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Marin Voice: Tackling Marin's public pension costs

By Larry Chu

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THE GREAT Recession has cast attention on the unfunded liability in public pension plans.

In particular, a report issued in April by the Stanford Institute for Economic Policy Research calculates the unfunded liability in the California Public Employees Retirement System to be six times greater than what is being reported.

A similar conclusion was made last month for independent funds like the Marin County Employee Retirement Association.

While the academic debate continues over which discount rate is appropriate, it does not change the fact the systems are not a dequately funded. Since retirees receive a guaranteed annuity (defined-benefit plan), any actuarial shortfall must be funded by participating members (San Rafael in MCERA and the other 10 cities and towns in CalPERS).

There is the belief that the current funding shortfall is because of a bad economy. However, last year even the chief actuary of CalPERS stated the pension system is unsustainable.

This has been a recurring theme that has been ignored in more prosperous times. The California Legislative Analyst's Office came to the same conclusion in 1999 and again in 2004.

In 1983, the federal government's National Commission on Social Security Reform determined this system was approaching insolvency.

The private sector started eliminating defined-benefit plans decades ago in favor of contributing a set amount

into an employee's account, which is then invested by the employee (defined-contribution plan).

The proportion of retirees to workers is growing. People are living longer and retiring earlier.

Public policy has not helped.

When there have been surpluses in the pension systems, more generous benefits are given out. But when the economy is unable to sustain higher levels of investment returns or a pension system loses money on questionably investments, they become

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underfunded and the public is expected to make up the difference. In effect, it privatizes the gains and socializes the costs and risks.

Pensions are not the only liability. There are also other post-employment benefits such as health, dental, vision, life insurance, prescriptions, hearing and long-term disability.

This is having a detrimental fiscal impact on local governments. Every unproductive dollar that goes into funding an unpredictable future liability is one less dollar that we have for our programs and services.

From a budgetary and risk- management standpoint, we need to reduce the costs and reduce the risks associated with the volatility and changing actuarial liabilities.

The Marin County Council of Mayors and Councilmembers has formed an ad-hoc committee to address pension and retiree benefits reform. Also included are representatives from the Marin Managers Association.

At the request of the Marin Municipal Water District and the Novato Sanitary District, they also have now joined in the discussion.

This committee has been tasked with:

Ω Getting a true and realistic assessment of the unfunded liability in actuarial ranges.

Ω Identifying all solutions, including those not in our immediate control or perceived to be infeasible by some stakeholders.

Ω Creating a range of policies for guiding future decisions. This will serve as a set of best practices which can be adopted in part or in whole as determined by each jurisdiction.

Some measures may take years to achieve or realize. Others may seem like the short-term impact is small in comparison to the overall problem.

That is not a reason to do nothing. If we keep ignoring this problem and leaving it to our successors, we can get a glimpse of our future by looking at the economies of European countries like Greece, Italy or France where later has become sooner.

Larkspur Mayor Larry Chu is a former president of the Marin County Council of Mayors and Councilmembers and chair of its pension reform committee. The committee's next meeting will be on Jan. 31 at 7 p.m. at Larkspur City Hall.

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