

An Update and Comparison of the Region's Upcoming Pension Costs

February 28, 2012

Summary & Background

Ten of the 17 incorporated cities in San Diego County will see a reduction in pension payments in the upcoming fiscal year due in part to benefit reductions and other changes the cities made following a series of reports by the **San Diego County Taxpayers Association** (SDCTA or Association).

According to SDCTA's latest analysis, the cities that will see the largest reductions in their pension costs in Fiscal Year 2013, which begins this July, are:

- Solana Beach – 12% decline
- Imperial Beach – 11% decline
- Lemon Grove – 7% decline

Seven of the 17 cities in the county will see increases in their pension costs, including:

- Del Mar – 15% increase
- San Marcos – 5% increase
- Encinitas – 3% increase
- Carlsbad – 3% increase

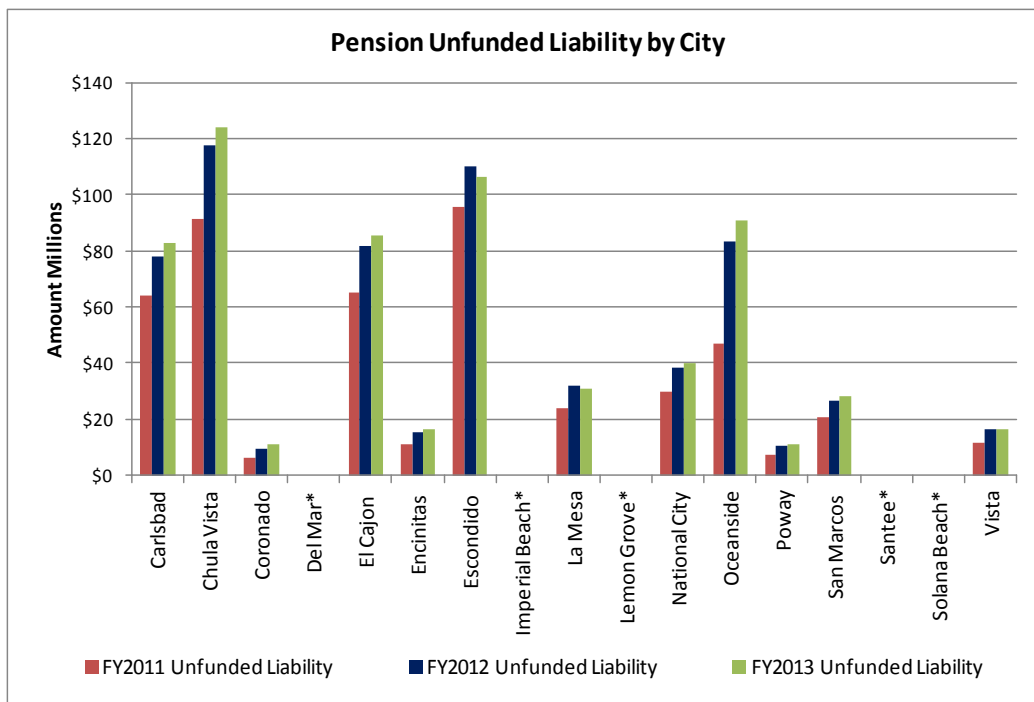
The 17 cities are members of the **California Public Employees' Retirement System** (CalPERS). SDCTA's analysis does not include the City of San Diego because its employees are in separate pension system. That system is being targeted for reform at the ballot box this June by the Comprehensive Pension Reform initiative.

The Association has released a series of reports examining the region's government employee pension plans, focusing on the impact upon local governments' budgets. In June 2009, SDCTA issued a study with formal recommendations on pension reform for the 17 incorporated cities that participate in CalPERS.

The Association also developed a Pension Certification Program to educate public officials, civic leaders and members of the news media on the complex issues encompassing local government retirement benefits.

This report – SDCTA's latest analysis of municipal pension benefits – examines what's changed and where things stand in cities across the county.

Despite significant strides, including a sharp reduction in cities picking up a share of employee pension costs, problem areas remain. Unfunded liabilities, for example, are up in 10 of the 17 cities. CalPERS is requiring an additional \$16.3 million from local cities in the upcoming fiscal year, in part due to the total unfunded liability for all retirement plans increasing by \$145 million.



Findings: Unfunded Liabilities by the Numbers

Some cities can expect to see an increase in pension costs for the upcoming fiscal year due to an increase in unfunded liabilities. An **unfunded liability** occurs when factors such as investments and employee costs do not match assumptions made by CalPERS to forecast costs. Discrepancies result in an unfunded liability that requires cities to make annual payments; the total amount of the unfunded liability is not paid all at once.

These extra costs place greater pressure on municipal budgets that are already stressed.

The good news is that some cities have made steadfast efforts to introduce reforms that have reduced annual pension costs and held the line, or even reduced, unfunded liabilities.

Between FY 2012 and FY 2013, the **City of Coronado** held the largest increase in its unfunded liability – 12.9%, followed by **Oceanside** at 8.8% and **Encinitas** at 6.6%. The cities of **La Mesa** and **Escondido** saw a decrease in their unfunded liability by 3.15% and 3.1%, accordingly.

Many cities within the San Diego County region participate in CalPERS **risk pools**. In collaboration, cities pool their multiple plans in order to share the risk of investment returns. All the assets and liabilities are gathered together in order to reduce volatility of rates.

Cities such as **Del Mar** and **Coronado** are mandated to enter a risk pool because they have fewer than 100 active employees. Other cities voluntarily elect to enter the risk pool. These pools allow for each city to create their own side fund that accounts for the difference between the funded status of the entire risk pool and the funded status of the individual city's plan.

Annual Required Contributions by the Numbers

Just as with unfunded liabilities, some cities also will see a reduction in their **Annual Required Contribution (ARC)** payments for FY 2013. This is due in part to reductions in the number of employees for each city and limited increases in salaries.

For the upcoming year, the cities of **Solana Beach**, **Imperial Beach** and **Lemon Grove** will see ARC payment reductions of 12.4%, 11.4% and 6.8%, accordingly. The **City of Del Mar** is not as fortunate, with a 14.8% increase in its ARC payment. **San Marcos** and **Encinitas** will see increases of 4.7%, and 3.0%, respectively.

While examining the ARC is one way to measure pension costs, comparing **employer contribution rates** allows for the comparison of pension costs between cities. The employer contribution rate is the cost held by each city to provide the pensions benefit as a percent of payroll, and it

includes the normal cost of the benefit plus a payment on the unfunded liability. In other words, for every dollar a city contributes toward compensation, it must also contribute an amount defined as the employer contribution rate for employee pension plans.

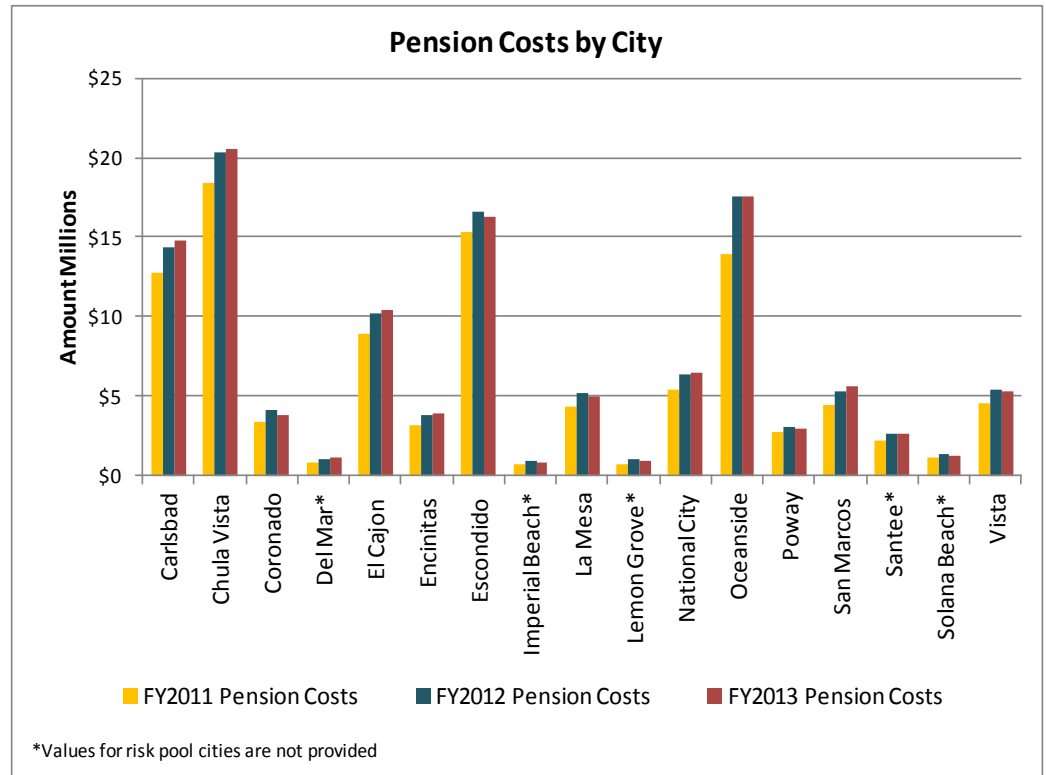


Table 1 highlights the top five non-risk pool cities with the highest contribution rates.

Table 1: Most Expensive Pension Plans for FY 2013			
Safety Employees		Misc. Employees	
City	Contribution Rate	City	Contribution Rate
El Cajon	37.12%	El Cajon	26.08%
Escondido	33.70%	San Marcos	25.69%
Carlsbad	33.20%	Escondido	23.83%
National City	33.12%	Chula Vista	23.67%
Vista	31.80%	La Mesa	23.35%
Source: FY 2010 CalPERS Actuarial Valuations			

Have Cities Made Reforms?

Many cities have created a **second tier of pension benefits** for newly hired employees. A second tier allows for a lower annual benefit formula and thus a reduced cost.

The following is a list of cities that have adopted a new second tier for all employees, second tier for some employees and no second tier (additional information on these cities and the respective benefit formulas is available upon request):

Table 2: Cities with Second Tier Benefit Plans

All Second Tier	Some Second Tier	No Second Tier
Poway	El Cajon	Coronado
La Mesa	Chula Vista	Del Mar
San Marcos	National City	Escondido
Carlsbad	Oceanside	Imperial Beach
Santee	Encinitas	Lemon Grove
Solana Beach		

Source: Memoranda of Understanding for CalPERS Cities

CalPERS requires that employees contribute a certain amount of their pay to their pension plan. However, cities are allowed to “**pick up**” a portion or the entire share of the employees’ pension costs. In doing so, the City is further increasing the pension burden to taxpayers and its budget. Since the release of our first pension report in 2009, a number of cities have implemented reforms and reduced the pick-up amount of employee pension costs. Put another way, numerous local government employees are either contributing for the first time, or contributing a larger amount, toward their pension costs. Table 3 outlines the changes to the pick-up by each city since 2009.

The pension plan picture is incomplete till one views the **funding status** of the plan.

The funding status measures how “on track” the pension plan is with respect to how much is available to pay for the benefits promised to employees. Losses in the market and increases in benefits contribute to the drop in the funding status of each city’s pension plan.

The following is a chart depicting the funding status of each city:

Table 3: City Share of Pick-Up Rates - 2009 and 2012

City	2009 Safety Employees	2012 Safety Employees	2009 Misc Employees	2012 Misc Employees
Carlsbad	8%	0%	7%	0-3.5%
Chula Vista	9%	0%	8%	0%
Coronado	9%	0%	8%	0%
Del Mar	4%	0-2.5% *	0%	0%
El Cajon	9%	4% *	8%	4% *
Encinitas	9%	0-6%	8%	8%
Escondido	9%	9%	7%	0-7%
Imperial Beach	9%	9%	2%	0%
La Mesa	0-9%	0%	0%	0%
Lemon Grove	9%	0%	7%	0%
National City	9%	0-4% *	6%	0%
Oceanside	9%	0-5%	4%	0%
Poway	6%	0-1%	4%	0%
San Marcos	9%	0%	8%	0%
Santee	9%	5%	8%	5%
Solana Beach	7%	0%	6.5%	0%
Vista	1%	0-1%	0%	0%

**Notes Labor contract eliminates pick-up in future years*

Source: Memoranda of Understanding for CalPERS Cities

Table 4: FY 2013 Funding Status for Pension Plans

City	Safety Employee Plan	Miscellaneous Employee Plan
Carlsbad	64%	63%
Chula Vista	68%	59%
Coronado	-	65%
Del Mar	-	-
El Cajon	60%	61%
Encinitas	-	-
Escondido	64%	60%
Imperial Beach	-	-
La Mesa	66%	64%
Lemon Grove	-	-
National City	61%	67%
Oceanside	69%	65%
Poway	-	70%
San Marcos	-	52%
Santee	-	-
Solana Beach	-	-
Vista	-	65%

Source: FY 2010 CalPERS Actuarial Valuations

Conclusion

Implementing a second, less expensive tier for new employees and requiring employees to pay their full share of pension costs helps cities partially offset pension challenges. Unfunded liabilities increase pension costs and strain the required contribution for FY 2013 since payments on these unfunded liabilities are required each year. Most cities' pension plans are approximately 60% funded, significantly less than what is generally considered to be an acceptable funding level.

While cities have begun the process of implementing reforms to reduce pension costs, cities should continue seeking reforms during contract negotiations with employee groups, which includes adopting lower tier retirement plans for employees as well as having all employees pay their full and required share of pension costs.

The San Diego County Taxpayers Association is a non-profit, non-partisan organization, dedicated to promoting accountable, cost-effective and efficient government and opposing unnecessary new taxes and fees. Founded in 1945, SDCTA has spent the past six decades saving the region's taxpayers billions of dollars, as well as generating information to help educate the public.

Table 5: Comparison of Pension Costs and Unfunded Liabilities Among CalPERS Cities

City	FY 2012 Total Contribution	FY 2012 Unfunded Liability	FY 2013 Total Contribution	FY 2013 Unfunded Liability	Contribution Increase as a percentage	Increase in Unfunded Liability as a percentage
Carlsbad	\$14,409,304	\$78,021,100	\$14,824,377	\$82,655,795	2.88%	5.94%
Chula Vista	\$20,346,940	\$117,843,802	\$20,551,946	\$124,310,652	1.01%	5.49%
Coronado	\$4,086,107	\$9,605,616	\$3,823,320	\$10,843,757	-6.43%	12.89%
Del Mar*	\$969,271	\$0	\$1,112,746	\$0	14.80%	-
El Cajon	\$10,245,268	\$81,951,120	\$10,415,533	\$85,748,690	1.66%	4.63%
Encinitas	\$3,833,958	\$15,177,529	\$3,948,210	\$16,171,755	2.98%	6.55%
Escondido	\$16,584,616	\$110,014,738	\$16,232,270	\$106,593,692	-2.12%	-3.11%
Imperial Beach*	\$917,511	\$0	\$813,037	\$0	-11.39%	-
La Mesa	\$5,134,712	\$31,907,549	\$5,017,117	\$30,901,599	-2.29%	-3.15%
Lemon Grove*	\$967,505	\$0	\$902,246	\$0	-6.75%	-
National City	\$6,306,976	\$38,252,571	\$6,413,726	\$39,999,513	1.69%	4.57%
Oceanside	\$17,611,357	\$83,342,713	\$17,583,576	\$90,643,055	-0.16%	8.76%
Poway	\$2,994,679	\$10,241,053	\$2,891,705	\$10,846,900	-3.44%	5.92%
San Marcos	\$5,321,463	\$26,641,917	\$5,573,861	\$28,301,761	4.74%	6.23%
Santee*	\$2,653,135	\$0	\$2,650,133	\$0	-0.11%	-
Solana Beach*	\$1,356,803	\$0	\$1,188,758	\$0	-12.39%	-
Vista	\$5,370,366	\$16,352,341	\$5,264,308	\$16,410,858	-1.97%	0.36%

*Risk Pool City

Source: FY 2009 & FY 2010 CalPERS Actuarial Valuations