

Pension Reform Recommendations

(which can be implemented without state legislative action)

For nearly a decade, the San Diego County Taxpayers Association (SDCTA) has reviewed and weighed in on the issue of unsustainable retirement benefits and warned of the negative impact the system would have on future budgets. For most of this time, the Association was primarily focused on the City of San Diego and County of San Diego retirement plans. More recently, during the evaluation of sales tax increase measures proposed in 2006, 2008 and 2009 the Association weighed in more visibly and vocally on the impact pension costs were having on municipalities contracted with the California Public Employee Retirement System (CalPERS).

It should be noted that SDCTA strongly believes legislative action is necessary to truly achieve pension reform since CalPERS-contracted agencies are currently constrained by the limited options made available to them (see Table 1). However, until such time that retirement formulas and benefits are amended by the Legislature or through a voter-approved initiative, it is imperative that CalPERS-contracted government agencies take immediate steps to scale back benefits to more sustainable levels.

The recommendations outlined below do not require state legislative change, and can be implemented via the bargaining process or through CalPERS contract amendments. Our recommendations are separated into actions which result in immediate savings and those which result in long-term savings.

Recommendations which result in immediate savings:

- **Employee contribution rates:** Current employees should be required to pay contributions at least equal to the employer contribution rate.

Under CalPERS, employees are required to contribute a percentage of their income based upon the formula they are enrolled in. See Table 1 for these contribution rates. Employers can choose to pick up a portion or this entire employee rate. This is known as Employer Paid Member Contributions—or EPMC. Employer Contribution Rates—as a percentage of payroll—can substantially increase as a result of EPMC.

CalPERS-enrolled agencies should negotiate via the bargaining process with labor unions to eliminate EPMC as soon as reasonably possible.

Agencies should also negotiate via the bargaining process to have employees pay more than their “normal employee contribution rate” to encourage **risk sharing**.¹ (See Table 1). This is especially important when employer contribution rates exceed the normal cost.²

Table 1: CalPERS Miscellaneous and Safety Formulas and 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%	

- **Optional Benefits:** Reduce or eliminate other “ancillary benefits” that are wholly or in part paid for by the employer—and are not otherwise required by CalPERS.

The most commonly offered benefits are provided at virtually no cost to the employee—either because the employer is required through CalPERS to pick up the cost or the employer opts to pay for the benefit.

Some of these commonly offered benefits include: converting time into service credits (military service, prior service, sick leave), EPMC (EPMC, reporting EPMC as special compensation, and converting EPMC into the payrate during the final compensation period), pre-retirement and post-retirement benefits.

¹ Employers can have a contract amendment with CalPERS (after employees elect into it) that will allow them to share in additional benefits if a more generous formula is offered—i.e. not the 2% @ 55 for safety and the 2% @ 60 for miscellaneous.

² Normal cost is defined as that portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the actuarial cost method, excluding any payment in respect of an unfunded actuarial accrued liability.

Recommendations which result in long-term savings:

- **Second Tier Retirement Proposal:** Until such time that legislative changes are adopted, a two-tier system should be created wherein the second tier pension plan proposal contains the following:³
 - a. Safety employees – 2% @ 55 formula (most conservative option available)
 - b. Miscellaneous employees:
 - i. 1.5% @ 65 if Social Security is offered (most conservative option available)
 - ii. 2% @ 60 formula if Social Security is not offered (most conservative option available)
 - c. Average of highest consecutive three years: The period for determining the final compensation when calculating retirement benefits should be the average of the 36 highest paid consecutive months rather than the average of the 12 highest paid consecutive months.

³ Since retirement formulas become vested rights, according to the California Constitution, they cannot be reduced for active employees. However, retirement formulas can be lowered for new hires—those who were not actively employed at higher retirement formulas. This is typically called a tiered system, wherein you have some employees at higher retirement formulas than their newly hired coworkers.