

Public employee post-employment costs, a slow-motion disaster



*John McCauley,
CPA (retired), CPCU
Mill Valley City Councilmember*



*Larry Chu
Larkspur City Councilmember*

An update to the 2011 MCCMC report

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Post-employment benefits in Marin

Cities in Marin provide two post-employment benefits to employees



A Pension benefit from  in San Rafael , or

A City specific “Other Post-Employment Benefits” (OPEB) for medical coverage



Post-employment benefits liabilities overview

Currently total liabilities for Marin Cities exceeds \$401M



Stock market was high, pension benefits were expanded retroactively



CalPERS assumptions weren't met, resulting in a large shortfall in accumulated pension plan assets today

Marin cities have a cumulative net pension liability to:

- CalPERS of \$179.0 million
- MCERA of \$120.6 million for San Rafael

On the OPEB side liabilities are:

- CalPERS of \$67.8 million
- MCERA of \$33.7 million



Annualized average returns for the ten years ending 30, 2019:

S&P 500: 14.70%

Dow Jones: 15.03%

Russell 2000: 13.45%



Market declines in 2002 and 2018 are not the problem, benefit and funding levels are the issues

CalPERS has finally addressed the problem...

.... by taking the following actions

Are these actions
enough?

Increased Mortality
Assumptions

More conservative investment
mix

Discount rate
being lowered to 7%

Asset shortfall is being
amortized faster
Even if investments
outperform assumptions, bad
news has to be absorbed first

***Actions substantially raising city's Actuarially Determined
Contribution (ADC), the amount owed to CalPERS by each city***

We are now “paying the piper”, so how much is the
upcoming bill?

A league of California cities study concludes*...

.... that some cities may not be able to support future cost without drastic actions

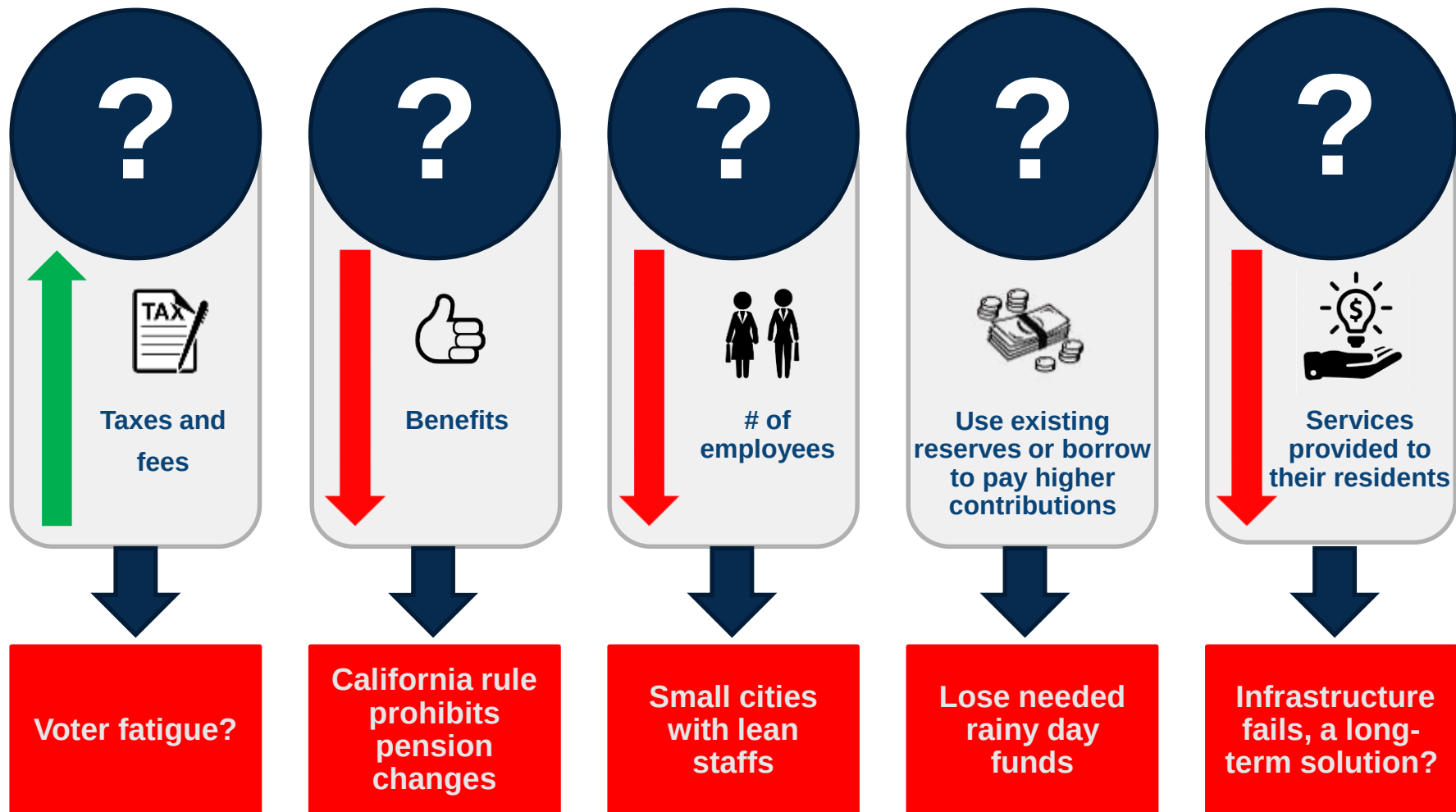
	Average California city spent of its General Fund budget on CalPERS pension costs		
FY 2006–07		8.3%	CalPERS pension costs almost double
FY 2017–18		11.2%	
FY 2024–25		15.8%	
	with 25% of cities spending more than 18%, and 10% anticipated to spend 21.5% or more		



** Some Marin cities have conducted actuarial studies that reach similar conclusions*

Rising costs will crowd out city's ability to provide services

What can be done?



Rising costs will crowd out city's ability to provide services

What should cities do?



1 Develop a long-range plan



2 Make OPEB obligations more sustainable

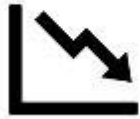


3 Be more transparent about benefit costs



1 Develop a long-range plan

What should cities do?



Assume a recession, 12 since 1945 (average every 6 years)



Each city's revenues are different, Property tax and Prop 13, sales tax



Use the plan to address the projected shortfall



There are no easy solutions

1 Develop a long-range plan

What should cities do?

Make smaller cuts now, put away some funds for pension costs so later cuts will be less dramatic? How? Choices with impacts explained in report



1. Pay more to CalPERS now
2. Create a 115 trust
3. Designate funds for future pension use



Pursue greater taxes and fees?

Make less painful cuts in headcount now?

Review the long range plan, have the hard discussions now and include your constituents:

Taxpayers, Employees and Decision Makers



2 Make OPEB obligations more sustainable

What should cities do?

Unlike pension costs, cities may have more control over their OPEB obligations

The level of benefits varies by city date and cities can do more to compare costs. In addition, those with costly plans vary as to the level of funding to date.

Curtailment of this benefit for future employees when legally allowed and for agencies using the CalPERS medical benefit plan only to fund at the legally allowed minimum under the Public Employees' Medical & Hospital Care Act (PEMHCA)

We support all agencies fully funding the ADC for current employees so employees can better count on receiving the benefit when due and costs match services



3 Be more transparent about benefit costs

What should cities do?

City financial statements are aggregated by function (e.g. Fire, Police, or Library) rather than by costs (e.g. payroll, benefits, and purchases)



We support specific disclosure of payroll and benefit costs so that citizens, employees and decision makers can see how tax dollars are spent



How valuable is the pension/ OPEB benefit to our employees?

Given that public salaries and those in private industry are roughly at parity, understanding benefit differences can help inform about the voter fatigue issue.



Among all workers, only **4%** have access to **DB pension plans** where investment risk remains entirely with the employer.

Another **13%** have access to both a **DB pension** and a **401K type DC plan**. Some of the investment risk shifts to the employee, and the pension element has frequently become a smaller frozen part of the benefit.

In Marin, all full-time public employees enjoy full DB plans with no investment risk. Contrasting the benefits of public employees and the average voter highlights the risk of voters not supporting additional taxes to fund benefits.

Marin public employees do not generally pay or benefit from S.S.

Some perspective on the value of the pension

The average monthly Social Security payment in January 2019 was \$1,461 per month

The maximum possible benefit based on an annual salary of \$132,900 in 2019 is \$2,861 per month.

Many citizens have little retirement savings

Average 2018 Marin public employee pay is \$87,638 per year



A Miscellaneous employee in Marin retiring after 40 years, and a 2.5% benefit factor, and the \$87,638 “average” as final annual compensation would get \$7,303 pension per month, 3.3 X the SSI benefit of \$2,250

A Miscellaneous employee working 40 years with a 2.5% benefit factor and a \$132,900 final annual salary, the SSI max, would get a \$11,075 pension per month, almost 4X SSI benefit of \$2,861

Debate between public sector pensions and private company

Where should the debate be focused?

Salary	Pension	Social Security	Difference
\$87,638	\$7303	\$2,250	\$3.3X
\$132,900	\$11,075	\$2,861	\$3.8X

The debate between public sector pensions and private company post-employment offerings should focus both on where investment risk lies (DB-DC?) as with the level of benefit offered



Pension costs will almost double over the next few years.

What should cities do?



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3 Be more transparent about benefit costs



Q&A