1 shows the difference between a 3% and 2% pension benefit formula:

Example 1: Effects of Pension Benefit Reforms		
Benefit Formula	3% @ 60	2% @ 60
Years of Service	30	30
Final Average Compensation	\$80,000	\$80,000
Benefit Factor	3%	2%
Annual Pension Benefits	\$72,000	\$48,000

Under a 3% @ 60 formula, this worker would receive \$72,000 in pension benefits annually. An identical worker hired under the second tier would receive annual pension benefits of \$48,000. The savings would be about \$24,000 per year for this individual. These amounts do not include cost of living adjustments.

All miscellaneous employees hired on or after November 28, 2011 can opt for the 2% @ 60 retirement benefit formula. Employees hired before November 28, 2011 will continue to receive benefits under the 3% @ 60 formula. Under the new agreement, miscellaneous employees are required to contribute the full employee required pension contribution, as opposed to the City paying a portion of the employee’s share of pension costs.

City of Carlsbad Pension Costs

During much of this time, the City’s pension fund was super-funded (where assets far exceeded liabilities), which meant that the City had a very low payment on its required contribution to CalPERS. During this time, however, payment toward the pick-up of employee contributions did not stop.¹ Table 1 shows pension costs to the City of Carlsbad over the last decade:

¹ SDCTA Updated City of Carlsbad Municipal Analysis.

Table 1: City of Carlsbad Annual Pension Costs Miscellaneous Employees (Inflation-Adjusted) <i>Source: City of Carlsbad FY 2000 - 2011 financial statements</i>			
Fiscal Year	Employer Contribution	Member Contribution	Total Misc Employee Pension Cost
2001	\$4,415	\$1,093,830	\$1,098,245
2002	\$0	\$1,247,788	\$1,247,788
2003	\$0	\$1,273,975	\$1,273,975
2004	\$486,394	\$1,509,715	\$1,996,109
2005	\$2,702,466	\$1,752,584	\$4,455,050
2006	\$5,079,769	\$2,020,254	\$7,100,023
2007	\$5,296,865	\$2,159,899	\$7,456,764
2008	\$6,449,022	\$2,543,251	\$8,992,273
2009	\$6,660,641	\$2,239,516	\$8,900,158
2010	\$6,841,278	\$2,263,820	\$9,105,098
2011	\$6,997,307	\$2,332,592	\$9,329,899

Payment toward pensions will continue to consume greater portions of the City budget. The last decade has seen a marked increase in miscellaneous employee pension expenditures by both employees and the City of Carlsbad. The reforming of pensions for new miscellaneous employees will help ease those liabilities over time by creating a second tier of pension benefits for new hires.

Past SDCTA Position

In November 2006, City of San Diego voters approved Proposition B, a Charter amendment that requires majority voter approval of any pension benefit increases (for the exception of cost of living increases) for San Diego City employees. SDCTA supported this measure, stating:

“While recognizing that Prop B alone will not solve our pension system problems, this measure allows for additional voter scrutiny that may prevent the City from assuming additional unfunded pension obligations in the future. The measure will provide for disclosure of the actuarial analysis of any potential pension benefit cost increase. This is critical because pension benefits, once approved, create long-term obligations for taxpayers.”

The Charter amendment also requires the San Diego City Employees Retirement System to prepare an actuarial valuation to outline the cost of the proposed benefit increase. This analysis is required to be included in the ballot pamphlet that is sent out to voters.

In June 2010, City of Carlsbad voters passed Proposition G, which requires voter approval of increases in retirement benefits for public safety employees. SDCTA supported Proposition G based upon past support of Proposition B in the City of San Diego and the strengthening of pension reform efforts within Carlsbad Proposition G would allow.

Proposal:

If approved by voters, the proposed Charter amendment would read as follows:

“Section 502 Retention of Benefits.

Safety employees hired on or after October 4, 2010 and miscellaneous employees hired after November 27, 2011 (the effective date of the ordinances amending the City's contracts with CalPERS to create a second tier of retirement benefits for safety and miscellaneous employees) shall not have their retirement benefit formulas (commonly known as the 2% at 50 years of age or 2% at 60 years of age formulas respectively) increased without an amendment to this section. The City Council may reduce this formula as provided in state law without an amendment to this section.”

The new language is underlined. If Proposition A is approved, the new language will amend the city charter to require voter approval of pension benefit increases for miscellaneous employees. The existing language regarding safety employees was added in 2010 after Proposition G passed.

Further Policy Implications & Analysis:*Impact on Employee Benefits*

The proposed measure would not impact the need of the City and employees to negotiate regarding benefits. Furthermore, the measure does not impose, limit or void any employee benefits that have previously been agreed upon. Passage of this measure would require voter approval of any increase in the benefit formula for those employees that fall within the “2% @ 60” formula, should an increase be negotiated and agreed upon by the two parties. A reduction in this benefit that is either agreed upon or imposed by the Council does not require voter approval.

This measure may also have impacts on the collective bargaining process as there are benefits that can be increased that do not fall under the requirement of a public vote. A potential impact of the measure includes the Council and labor representatives negotiating salary increases during the bargaining process in lieu of increases to pension benefits and a subsequent public vote. This strategy has a direct impact on pension benefits and pension costs, as salary is used in calculating pension benefits. Any increase in salaries will ultimately lead to an increase in pension cost once the final compensation of the employee is calculated. Other potential benefit increases that affect an employee's retirement calculation include uniform allowance, increasing the City's pick-up rate, reporting the value of the City's pick-up as compensation, etc.

If the Council and employee groups do agree to an increase in retirement benefits, the City would be required to pay for the cost of an election to place the measure on the ballot. Depending upon when the negotiations and agreements take place, there could be a chance a special election is required.

Approval of the proposed measure would limit the ability of the Council to unilaterally increase pension benefits and incur further pension obligations without voter approval. The language of the measure that will be put before voters does not require the City to outline both the short-term and long-term costs of the benefit increase should voters be asked to approve a benefit increase. While the measure does not prohibit the City and the Council from negotiating benefit increases for employees, any increase and therefore any measure put before voters would most likely though require justification as to why the increase in benefits is needed and how the City intends to pay for the additional pension costs.