



Pension Overview

Michael S. Frank
January 5, 2010



**All you ever wanted to know about public
employee pensions but were afraid to ask...**

Pension Overview Agenda

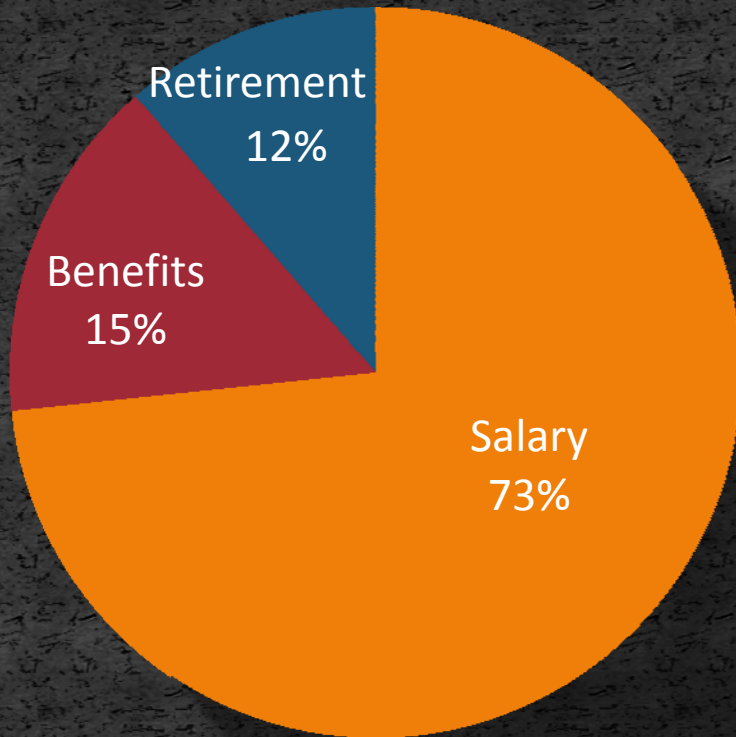


- Understanding the landscape
 - Pension basics
- Overview of the California Public Employee Retirement System (CalPERS)
 - Historical context
- Novato- Our past and our future
 - Historic and projected retirement contribution rates
- Pension reform
- Local options and considerations

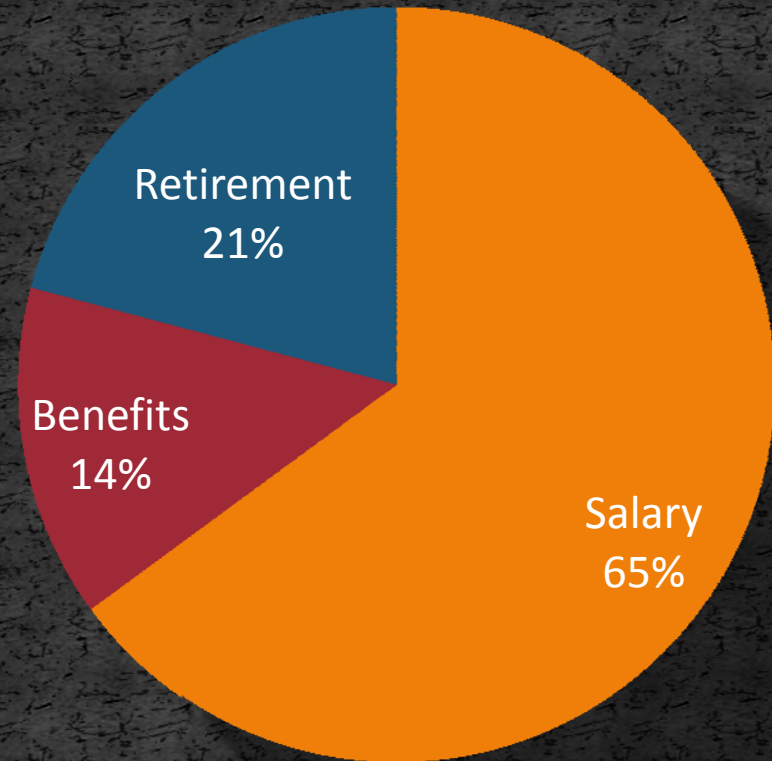
Total Employee Compensation Example



Miscellaneous



Police Officer



Types of Retirement Plans



- **Defined Benefit**

- Benefits received are based on a set formula
 - Years of service, age at retirement, and highest average salary
- Formula defines amount paid out, not the amount put in system
- Novato's defined benefit plan is administered by CalPERS.

- **Defined Contribution**

- A savings plan with pre-tax contributions that accumulate tax-free (e.g. 401(k), 457(b), etc)
- Benefits received based on amount contributed and investment returns
- Investment decisions are made by the employee

Novato's PERS Plans



- Miscellaneous:
 - Includes Management, Engineering, SEIU, Police Technical, and Confidential
 - Current plan – 2% at 55
- Safety - Police:
 - Includes Police Management, Sergeants and Officers
 - Current plan – 3% at 55

Example of 3% at 55 PERS Retirement Calculation



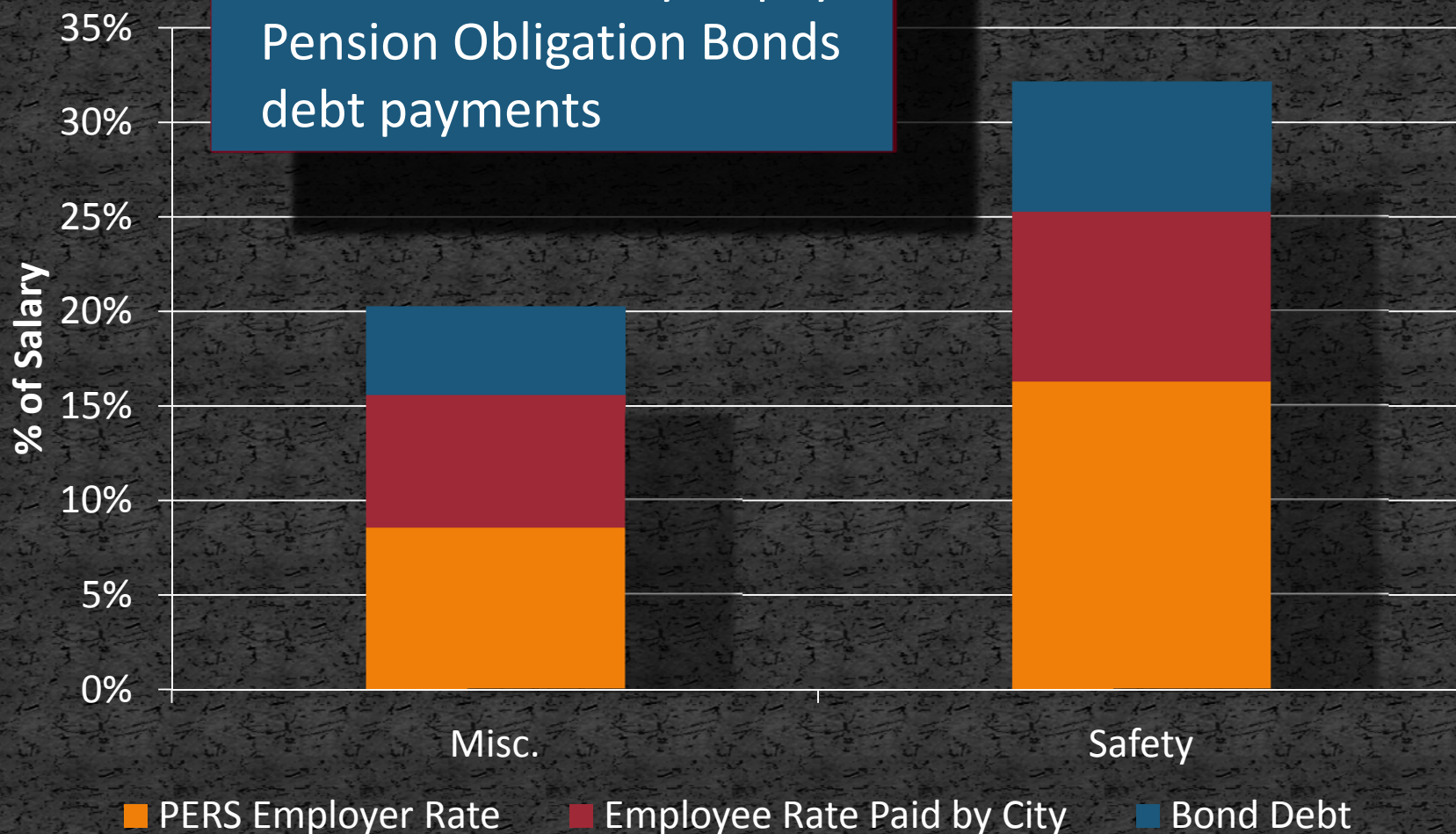
- Example Police Officer retires at age 55
- Highest Year Salary x 3% x Number of Service Years = Annual Retirement
- Other facts and complexities
 - 3% example changes depending on age of employee at retirement
 - Sometimes a % cap is placed on earnings (e.g. PERS has a 90% cap on Public Safety retirement)
 - Agencies may or may not be in Social Security
 - ***City only pays for service time with Novato***

Employer Paid Retirement Rate Components FY 09/10



Bond Debt Rate

- Amount necessary to pay Pension Obligation Bonds debt payments



Pension Obligation Bonds



- 1 bond issue; June 2006
- Used to fund PERS unfunded actuarial accrued liability
- Saves City money because our interest rates are less than PERS interest rates
 - 2006 Bond average is 5.9% vs. PERS 7.75%



CalPERS System Overview

January 2010

CalPERS Overview

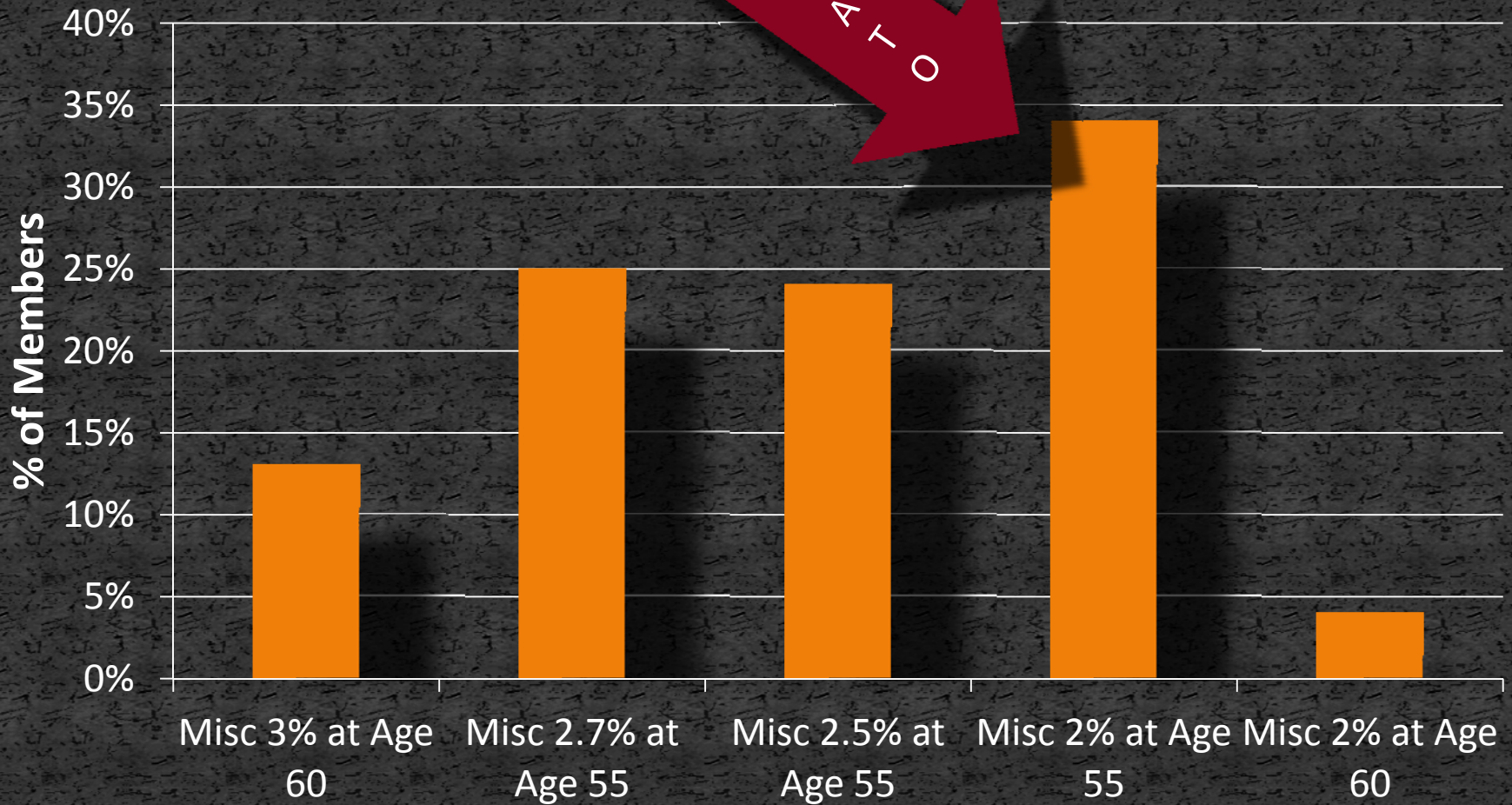
	June 30, 2008
Number of contracting agencies	1,482
Covered active misc. employees	216,000
Covered active safety employees	52,576

Major Factors Impacting PERS Rates



- Benefit plan and upgrades (graphs)
- Investment gains or losses (graph)
 - Actuarial assumed earnings of 7.75% vs actual return
- Salary increase gains or losses
 - Actuarial assumed annual salary increases of 3.25% vs actual increases

Statewide Miscellaneous PERS Formulas

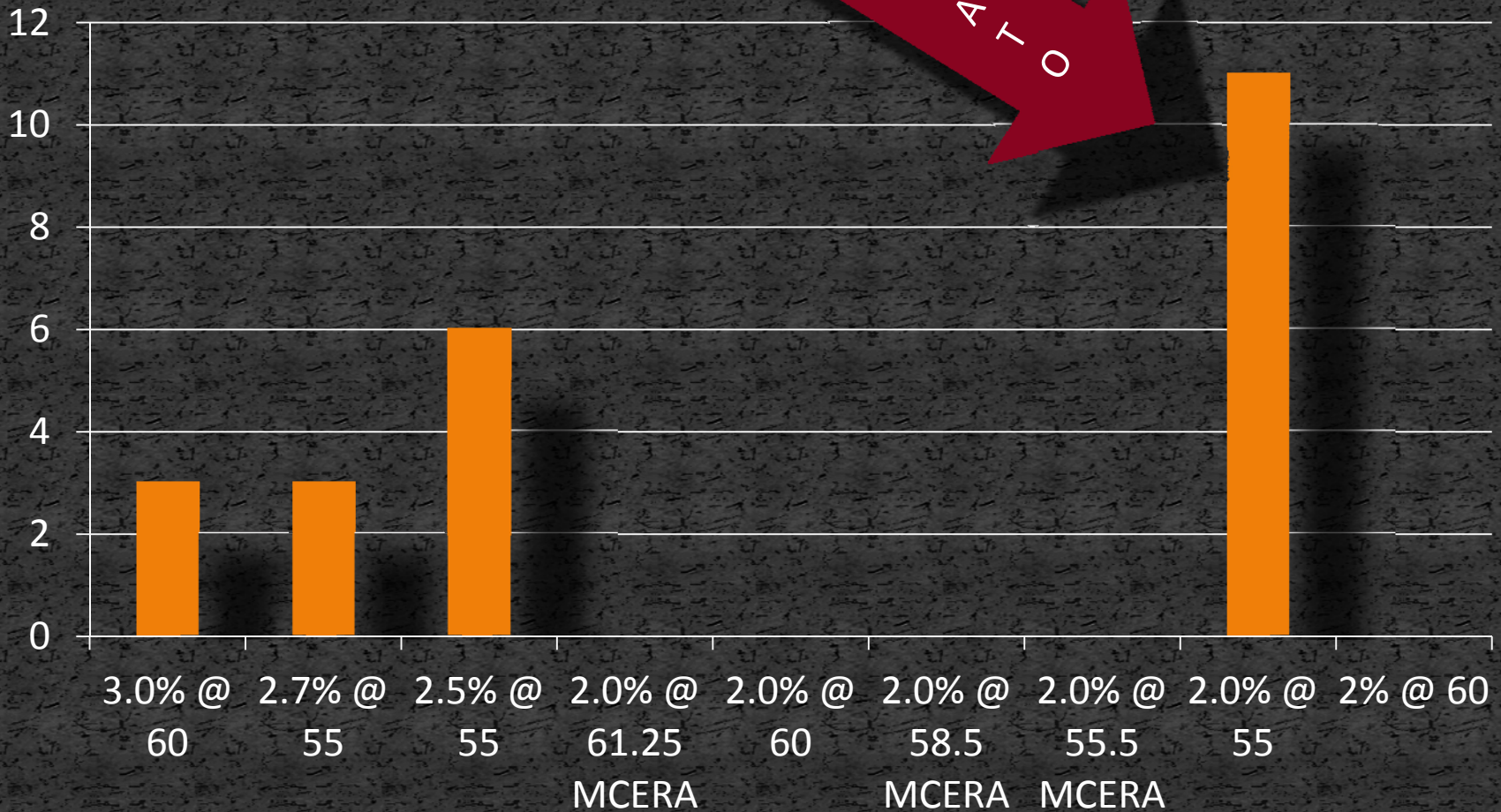


Local Miscellaneous Formulas

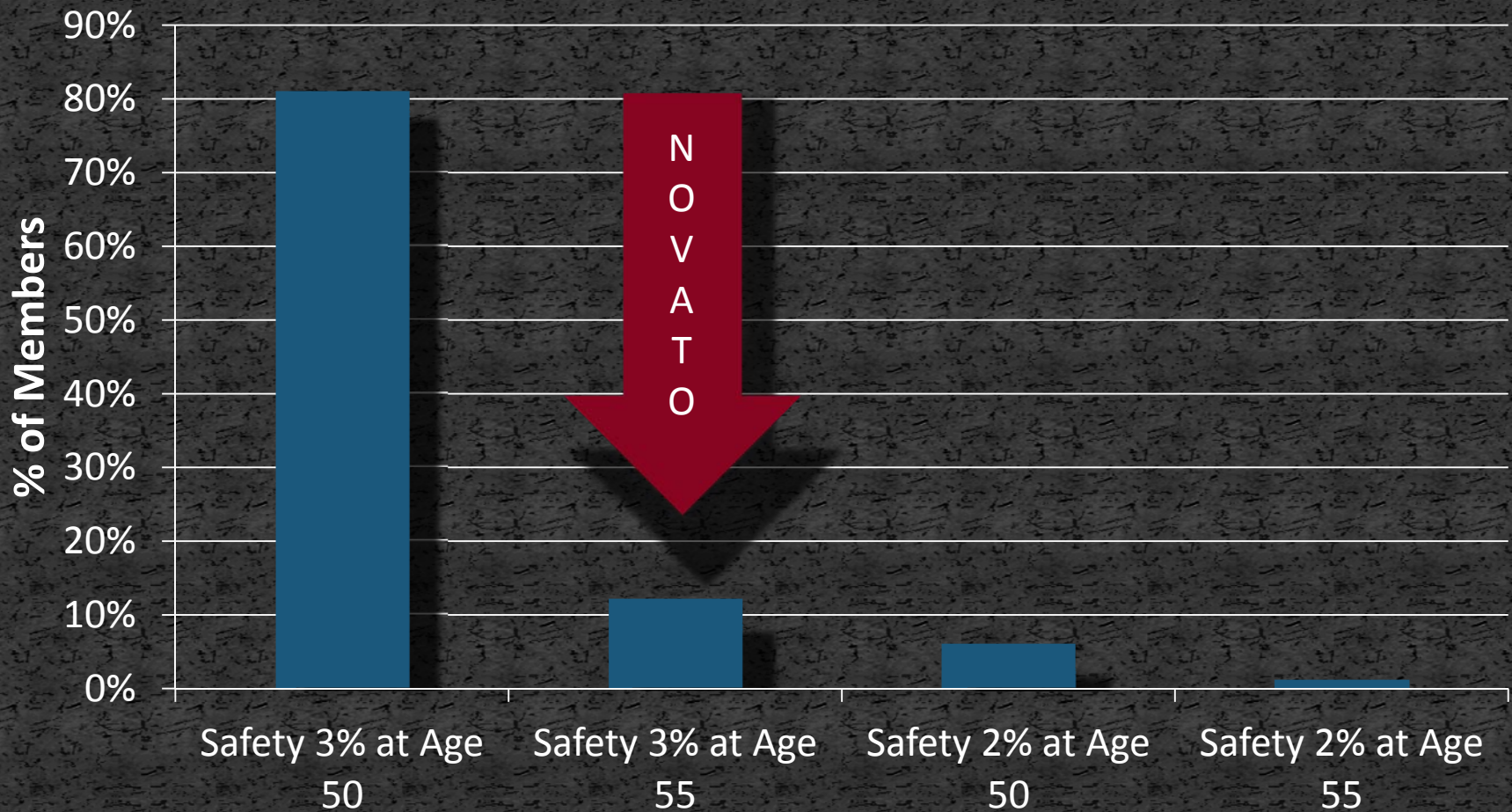
Marin and Sonoma



NOVATO

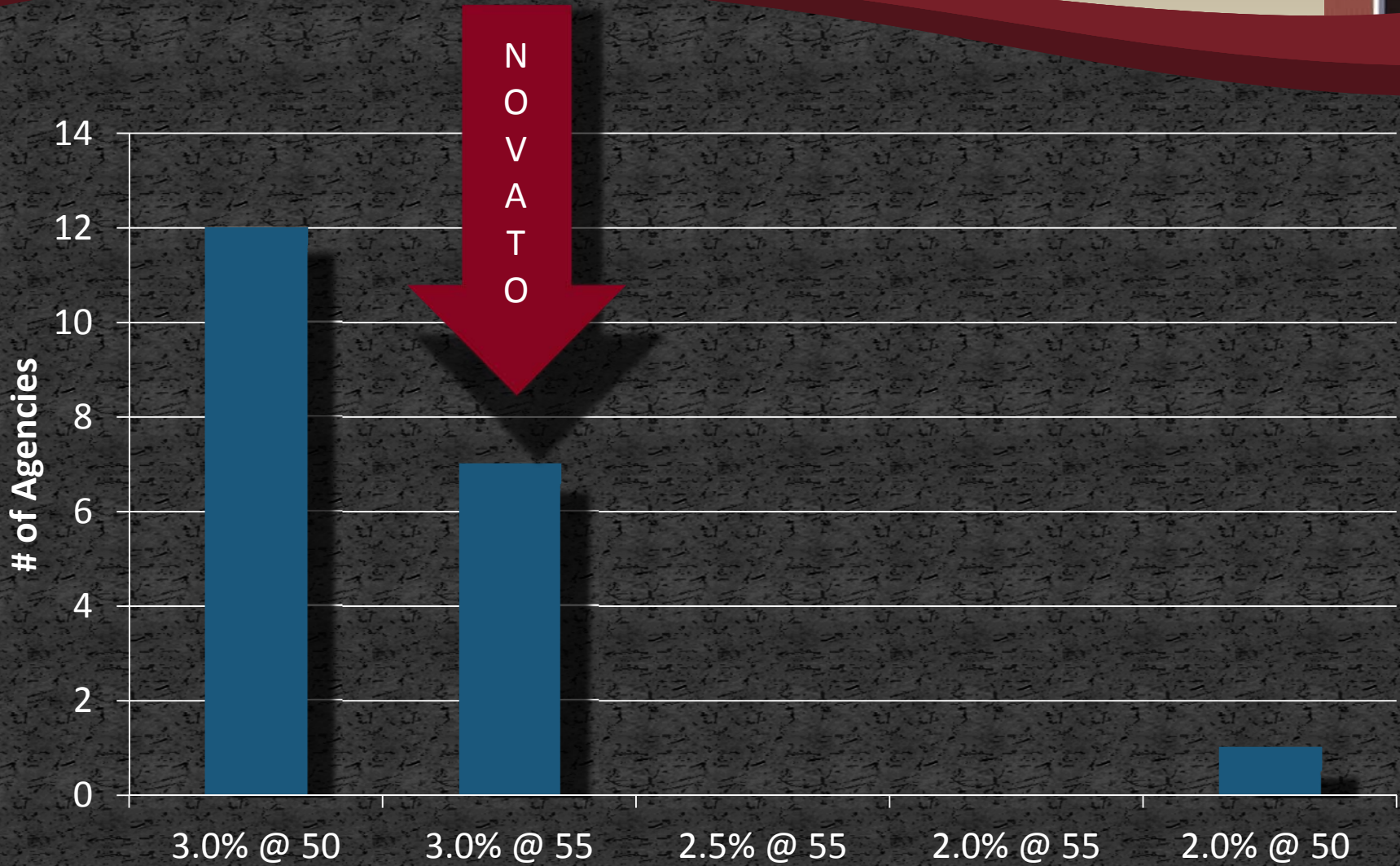


Statewide PERS Safety Formulas

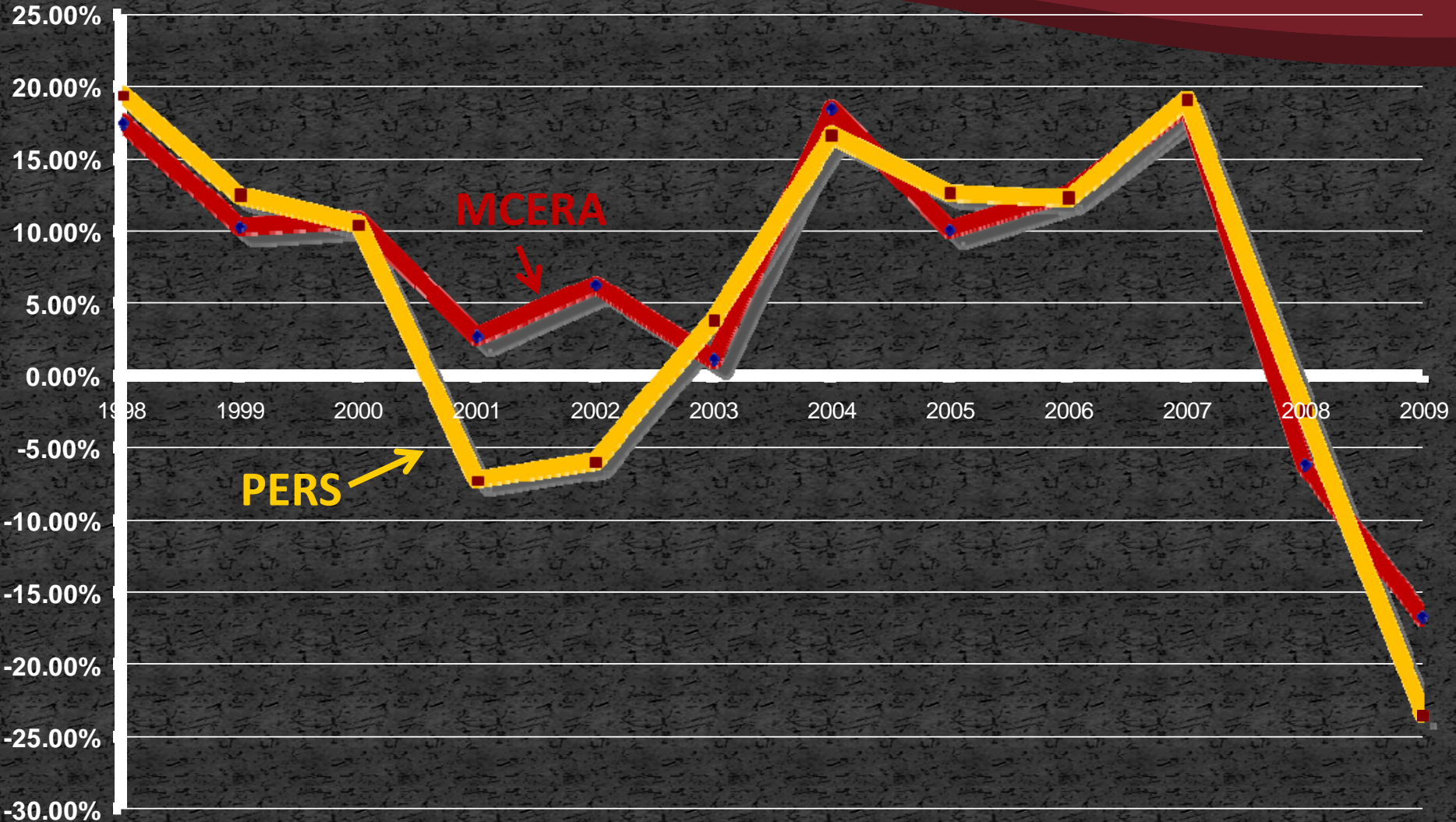


Local Safety Formulas

Marin and Sonoma



Pension Systems' Investment Returns

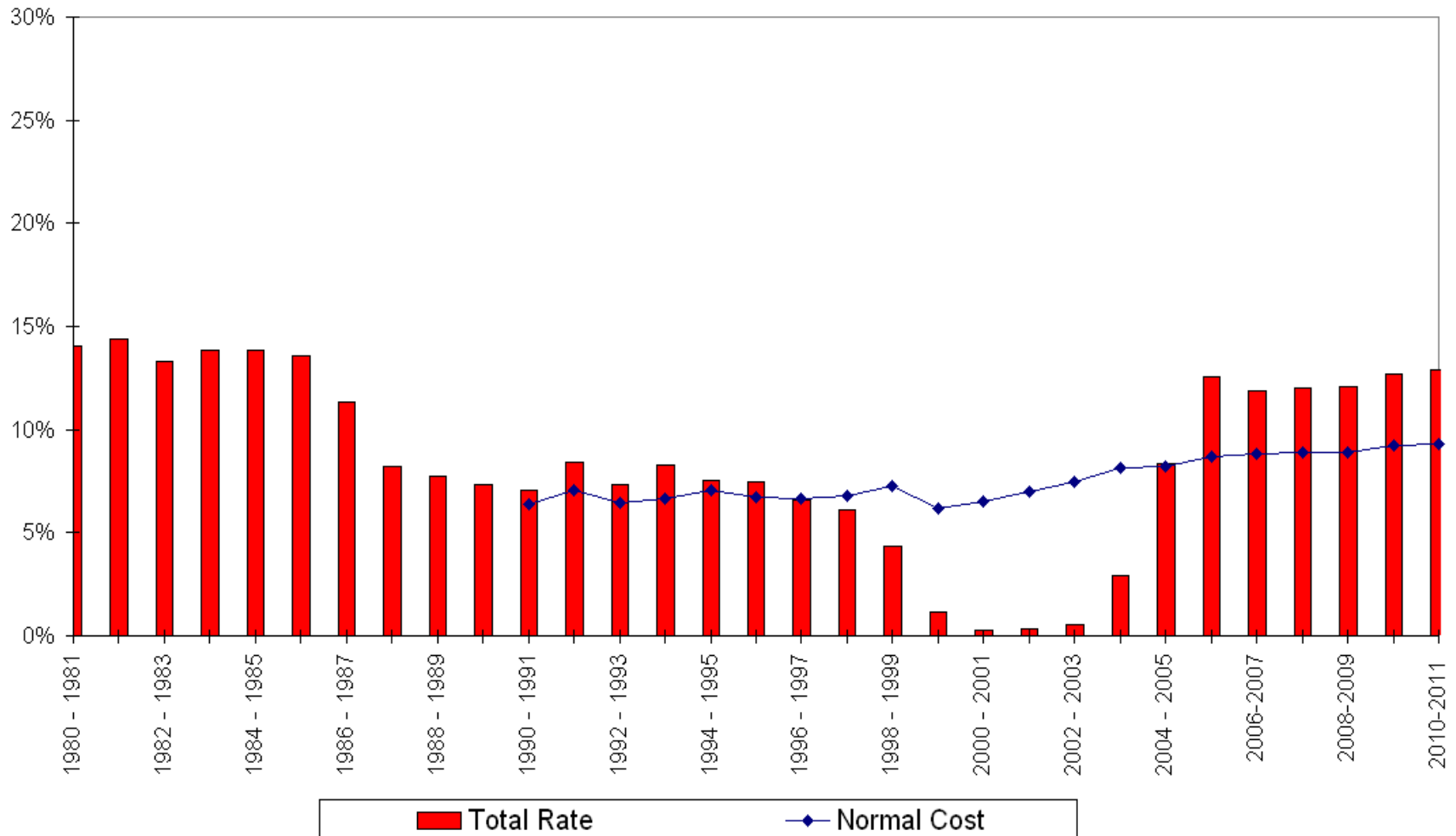


Investment Returns by CalPERS

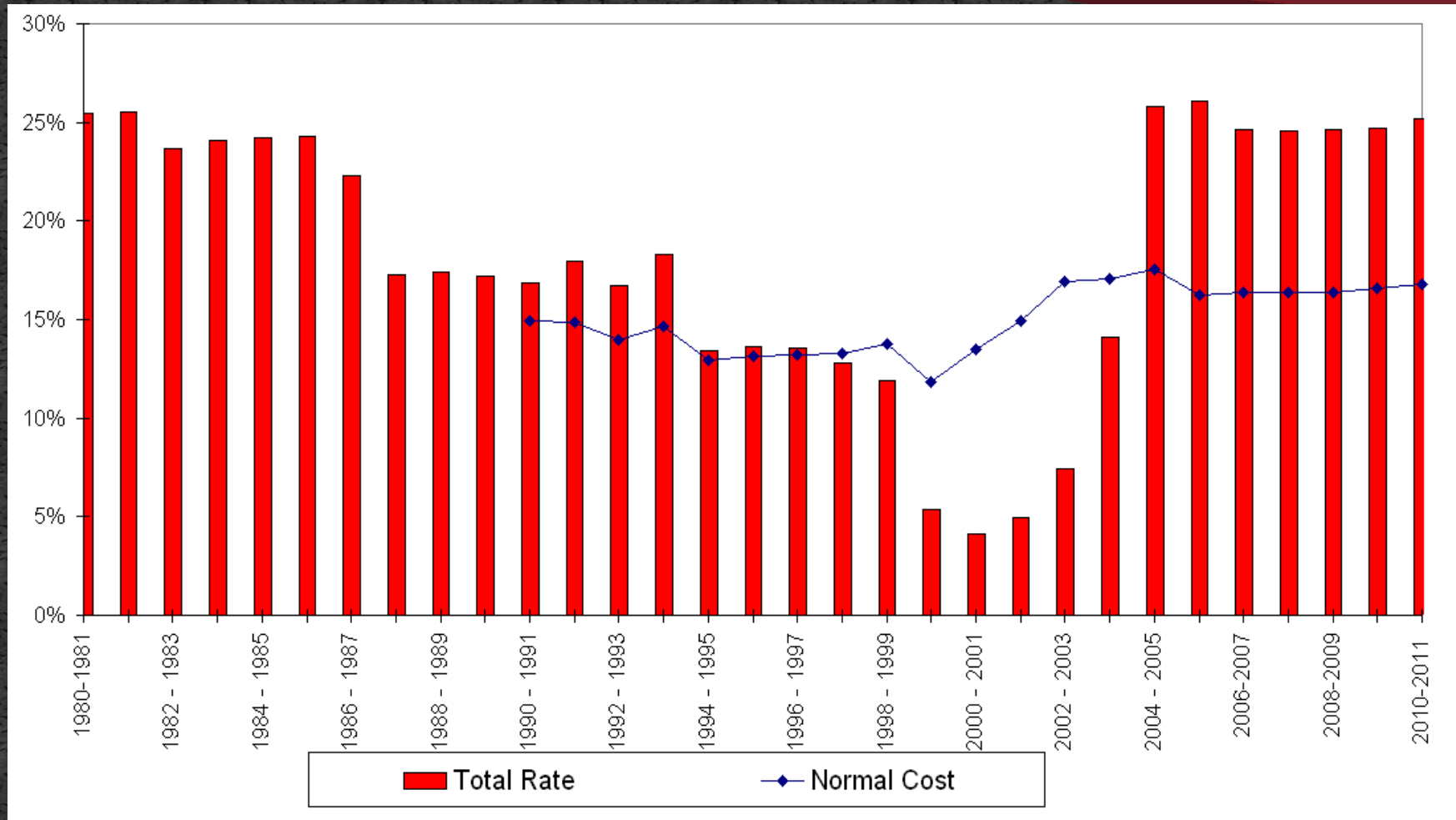


- CalPERS assumes its long term return will be 7.75%
- 1 Year Return: -24%
- 5 Year Return: 1.5%
- 10 Year Return: 2.3%
- 15 Year Return: 6.9%
- 20 Year Return: 7.4%

Ave. Employer Rates – Misc.



Ave. Employer Rates – Safety



Public Pension System Problems



- Isolated System Abuses
 - Disability
 - Spiking
- Changes in law and court rulings
- Radical decline in pension assets and rate volatility
- New plan tiers adopted in late nineties
 - Enacted by Legislature; implemented locally
 - Archaic with respect to life expectancy
- No actions expected from Sacramento

Opposition to Public Employee Pensions



- Philosophical or political
 - Government shouldn't be in this business
 - Similar argument to privatization of Social Security
 - PERS has too much power
- Fairness
 - If the average taxpayer doesn't have a pension, public employees shouldn't have one
 - Industry restructuring (e.g. auto)
- Public's perception/misconception of government generally and pensions and public employees specifically
 - "With unemployment in the 10% range it galls people to hear of such income levels. There is much envy, jealousy, and anger."
 - Perception of huge pension payouts
 - CalPERS average - \$25,200
 - MCERA average - \$32,000

Legislative and Ballot Box Fixes



- Signatures for Initiative presently being collected
- Outstanding legislation
- Governor's blue ribbon committee
- Past PERS reforms

Is CalPERS sustainable?



YES

- Funded status of plans has decreased, however, ability to pay benefits remains intact
- Some agencies may consider their future costs to be unsustainable
 - Current rates are highest in more than 25 years
 - With decline in investments in 2008-2009, rates are expected to be the highest ever



Novato – Our Past and Future

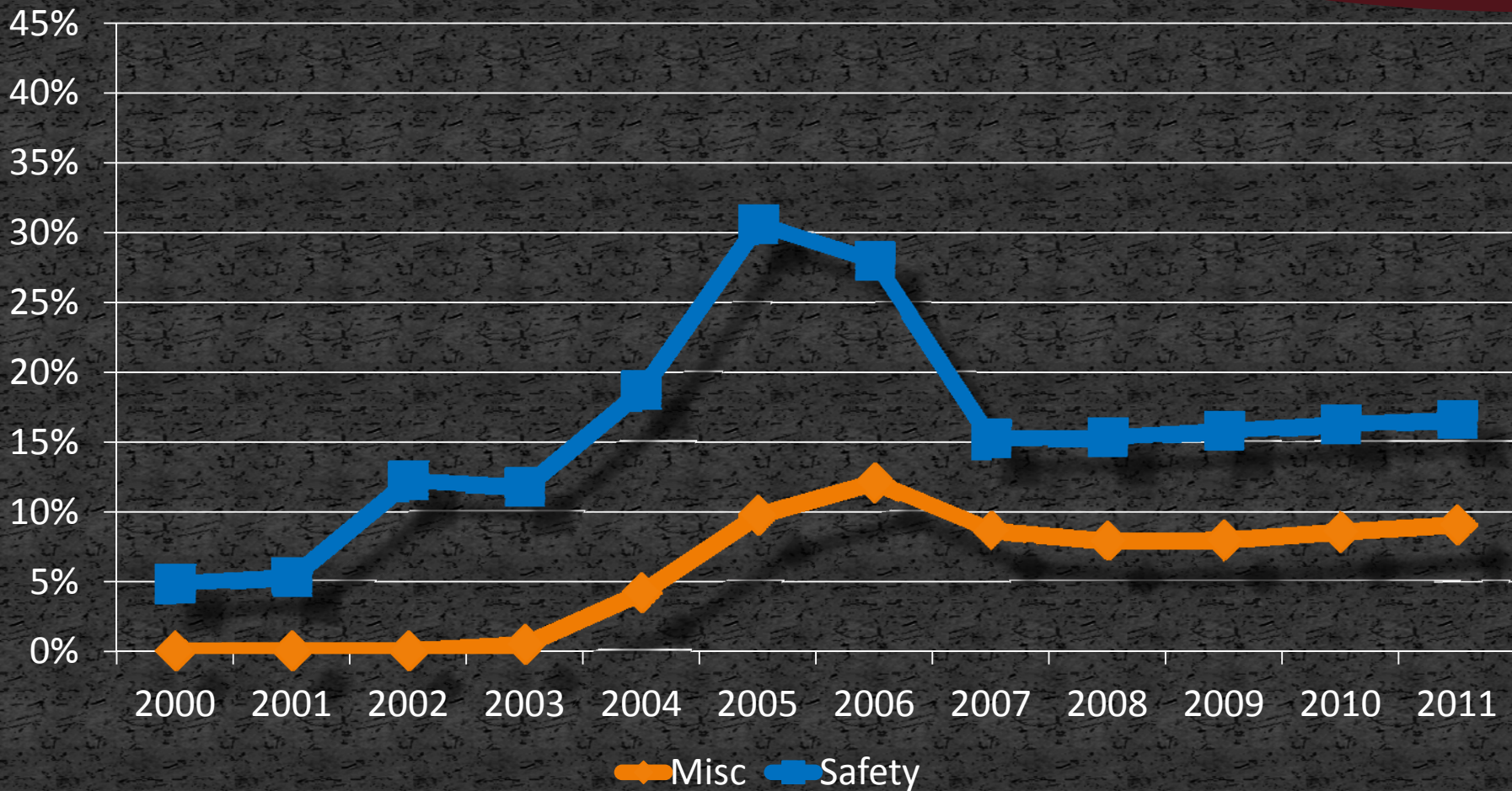
January 2010

Novato's PERS Portfolio

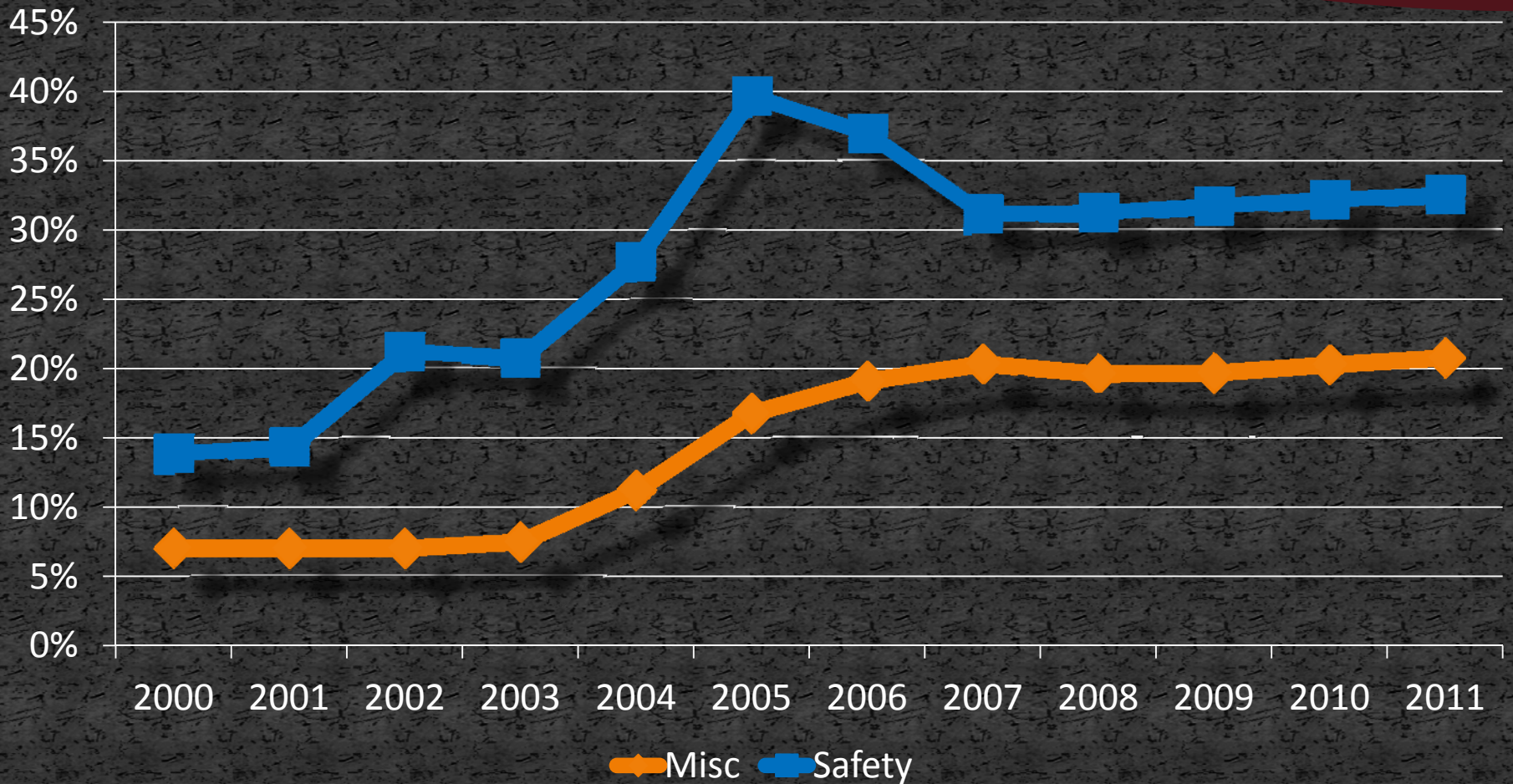


- As of 6/30/08, City plans are close to funded in Fiscal Year 10/11
 - Safety account funded at 88%
 - Miscellaneous account funded at 99%
 - Our funded status will decrease in FY 11/12
- Novato never offered enhanced retirement formulas
 - PERS law changed to allow enhanced retirement formulas like 3% at 50 for Public Safety in 2001 and Miscellaneous in 2002

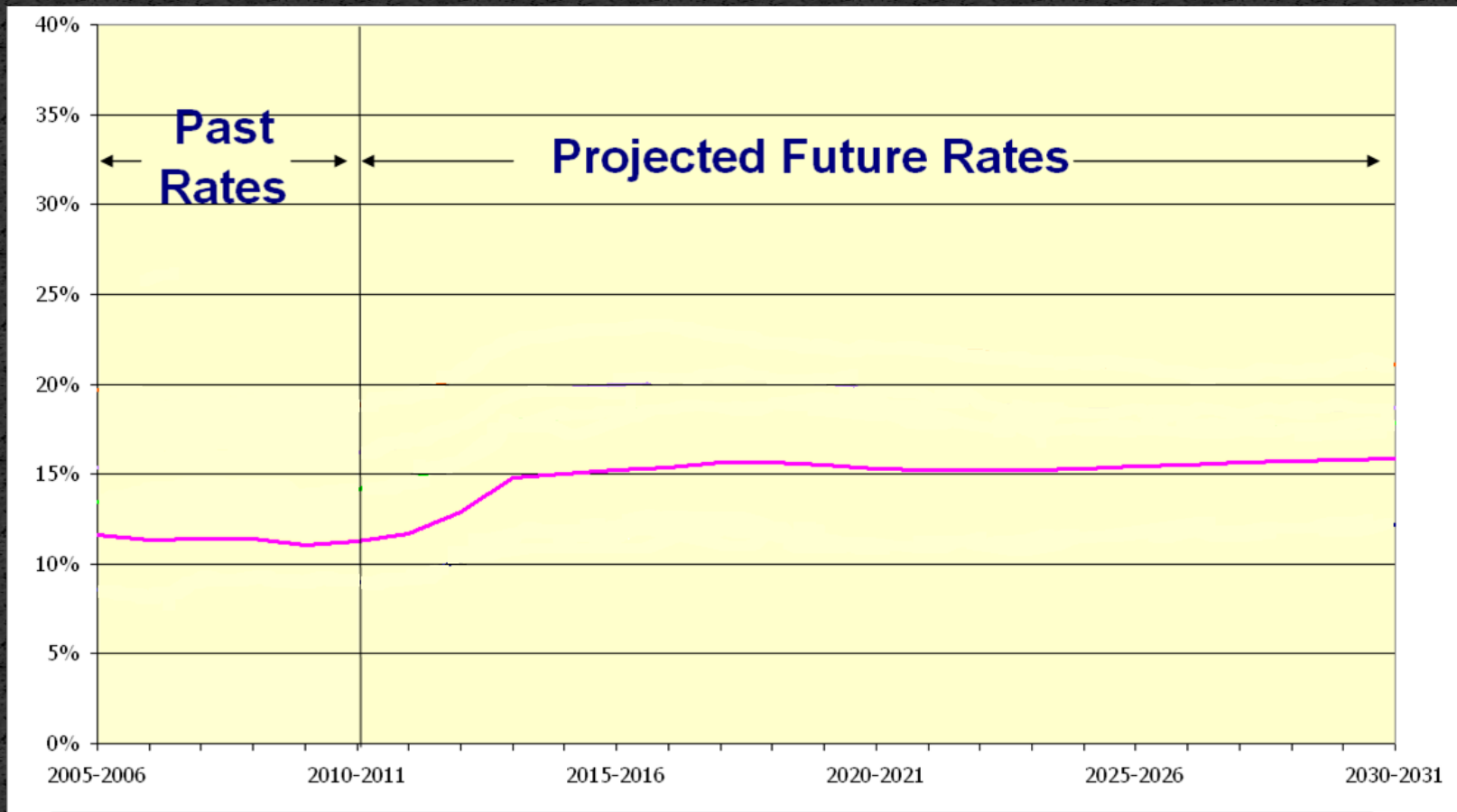
Novato's Historic Employer Rate



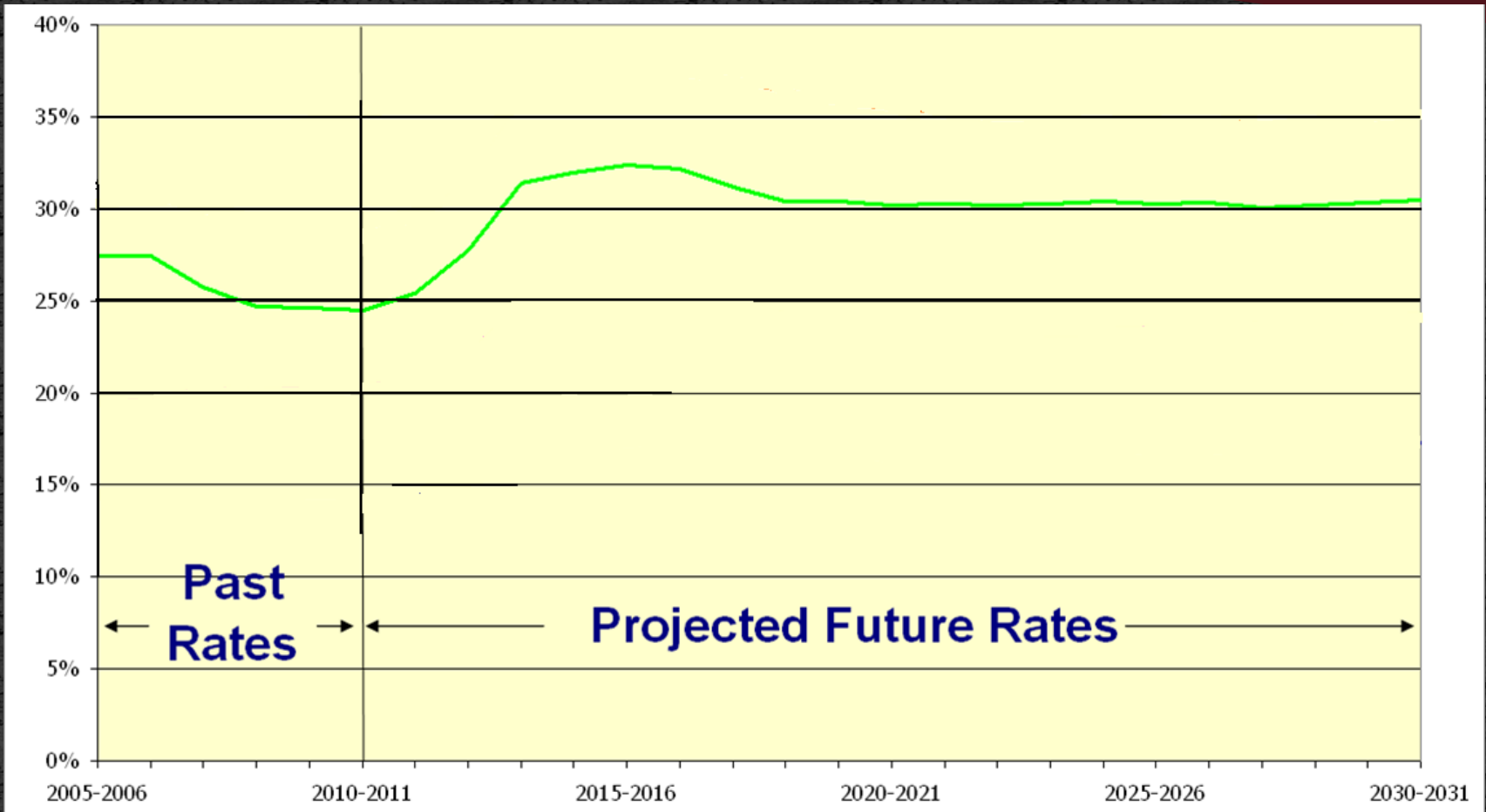
Novato's Historic Total Retirement Contribution



Average PERS Employer Rates Miscellaneous Plan 2% @ 55 Formula



Average PERS Employer Rates Safety Plan 3% @ 55 Formula



Estimated Novato PERS Rate Increase due to 24% Investment Loss



	<u>Miscellaneous</u>	<u>Safety</u>
2011-2012	1.250%	2.025%
2012-2013	2.050%	3.500%
2013-2014	2.150%	3.625%
2014-2015	0.250%	0.450%
Total Increase	5.700%	9.600%



Pension Reform

January 2010



Marin Managers' Association

Pension Reform Goals



- Better employer/employee risk balance
- Eliminate abuses
- Establish plans for career service employees
- Advocate for change:
 - Demographic trends, local flexibility
- Must be actuarially grounded
- Create greater budget stability
- Eliminate unsustainable pension plan tiers
- Recognize need to attract/retain public sector talent

Marin Managers' Association

Local Conclusions



- Directed to New Hire Employees:
- Negotiating reduced pension benefits for new hires with the following targets:
 - 2% at 50 for safety employees
 - 2% at 60 for miscellaneous employees
 - MCERA - 2% at 61.25
 - Average of highest three years (rather than highest single year)
- Limiting pension COLAs to 2% (**already implemented**)
- Eventually having all employees pay their share of pension contributions
- Eliminating the practice of reporting employer-paid employee pension contributions as compensable earnings

Marin Managers' Association

State Recommendations:



- Develop new plans
 - Reflect change in demographics and work life
 - Better choice; hybrids models
- Drop plan options approved a decade ago
 - Safety - 3%@50; Misc. 2.7%@55 & 3%@60 tiers
- Establish Caps - 80% for misc.; 90% for safety



Local Options and Considerations

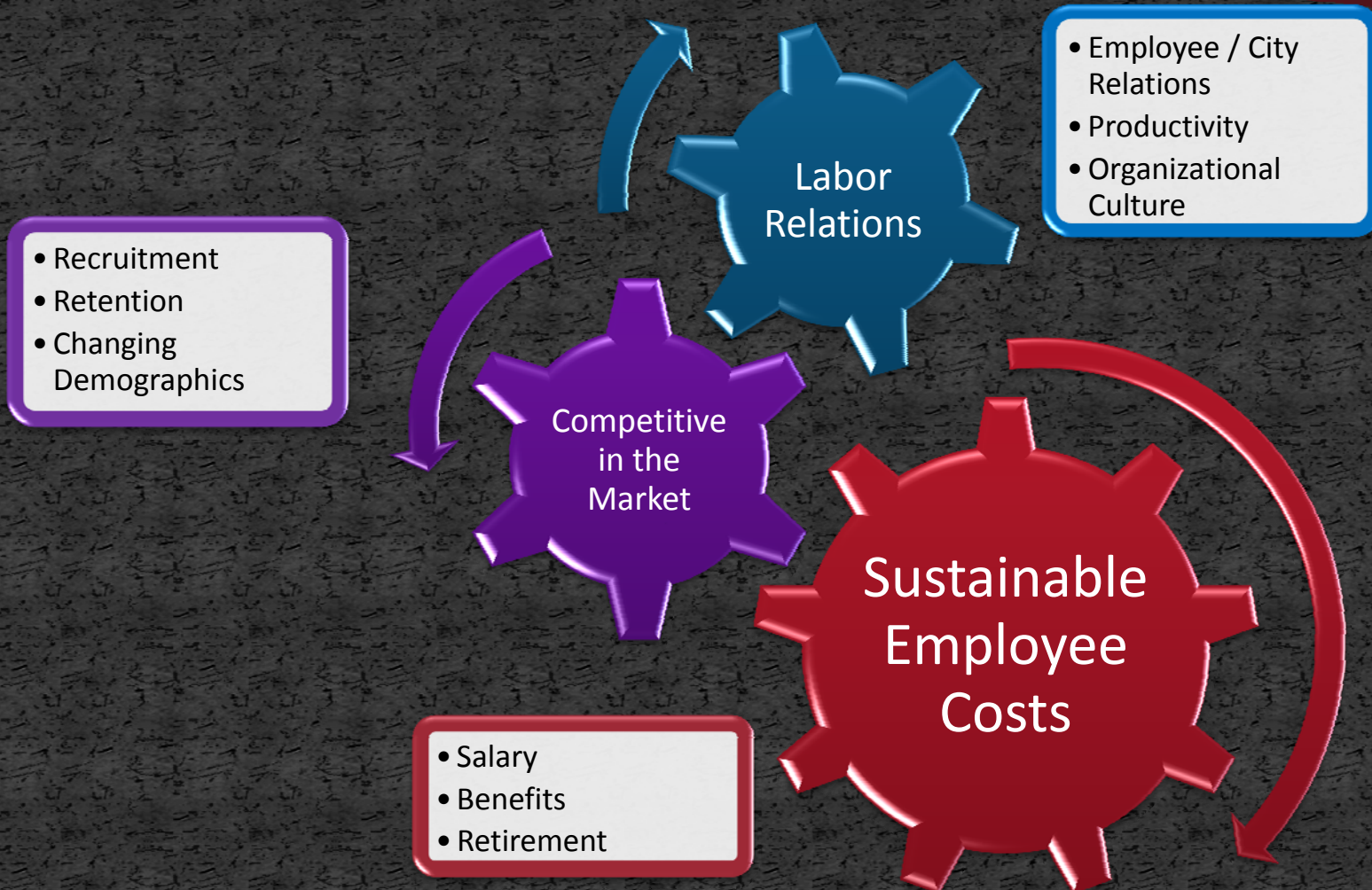
January 2010

City Options (most require negotiations and do not produce savings in the short term)



- Create less expensive pension tier for new employees
 - Change formula
 - Single Highest Year to 3-Year Average
- Change Employer Paid Member Contribution as not being reportable compensation to PERS
- Shift City Paid Employee Contribution from 100% to some % paid for by the Employee
- Create hybrid plan with pension at minimal level and supplement with defined contribution plan
- Issuance of additional Pension Obligation Bonds

Pension Only One Piece of Labor Strategy



Summary



- Novato has been very fiscally conservative
- Changes need to be made in Novato's pension
 - Discussions will occur in closed session as part of labor negotiations
- Important to separate fact from perception
- The City needs to also consider its competitive position in the market
- Statewide legislative solutions are ideal but are unlikely except at the ballot box
 - There are legislative fixes without tossing out the whole system



End of Presentation

January 2010