

MEMORANDU

Office of the City Manager

Date: February 24, 2010
To: Monterey Bay Area Managers' Group
From: Ray Corpuz, City Manager
Subject: **Pension Reform Final Draft**

The following represents an overview of the Monterey Bay Area Managers' Group (MBAMG) position on State pension reform.

Please review and let me know of any final changes. I will then forward the final memorandum to the Monterey County Mayors' Association.

The MBAMG has spent time over the last year discussing the high costs of retirements for our respective cities. The Managers' conducted a survey on pensions for cities within Monterey County in October 2009. The following is a summary of the results.

- Most cities are at 3% @ 50 for Safety employees.
- Most cities are at 2% @ 55 for Miscellaneous employees.
- Most cities use the top year rather than the three year average.
- Most cities either pay all or a portion of the employee costs for both Safety and Miscellaneous.
- Only three of the responding cities ask their employees to cover all their costs.

For Non-Safety employees, CalPERS offers the following retirement formulas and the agency determines which it provides to its employees.

- 3.0% at 60
- 2.7% at 55
- 2.5% at 55
- 2.0% at 55
- 2.0% at 60
- 1.5% at 65

For Safety employees (Fire and Police), CalPERS offers the following retirement formulas.

- 3.0% at 50
- 3.0% at 55
- 2.0% at 50 (but it tops out at 2.7% at 55)
- 2.0% at 55

It is interesting to look at which formulas other agencies statewide are providing for their employees. The following table lists the formula and the percentage of members from agencies in CalPERS that receive that specific formula.

Non-Safety Formula	Percentage receiving that Formula
3.0% at 60	13%
2.7% at 55	25%
2.5% at 55	24%
2.0% at 55	34%
2.0% at 60	4%
1.5% at 65	0%
Safety Formula	Percentage receiving that Formula
3.0% at 50	81%
3.0% at 55	12%
2.0% at 50	6%
2.0% at 55	1%

You might recall that the standard formulas prior to 1999, when SB 400 went into effect, was 2.0% at 55 or 2.0% at 60 for Non-Safety employees and 2.0% at 50 or 2.0% at 55 for Safety employees. SB 400 was the state legislation that allowed CalPERS to offer enhanced benefit retirement plans.

Pensions for current employees are vested benefits. Government agencies cannot reduce pensions for current employees under current State law.

Pension formulas for future employees can be changed by:

- Forwarding legislation from the State that reduces the benefit;
- The voters passing a bill by ballot measure that reduces the benefit;
- Agreements with labor groups to reduce pension formulas; or
- Employees contributing to the employer's share of the PERS retirement contribution.

Because of the high and rising cost of retirement benefits, the Managers' Group prepared the attached guiding principles for regional pension reform. There is growing consensus among City Managers in the state that the ballooning costs of pensions represent a fiscal threat to our communities. This must be addressed.

Our obligation as City Managers is to educate our City Councils and communities about the escalating pension problem in California. Statewide reform may not be possible. We cannot just sit and wait. Regional efforts and solutions should be pursued. Otherwise, cities may have to suffer the consequences. There are at least 18 counties where cities are active in discussions on regional pension reform, including San Diego, Santa Clara, San Mateo, and the Central Coast area.

The City Managers' Department Pension Reform Committee has updated the League's 2005 white paper on pension reform and presented it to the Employee Relations Policy Committee for consideration. However, the League will focus its efforts on its revenue protection measure.

Recent PERS losses will cause employer rates to increase significantly by 10-15% in the next two years and stay high for the next ten years.

Cities are concerned about the ability to attract and retain quality employees. Therefore, it is valuable to have all agencies in the County agree to the principles of pension reform and work together toward the goal of pension sustainability by reducing pension costs.

It is clear if we are supporting a second tier retirement formula, immediate savings will not be realized. However, the savings can be significant in the long term.



RC:bc

Attachment

Guiding Principles

- Provide fiscal policies that preserve local government's ability to meet community needs while attracting competent and motivated employees to public service.
- Provide adequate retirement benefits to attract and retain public employees. This continues to be an issue, as demographically, there are fewer young people entering the public sector.
- Current retirement benefit formulas are not fiscally sustainable. The costs are rising beyond our ability to fund them and diverting limited resources from direct service delivery to our communities. In addition, current pension benefits exceed what private sector employees receive and what is reasonably needed to attract public employees.
- Ideally, this situation would be addressed at a statewide level and there would be consistent standards for all. However; we cannot afford to wait for a statewide solution. Therefore, the cities of Monterey County support implementation of a reduced and sustainable level of retirement benefits for all new employees of cities in the County of Monterey.
- Each city has different histories, perspective, and fiscal conditions. All cities in the region compete for the same employees and should therefore move in the same direction to a lower-cost benefit.
- Each city has the legal duty to meet and confer in good faith with its recognized bargaining unit representatives concerning changes to existing terms and conditions of employment.
- Every city is committed to moving toward a two-tier system for all new contracts.
- Any new system or tier should be fair to employees, sustainable for taxpayers and employers, and based on objective actuarial data.

The Monterey Bay Area Managers' Group supports the guiding principles for a revised pension plan and their members pledge to work with their elected officials and labor groups to implement its philosophy.

Further, we pledge to work with other City Managers across the state and the League of California Cities to advocate for changes consistent for a revised pension system.