MARIN COUNTY COUNCIL OF MAYORS & COUNCILMEMBERS
AD-HOC COMMITTEE ON PENSION & OTHER POST-EMPLOYMENT BENEFITS REFORM

MINUTES OF FEBRUARY 28, 2011 MEETING

PRESENT: Belvedere (John Telischak); Corte Madera (Bob Ravasio); Fairfax (David Weinsoff); Larkspur (Larry Chu); Mill Valley (Stephanie Moulton-Peters); Novato (Jeanne MacLeamy); Ross (Scot Hunter); San Anselmo (Tom McInerney); San Rafael (Marc Levine); Sausalito (Jonathan Leone); Tiburon (Emmett O'Donnell); Marin Manager Association (Dan Schwarz, Jim Schutz); Novato Sanitary District (Bill Long)

Chair Larry Chu opened the meeting at 7:05 PM.

Minutes for the January 31, 2011 were approved unanimously (M/S Levine/Ravasio) with an amendment by Carolyn Ford (Sausalito) to Page 4, fifth paragraph to change "…move towards eliminating defined benefit plans." to "…move towards defined contribution plans."

PUBLIC COMMENTS:

Bob Briare (Marin Professional Firefighters) provided the Committee with most recent copy of the MCERA newsletter. He highlighted two articles on the front page related to investment returns.

Frank Tallarida (Novato) refered to a Marin IJ article and asked why firefighters and police officers need affordable housing if they're making so much money and how much of the affordable housing stock is occupied by firefighters and police officers.

Patrick Mullen (Larkspur) asked for examples of pension abuses, what defines compensation for the calculation of pension benefits, and whether the benefits are consistent between the different municipalities in Marin. Manager Schwarz said a common abuse was to get a promotion with higher pay and then to retire in the same year since the calculation in on the last year's salary. For various reasons, there are instances of employees not working, but being treated as active. Compensation is defined in the California Government Code Sections 20630-9 with the applicable portions for CalPERS in Section 20636. Benefits vary from city to city. Councilmember Hunter added that several cities have switched to final three years to determine benefit levels. Manager Schutz stated MCERA defines compensation in the 1937 Act (CERL) and this is interpreted most notably through the courts in a case involving the City of Ventura. Both managers stated leave payouts do not go in the calculation of the pension benefits.

Robin Mullen (Larkspur) stated the Committee should look at everything and should not be paying out for accrued sick time.

Tom McDonald (Novato) stated he is concerned about the rhetoric in Wisconsin polarizing the pension reform issue, but has not seen this with the Committee. He cited a NY Times study with the majority of the public opposing efforts to reduce collective bargaining and reducing the pay of public employees. Councilmember Weinsoff provided the study for the Committee.

Mike Erickson (Corte Madera) stated cities should pay public employees a fair wage to get quality people, but that a defined contribution plan be used so the liability ends when employment ends.

BUSINESS ITEMS:

Report on Pension Benefits Data – Scot Hunter

Survey is complete with all participating agencies reporting in.

Councilmember Weinsoff pointed out that cities do not pay into Social Security for their employees. Unless a person may have made a Social Security payment through another employer, there is no double-dipping.

Bob Briare (Marin Professional Firefighters) also stated there are also windfall elimination provisions within the Social Security system.

Tom McDonald (Novato) raised the issue that pension obligations do not appear on the matrix which makes the payments look artificially low.

Chair Chu suggested adding columns in the matrix for pension obligations and for any CalPERS side fund payments.

Manager Schwarz stated the side funds are for catching up when there changes made in benefit levels or in the terms of a contract. He suggested that cities may want to consider funding these payments at a lower rate through some other means of financing rather than at the 7.75% rate charged by CalPERS.

Councilmember O'Donnell also suggested compiling a list of current contractual obligations and to identify the negotiable elements.

Report on Other Post Employment Benefit Data – Larry Chu

It noted there was nothing to report from this subcommittee. This data not currently on the critical path, but the several of the columns in the spreadsheet can be filled from the GASB 45 reporting of OPEB liabilities for in the 6/30/10 financial statements for each agency. Committee members should assist in getting any missing data from their managers or finance directors.

Report on a Financial Impact Study – Larry Chu

The subcommittee did an interview with Bartel & Associates. They provided local references as Sausalito, San Rafael, and Novato. The scope of the project should not replicate the actuarial analysis of CalPERS, but to provide more detail on the funded status by analyzing the sensitivity of investment returns using more current data on economic and market conditions.

Process is efficient and specific to each organization, so there is not much to gain from sharing costs or gaining any economies of scale by pooling the effort. The variable cost is in collecting the data, not the size of the agency or the number of employees. The cost of a study similar in scope to the one performed for Sausalito study was estimate to be $3,500. The work is for the initial interviews, data collection, a report, and presentation to the Council. Scope of the work would include using a range of modeling assumptions.

Mayor Leone described that CalPERS will only use their stated assumptions for the market and updates them once a year. The Bartel study for Sausalito went out to 2015-16 and looked at the sensitivity analysis based on the deviation of the returns.

Paula Reynolds (former school board member in Mill Valley) suggested that the study also provide a dynamic tool to change the assumptions and to look at different scenarios. She also suggested getting legislation to require better disclosure of liabilities from CalPERS.

Report on Toolkit of Actions – Jeanne MacLeamy

The subcommittee has met several times, but they still have some more work to do. General conclusion is that the current situation is unsustainable without reducing costs or raising taxes.

Toolkit will focus on changes that cities can make. The total impact of some of the changes will require an actuarial study. Change in the formula is a local labor discussion. Extending retirement age may need CalPERS approval. Looking at reducing the cost of living adjustment below 2% may also need CalPERS approval. They are still looking at solutions that can combine with Social Security.

CalPERS will need to change their formulae. There has been some recognition that change is needed since they are apparently beginning to study hybrid plans. A city still can't get out of the system without buying out their actuarial liability and CalPERS won't allow a second tier in another system.

The public will need to promote legislative changes. CalPERS is already being investigated on some of their practices.

With respect to the acceptance of defined contribution plans, if new tiers are to be established, younger employees seem to realize the system may be insolvent by the time they retire. They are doing their own saving outside of the system. There is the concern their payments into the system are to maintain other people's pension. For former private sector employees, most are used to having defined contribution plans.

Chair Chu stated an actuarial study may be too onerous and time consuming. He suggested highlighting the qualitative benefits of the proposed actions in the Toolkit.

Vice Mayor McInerney suggested adding a category called Alternative Staffing. This would look more into the ability and limits of subcontracting, consulting, sharing services, consolidation, and other personnel reduction methods for saving money.

Manager Schwarz made a short presentation on alternative methods for shifting the risks associated with the defined benefit portion of retiree medical programs. As an example, Beverly Hills has provided an option to have active employees voluntarily switch to health saving accounts thus reducing the future OPEB liability. He stated the success of the program (60% participation) is due in part to generational attitudes being different for a younger workforce. They have much lower expectations of staying with the same employer for their whole career.

Tom McDonald (Novato) suggested strongly challenging CalPERS in allowing for hybrid plans within their system. He also suggested having an equal share of any increases be split between the employer and the employees.

Mike Erickson (Corte Madera) suggested that bankruptcy may be a way to get out of the obligations thereby allowing the courts determine the level of benefits based on what the cities can pay.

Manager Schwarz stated the employee contribution in CalPERS is legislatively capped. Court have not allowed for the obligations to be absolved through bankruptcy since public pensions are not backed by the Federal government. In the Vallejo case, CalPERS is not declared as a creditor by the courts. Manager Schutz said the range of the employee contribution into MCERA is based on the employee's age of entry.

Paula Reynolds (Mill Valley) stated teachers in Mill Valley have started to pay for some of their benefits. She suggested the Toolkit should include basic facts to distinguish the myths from the realities, and to also look at the cost from the hiring date until the retiree dies.

Bob Briare (Marin Professional Firefighters) stated public employees are opposed to the various abuses within the system. He expressed concern that any solutions will not redirect existing money away from paying benefits. He would also like to see protections to ensure employer contribution into defined contribution plans are not suspended if the economy is bad. Employee groups are willing to discuss changes with their respective agencies.

Discussion on Format of the First Draft of the Report – Larry Chu

The general presentation of the report will be objective and balanced, but it will not be without the subjective viewpoints of what the Committee decides is appropriate for dealing with the problem, i.e. reducing the costs and the risks associated with the funding of post retirement benefits.

The first part of the report will provide an assessment as to why the system is unsustainable. The key to this part of the report will be the Toolkit, which will focus on what solutions are available in the immediate control of the cities.

A second part will deal with the policy matters that will identify where changes will need to be made in policies and the legislative, regulatory, governance, and legal climates. It will provide the framework for the Legislative Committee to take a future position or to advocate in behalf of the cities.

Chair Chu asked to have any committee member contact him if they are interested in helping with the writing or the edits for the report.

Next Meeting: March 28, 2011 at 7:00 PM at a place to be determined.

AJOURN: Meeting was adjourned at 9:00 PM