CITY OF VENTURA

COMPENSATION POLICIES TASK FORCE
AGENDA

Ed McCombs, Chairperson
Bart Bleuel, Co-Deputy Chairperson
Randy Hinton, Co-Deputy Chairperson

REGULAR MEETING
TUESDAY, FEBRUARY 2, 2010, 3:30 P.M.
POLICE/FIRE HEADQUARTERS
1425 DOWELL DRIVE, VENTURA

The public has the opportunity to address the Compensation Policies Task Force on any item appearing on the agenda. Persons wishing to address the Task Force should fill out a "Speaker Form." If a member of the public wishes to comment on an item and does not want to speak before the Task Force, the person may complete a "Comment Form." The Chairperson will acknowledge Comments for the record.

ROLL CALL

PUBLIC COMMUNICATIONS

TASK FORCE BUSINESS

1. Minutes

   Approve the minutes from the Regular Meetings of December 11, 2009.

2. Review and discuss the latest draft of the Defined Contribution vs. Defined Benefit paper.

3. Set Future Meeting Dates.

COMPENSATION POLICIES TASK FORCE AND STAFF COMMUNICATIONS

ADJOURNMENT

Staff Reports relating to agenda items are available in the Finance & Technology Department, Room 101, 501 Poli Street, Ventura, during normal business hours. Materials related to an agenda item submitted to the Compensation Policies Task Force after distribution of the agenda packet are available for public review in the Finance & Technology Department.

This agenda was posted on Thursday, January 27, 2010, at 3:00 p.m., in the Finance & Technology Department and on the City Hall Public Notices Board.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the staff at 654-7812 or the California Relay Service. Notification by Thursday, January 28, 2010, at 1:00 p.m. will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

CITY OF VENTURA

COMPENSATION POLICIES TASK FORCE

MINUTES

Ed McCombs, Chairperson

Bart Bleuel, Co-Deputy Chairperson, Randolph Hinton, Co-Deputy Chairperson

Neal Andrews	Luis Espinosa	Jim Monahan
Eric Burton	Quinn Fenwick	Richard Newsham
Ben Davis	Sylvia Lopez	John Snowling
Ramon De La Rosa	Frank Maxim	Mike Tracy

DECEMBER 11, 2009

The Compensation Policies Task Force met in regular session at the Police/Fire Headquarters' Training Room, 1425 Dowell Drive, Ventura, at 3:45 p.m.

ROLL CALL

Present: Neal Andrews, Bart Bleuel, Eric Burton, Ramon De La Rosa, Quinn Fenwick, Randy Hinton, Laurie Hixon, Frank Maxim, Ed McCombs

Absent: Luis Espinosa, Benny Davis, Jim Monahan, Richard Newsham, John Snowling

Chairperson McCombs called the meeting to order.

PUBLIC COMMUNICATIONS

None.

TASK FORCE BUSINESS

1. Minutes

Recommendation: Approve the minutes from November 18, 2009, and December 2, 2009.

Action: Chairperson McCombs moved to approve the minutes as presented. Co-Deputy Chairperson Bart Bleuel seconded. Motion carried.

2. Discuss the Differences between Defined Contribution and Defined Benefits as Presented in the Document Prepared by Co-Deputy Chairperson Bart Bleuel.

There was much discussion among the committee members regarding the document prepared by Co-Deputy Chairperson Bleuel. It was suggested that a smaller group meet to work further on the report. Committee member Ramon De La Rosa made a motion for the members to be Rick Cole (who volunteered), Frank Maxim, Quinn Fenwick and Bart Bleuel. The motion was seconded by committee member Quinn Fenwick, Chairperson Ed McCombs, and Co-Deputy Chairperson Randy Hinton.

3. Set Future Meeting Dates

The next meeting was set to take place on January 22, 2010, at 3:30 p.m. in the Police/Fire Headquarters training room.

COMPENSATION POLICIES TASK FORCE AND STAFF COMMUNICATIONS

None.

ADJOURNMENT

The meeting was adjourned at 5:55 p.m.

Joann Froemmling

Joann Froemmling, Secretary

THIRD DRAFT

REPORT OF THE COMPENSATION POLICIES TASK FORCE

Ed McCombs, Chair
Randy Hinton, Bart Bleuel, Co- Vice Chairs
(Members)

February 2, 2010

[Executive Summary]

Introduction

If there is one element the Task Force agreed to, it was that City of Ventura employees are hard working, dedicated and doing a tremendous job despite shrinking resources. While the public may complain about abuses in the government sector in general, Ventura's employees are not overpaid compared to other public agencies. While current pension benefits differ from those generally offered in the private sector, they are in line with those offered statewide by public agencies and have not been subject to the abuses reported elsewhere. The issues addressed about employees manipulating an "enhanced salary base" simply do not exist in Ventura. Furthermore, Ventura's pension systems do not have health insurance as a component, which has been perceived as a problem for other agencies.

The City Council directed the Task Force to review the City's policies for establishing competitive and sustainable salary and benefits, particularly retirement benefits. The Task Force focused on exploring facts and differing perspectives on these issues. The Task Force did not look at specific salaries and benefits or how to calculate what those benefits cost. That is the job of the City Council.

This report is NOT a result of negotiations with City unions. While all of the City unions are represented on the Task Force, there has been no attempt to have any of them set positions that would bind them in negotiations.

Background

Enduring the most severe economic reckoning since the Great Depression, the City of Ventura faces stark choices. We are not alone – the State of California faces a seemingly insoluble fiscal deficit, which it has repeatedly sought to lessen by diverting funds from local government. Virtually every city, county and school district in California has had to tighten its belt. Many cities, large and small, have confronted wrenching crises -- sparking deep cutbacks, union concessions and even, in the case of Vallejo, resort to bankruptcy courts.

Rather than drift into such dire straits, since March 2008, the City of Ventura has been pro-active in pursuit of "living within our means." At that time, we first undertook immediate cost-cutting strategies. In the fall of 2008, the City Council adopted a set of Operating Principles (attached) that guided a fundamental overhaul of our budget. Using our "Budgeting for Outcomes" process, General Fund expenses were reduced for Fiscal Year 2009/10 General Fund budget by $11 million (from $96 to $85 million.) Subsequently, the City Manager and Chief Financial Officer have identified the need to reduce spending by another $4 million, primarily due to steeper revenue declines.

Because nearly two-thirds of our General Fund expenses go for the personnel costs of delivering services, the City Council clearly identified the importance of re-examining our staffing levels and compensation costs. The City Manager proposed and achieved a reduction in payroll costs of 5% over the 15 months that included the final quarter of FY 2008/9 and the entire FY 2009/10 budget year. This was supported by the City's eight union bargaining units and is currently in effect.

In July 2009, the Council voted to set up a Compensation Policies Task Force to "collaboratively address the challenge of maintaining both sustainable and competitive wages in difficult times." The focus for the Task Force was three specific issues and challenges (re-examining how to determine "competitive" compensation levels; reducing the rising cost of retiree pensions; and seeking a feasible method for adjusting compensation during recessions.)

The Task Force, made up of public members, City Council members and the City's union and non-union employee representatives began meeting September 8 and held public meetings through January of this year.

Not surprisingly, the Task Force began with expressions of widely diverging viewpoints, reflecting our community's diversity. Some from the Council and public members started from the perspective that public employee compensation has outpaced pay and benefits in the private sector and must be scaled back, particularly in the area of pensions. The employee representatives questioned these assumptions and noted that Ventura has consistently lagged other public agencies in compensation. It was important to undertake a full-scale review of the key issues of compensation and pension plans to better understand the "problems" before turning to solutions.

Compensation: Re-Examining "Competitive" Formulas

The issue of compensation is an emotional one, particularly in this economic downturn. Wall Street bonuses and CEO salaries have dominated headlines. Public employee compensation has also been a focus of renewed attention, particularly here in California, given the State's fiscal situation and the widely-publicized problems of several local governments.

Public attitudes toward public employees color any thoughtful examination of the City's compensation policies.

In the wake of a major fire, "Thank you firefighters!" hand-lettered signs and spray-painted sheets proliferate on our hillsides. While code enforcement inspectors and motorcycle cops may not be beloved, there is a recognition by many that public employees fulfill important jobs serving our communities. But in these times of deep economic distress, the relative security and pay policies of the public sector provoke fierce resentment against virtually any public sector employees and especially the unions that represent them.

It is often difficult to distinguish the situation in Ventura from the much larger debate over government going on in our State and nation. But it is important to separate reality from perception.

Fact-finding

To put the compensation issue in perspective in the City of Ventura, the Task Force embarked on fact-finding about the City's pay, benefits and pensions. Here are some of the key findings:

1. *Pay and benefits:* Relative to comparable cities (both nearby and cities of similar size throughout California), pay, benefits and pensions for the City of Ventura tend to be *average to below average*. This is true across the board. In fact, although the City's current compensation policies seek generally an "average" compensation package relative to comparable cities, pay, benefits and pensions usually lag other agencies.
2. *Medical benefits:* Unlike most public and many private employers, the City of Ventura has not significantly raised its contribution to employee medical benefits despite significant annual premium increases. The City offers employees a flat contribution toward a "cafeteria" of medical, dental and related benefits. It was XXX in 200X and it remains XX in 2009.
3. *Post-retirement medical benefits*: This is one of the fastest growing liabilities facing government agencies in California. The City of Ventura does not and never has offered post-retirement employee health care coverage. According to a massive study done by a commission set up by Governor Schwarzenegger, these benefits are offered by 86% of the cities they surveyed.
4. *Private sector comparison*: While there are no strict "apples to apples" comparisons between City of Ventura compensation levels and the larger workforce, as a rough guide for the last decade, The average increase in pay for all workers from 2000 to 2009 in our Metro Region was XX%, compared to XX% for Police; XX% for Fire, XX for various units of SEIU and XX% for management and other unrepresented.
5. *Retention and attraction:* The City of Ventura strives to provide an excellent level of services to the community. Although not the only factors, competitive salaries and benefits are major factors in attracting and retaining high quality staff. This is particularly important in those jobs where specific qualifications or credentials are legally required.
6. *Turn-over rates*:

These and other facts do not, however, conclusively address the question of what is the labor market for Ventura city employees. Our current Compensation Policies stress the need to be "*fiscally prudent*"**:**

- The City's practice is to compensate staff in accordance with the City's financial condition. The City will seek to keep staffing levels and compensation at levels that can be sustained within fiscally prudent projections of revenue capacity and adequate operating contingency reserves.

Given the magnitude of reductions in ongoing city revenues, the City Council faces hard choices about how to balance service and staff reductions against adjustments in current compensation. The current labor market is characterized by levels of unemployment and underemployment that are unprecedented in the lives of current workers. How long this will persist in unknown and unknowable, but mainstream economists forecast an extended period of weak demand for labor. Concerns about retention are upended in this situation: far fewer workers will be tempted to leave current jobs and far fewer jobs will be available. Although Ventura city unions cooperated in agreeing to 5% or greater temporary reduction in compensation, their willingness to accept ongoing reductions is open to question – and collective bargaining. Pay cuts obviously affect morale and are a threat to long-term competitiveness. Yet the availability of lower cost labor through new hires; contracting out; or non-regular employees will call into question the cost-effectiveness of our current compensation levels.

Part of the answer may lie in looking more broadly at retention and employee satisfaction considerations beyond compensation. Our current Compensation Guidelines (which is included in this Report as Attachment One) already stress this:

- The City's compensation program should ensure that the City has the ability to compete for the highest quality of talents and skills available, recognizing that our strongest competitive advantages will not be the highest pay, but rather a combination of competitive compensation, fiscal stability, training opportunities, an empowered and positive work environment, career growth potential and high morale based on our core values and ethical principles.

An additional important consideration is that Ventura is a desirable place to live and work.

City Manager Rick Cole provided the Task Force a comprehensive overview of an organizational vision that builds on the city's "People Strategy" that was developed when turn-over was undermining our ability to retain outstanding performers. Although the labor market has changed, he warned that "We cannot decouple ourselves from a competitive marketplace – but we can distinguish ourselves within it." He cited such hallmarks of "an empowered and positive work environment" as pride in work, opportunity to make a difference, family-friendly workplace, flexibility and innovation.

The Task Force members supported strengthening Ventura's attractiveness as an "employer of choice" based on a positive culture beyond financial rewards. Patagonia, one of Ventura's largest private employers, is often cited as an example of a great place to work, based on its distinctive work environment. Translating this to the public sector would build on the City's existing efforts to encourage wellness, offer flex time schedules, promote career development and other "People Strategy" elements. More than a laundry list of specifics, however, the City, from its citizens, to its staff, to the Council, would establish a mentality of nurturing its employees and catering to their morale. It was acknowledged that such a strategic and comprehensive effort would take planning, time, sensitivity, and concentration with a focus on building a superior reputation of the City of Ventura being a great place to work without reference to compensation.

Task force perspectives on Re-Examining "Competitive" Formulas

Some on the Task Force believe that the City, and ultimately government at all levels, must follow the lead of private industry and promote a far more fluid approach to "competitive compensation" based on what talent is available in the labor market at any given time.

Others on the Task Force believe that this underestimates the importance of skills, qualifications and credentials possessed in many specialized jobs in local government and undermines the stability and morale of an organization built around long-term retention of staff.

Ultimately, the members of the Task Force voted unanimously for retaining the City's current compensation policy, including the overall goal of attracting a quality work force through "a combination of competitive compensation, fiscal stability, training opportunities, an empowered and positive work environment, career growth potential and high morale based on our core values and ethical principles." To implement the broad intent of those policies to look beyond purely monetary formulas the Council should direct staff to collect and analyze data that would, to the extent feasible, give better measurements of the consequences of the decisions made under those guidelines. For example, the Council may want staff to collect concrete data that shows how Ventura compares to its listed Labor Markets on issues in addition to overall compensation and benefits such as retention over periods of time, ability to attract lateral hires.

Pensions: Protecting Existing Obligations and Reducing Long Term Costs

For nearly 80 years, California State and local governments have offered "defined benefit" retirement plans to their employees, which provide a guaranteed annual pension based upon retirement age, years of service and the retiree's salary level. But public focus has recently centered on these pensions due to a convergence of the downturn in the economy; enhancements to those plans in recent years; longer life spans; and the near disappearance of such "defined benefit" pensions from private sector employment.

Retirement benefits for Ventura city employees are offered through the California Public Employees' Retirement System (CalPERS) which holds more than $200 billion in assets. Currently, 4.1 million Californians — 11 percent of the population — participate in one of the public employee pension systems, including around one million who currently receive benefit payments. Most of these are part of either CalPERS or the State Teachers' Retirement System (STRS.) The plans offered by these huge agencies generally provide an annual cost-of-living adjustment to maintain purchasing power over time.

Ventura's provides retirement benefits under three formulas: 3% at 50 for sworn police personnel; 2% at 50 for Firefighters (scheduled to go to 3% at 55 on July 1, 2010) and 2% at 55 for all other full-time employees. This allows a police officer to retire at the maximum benefit of 90% of their pay (defined by the single highest one-year of earnings, not including overtime) after age 50 if they have at least 30 years of service. Firefighters also have a maximum initial pension of 90% of their highest year of earnings, but would have to work until after age 55 to achieve it with at least 30 years of service. Other staff reaching at least 30 years of service at age 55 could retire with 60% of their highest year of earnings.

How does Ventura's formulas compare to other public agencies? Of those covered by CalPERS, 81% of statewide public safety employees are covered by the same formula as Ventura's Police. For our firefighters, 99% of statewide public safety employees have an equal or higher formula than the current one offered by Ventura and 93% are covered by a formula equal to or better than the enhancement scheduled for July 1. Of non-safety employees covered by CalPERS, 96% of statewide general employees are covered by the 2 @ 55% formula or higher (62% are covered by higher formulas.) It is important to note several facts regarding these plans:

1. *PERS Employer contribution rates*: Ventura currently contributes 9.266% of salary for Miscellaneous employees and 29.306% for Safety employees. Rates will increase in FY 10/11 to 10.309% for Misc. and decrease to 28.721% for Safety. Excluding any changes in benefits, rates will increase in FY 11/12 to 12.0% for Misc. and 31.0% for Safety.

2. *City bears cost*: Ventura, as with most cities, also pays the employees' share of the Defined Benefit Contribution Program costs (except for Fire Management staff who pay their own share)
3. *Rates to rise:* It is anticipated that PERS Employer contribution rates will continue to increase over the next three years with a leveling off of rates going forward from there.
4. *Ventura employees not covered by Social Security:* As public pensions traditionally have been an alternative for retirement security, neither the City nor its employees participate and pay into the Social Security system.
5. *Firefighter pensions*: Ventura's current firefighter pension formula remains below that of every single other department our size or larger in the entire State of California. Moving from the 2% @ 50 to 3% @ 55 formula for Ventura firefighters was originally ratified by a 4-3 Council vote in August 2008. Implementation was originally scheduled for July 2009, but as part of the budget-balancing concessions made by all unions and unrepresented staff, this was postponed another year, until July 2010. The first-year cost of this change was 6 per cent of salary or $XXXX.
6. *Average pensions*: While public attention has been focused on long-time managers retiring with six figure pensions, the average current pension of Ventura is for all of Ventura's police and fire retirees is $38,131 a year. The average civilian pension is $14,391. This number, however, will continue to rise as future retirees end their service at higher salaries and in some cases with retirement benefits calculated at higher multiples than those already retired.
7. *Pension liability:* CalPERS holds more than $312 million in assets to cover the City of Ventura's future pension liabilities. The total liabilities are estimated at approximately $48 million more.
8. *Pension costs:* While current and projected future contributions to employee pensions are correctly high and rising, this has not always been the case.
9. *Defined Benefit vs. Defined Contribution Retirement Options*: Defined Benefit programs are becoming increasingly less sustainable and are an issue of statewide concern and reform effort. Defined Benefit Retirement Programs require the employer to assume all risk. Defined Contribution Retirement Programs are not necessarily less beneficial for the employee, however under Defined Contribution Retirement programs it is the employee who bears the risk on the ultimate value of the retirement benefit. This risk can be mitigated by annuities that guarantee a base return on the money invested.

Over the years, local and State government retirement costs have risen and fallen based on two principal factors: (1) the investment returns of the various systems; and (2) the level of benefit payments provided to employees.

Over decades, CalPERS has justified its 7.75% future earnings assumptions. But this robust return is based on a long boom in the United States economy, riding out recessions and coming back stronger. The last two stock market booms have been characterized as bubbles. The explosive growth of the "dot.com" bubble so inflated CalPERS returns that in the year 2000, the employer contribution rate for pensions dropped to 0%. (Ventura's history of pension contribution rates are attached.)

As that boom was peaking in 1999, the California Legislature enacted dramatic benefit enhancement options for State and local employers. These enhanced plans spread rapidly, quite often by way of the collective bargaining process, typically to retain employees and at times, at a shared cost with the employees. When the retirement systems suffered serious investment losses in the early part of this decade, these losses combined with the benefit enhancements to cause dramatic increases in employer contribution rates.

These losses led to calls for pension reform at the time, but those concerns were muted by the recovery of markets and a return to robust CalPERS investment earnings. But the stock market crash in 2008 wiped out a quarter of the CalPERS investment fund. While some of those losses have since been recouped, the depth of that loss will force CalPERS to increase member rates in the years ahead. Ron Seeling, the CalPERS Chief Actuary, has warned that pension costs may rise to 25 percent of pay for non-safety employees and 40 to 50 percent for police and firefighters and are "unsustainable" at such levels.

With little prospect of either major new sources of revenue, nor rapid growth in existing revenues, Ventura is among those "full service" cities most directly affected (in the case of newer cities, many services are provided either by contract with public or private entities or are separately provided by special districts insulating those cities from directly paying for increased personnel pension costs, e.g. Thousand Oaks contracts for police services with the Ventura County Sheriff and fire as well as parks and recreation services are provided by special districts.) In the absence of robust revenue growth, funding the expected increase in pension costs would have to come from offsetting service and staffing reductions.

Carrying the cost of these obligations is the primary reason that over the past two decades, defined benefit pensions have become increasingly rare in the private sector. The great majority of private employers offer "defined contribution" plans where the employer contribution is a fixed dollar amount and the benefits are based on contributions and investment earnings. Given their structure and limitations (per IRS regulations), these defined contribution plans put the great majority of investment planning and market risk on the employee. Each individual is tasked with building sufficient retirement assets to provide for their need (and those of immediate family members) after retirement. In periods of high market volatility, investors suffer the consequences of market losses in contrast with those with defined benefit pension plans. There exists an increasing opinion amongst the public at large and opinion leaders, that State and local government workers should not be entitled to pension plans that deliver more reliable retirement income than is available to the majority of taxpayers. *(A more detailed comparison and analysis of "defined benefit" and "defined contribution" retirement plans is provided later in this report.)*

While full-service cities like Ventura are particularly vulnerable to rising pension costs, the problem is of statewide concern. However, there has been little legislative activity aimed at Statewide pension reform in the past five years. Although a number of ballot measures have been proposed, none has yet gone before the voters. One such proposal is the Public Benefits Reform Act, which has been filed with the California Attorney General with a request for title and summary, but has not yet qualified of the ballot. It would limit public Defined Benefit Plans at various levels from 1.8% (for non-safety) to 2.3% (for police and fire) of the last three years average salary, with a maximum of 75% of that average and the age of retirement at various levels from 58 to 67. In the absence of statewide action on the issue, a number of regional city manager groups have called for reform at the regional level, with cities joining together to embrace common principles and in some cases specific formulas for pension reform. While there has been talk of such an effort in Ventura County, none has yet gone forward.

Unfortunately, the Task Force found there is no simple answer to the pension cost challenge at the local level:

1. Courts have consistently ruled that existing pensions are "vested" and cannot be retroactively reduced. Thus, without the agreement of employees supported by adequate consideration pension obligations for existing retirees and current employees cannot be reduced. Reductions in benefit formulas can only be applied to future employees and with little prospect of adding many new employees in a weak economy, short-term savings through benefit reductions are not achievable.
2. If a move away from "defined benefit" to a strictly "defined contribution" formulas were adopted, the City of Ventura would have to opt out of CalPERS for its current employees, forcing an unprecedented and potentially costly withdrawal.
3. Creating a two-tier pension plan with a lower benefit level under a "defined contribution" plan provides relatively modest cost savings over even a long time horizon and could make Ventura less competitive in filling new jobs.

For these reasons, the Task Force points to the efforts of statewide and regional reform. The League of California Cities has prepared a policy paper with both guiding principles and specific recommendations (Attachment Two to this Report.) Recognizing that statewide reform may not be feasible or forthcoming under current conditions, a number of regional City Manager groups have undertaken to tackle these challenges, primarily at the County level, including San Mateo County (Attachment Three to this Report), Marin County and San Diego County. City Managers in Ventura have begun such discussions. The goal would be to ensure that reform does not put individual jurisdictions at a competitive disadvantage.

Comparison of Defined Benefit Vs Defined Contribution

Many on the Task Force were not persuaded of the need to even consider the City of Ventura departing from the time-tested CalPERS Defined Benefit approach to public retirement benefits common to virtually every public agency in California. They believe that the group favoring Defined Contribution Plans simply do not have sufficient data to come to that conclusion. However, in the interest of providing a better understanding of the two approaches, Task Force Co-Vice Chair Bart Bleuel used the charge given the Task Force as the basis for comparing and contrasting Defined Benefit and Defined Contribution plans. Task Force Co-Vice Chair Randy Hinton provided a speculative example of how a defined contribution plan might actually outperform a defined benefit plan. Several on the Task Force object to a including in this report scenarios that have not been subjected to rigorous actuarial scrutiny, particularly since such rigorous scrutiny of actuarial assumptions is one area on which all members of the Task Force are in agreement.

Task force perspectives on Protecting Existing Obligations and Reducing Long Term Costs:

Some on the Task Force believe that the City, and ultimately government at all levels, must follow the lead of private industry and divest itself of Defined Benefit Plans. Under the current structure this may be very difficult, if not impossible, if the CalPERS price for doing that is prohibitively high. Those of this belief would encourage the Council to do what it can to reduce to the extent possible the effects of DB Plans, and to lobby for a statewide solution to eliminate them in any community desiring to do so. These folks contend that DB Plans worked when times were different. In today's environment of higher compensation ratios, younger retirement ages and longer life expectancies, DB Plans have become prohibitively expensive – unsustainable.

Others on the Task Force believe that this solution is either too drastic, and/or is based on insufficient data. They believe that the group favoring DC Plans simply do not have sufficient data to come to that conclusion. It would require a much more thorough and rigorous financial, actuarial and legal analysis to assess whether and how a Defined Contribution or hybrid approach could be negotiated and implemented or whether a good balance could be reached in the DB Plan arena without the draconian dumping of Defined Benefit Plans as the continuing standard. Such an undertaking is beyond the means and scope of this Task Force.

Still others on the Task Force believe that this is an inappropriate forum to make recommendations, one way or another, but rather those decisions should be handled through the collective bargaining process.

ATTACHMENT ONE:

CITY COUNCIL COMPENSATION GUIDELINES AND INTERESTS

INTRODUCTION

The City's compensation program should be designed to attract and retain a talented and skilled staff dedicated to the highest standards of public service. It should foster a team concept within the organization, recognizing the importance of a satisfied, productive, and cohesive workforce. In implementing this program, the following guidelines will be considered, based upon the financial capacity of the City.

COMPENSATION PHILOSOPHY

The City's compensation philosophy and interest is to establish and maintain a compensation structure designed to be both competitive and fair. Structures and ranges will be reviewed and updated as necessary based on an evaluation of the City's ability to pay, relevant market place survey data, internal relationships, and equity among various groups of employees.

In setting salaries and benefits, the collective bargaining process will be used to meet and confer with recognized represented employee groups.

IMPLEMENTATION

The City's compensation program will be implemented in accordance with the following guidelines:

1. FISCALLY PRUDENT

The City's practice is to compensate staff in accordance with the City's financial condition. The City will seek to keep staffing levels and compensation at levels that can be sustained within fiscally prudent projections of revenue capacity and adequate operating contingency reserves.

2. ATTRACT AND RETAIN QUALITY EMPLOYEES

The City's compensation program should ensure that the City has the ability to compete for the highest quality of talents and skills available, recognizing that our strongest competitive advantages will not be the highest pay, but rather a combination of competitive compensation, fiscal stability, training opportunities, an empowered and positive work environment, career growth potential and high morale based on our core values and ethical principles.

To ensure that the labor pool is broadened to allow Ventura to compete despite the high cost of living and housing in the area, job postings and recruitment efforts will be broadened to encourage applicants from the non-profit and private sectors to apply and receive serious consideration based on talent and potential to effectively perform essential job functions rather than be evaluated primarily on skills and experience that are solely acquired in local government employment.

3. LABOR MARKET

The City's practice is to survey appropriate comparable organizations in relevant labor markets in all sectors that include public, private and non-profit:

A. Relevant government agencies include:

- City of Camarillo
- City of Oxnard
- City of Santa Barbara
- City of Simi Valley
- City of Thousand Oaks
- Ventura County
- Appropriate special districts

B. Relevant private and not-profit Ventura County organizations where comparable job classes exist.

C. For jobs where local government experience is a significant advantage, the regional market of Southern California cities that are similar to Ventura in population, service structure, and complexity.

D. For those jobs, particularly in certain management roles, where local government experience is essential, the statewide market of cities that are similar to Ventura in population, service structure and complexity.

4. COMPETITIVE POSITION

If fiscally prudent it is the City's objective to compensate employees at rates generally consistent with the middle of the labor market as measured by the combination of the mean and the median.

A. For labor, trades, general and confidential units, the primary market will include the local labor market.

B. For fire and police units, the primary market will include the local labor market.

C. For supervisory and professional unit the market will include both the local labor market and the regional market.

D. For management and executive units, the market will include the local labor market, the regional market, and the statewide market.

E. In addition to the labor market survey data referenced above, in order to address unique compensation concerns, the City and/or recognized employee representatives may, at their discretion, collect and present supplemental market survey data in the context of the meet and confer process.

5. MEASUREMENT OF COMPETITIVE POSITION

Competitive position will be calculated utilizing total cash compensation which includes base salary plus cash add-ons to base salary including PERS pick-up, incentive pay, optional benefit, deferred compensation, etc. In addition, the City will also consider health and retirement benefits, leave benefits, and reimbursement policies.

6. INTERNAL ALIGNMENT

Consideration will be given to both labor market survey data and internal relationships in establishing salary ranges. When establishing internal relationships, priority will be given to:

A. Appropriate differential between superior and subordinate classes

B. Appropriate differentials among classes in the same class series (i.e. planning)

C. Relationships among related class series (e.g., planning, inspection services, and engineering)

D. Relationships across unrelated class series.

7. MIX OF BASE SALARY, TOTAL CASH AND BENEFITS

The City's practice is to provide a mix of base salary, total cash and benefits that is generally competitive with the labor market. When evaluating benefits, the City will consider both the cost and the content of the benefits.

8. PAY ADMINISTRATION

Individual compensation adjustments within the salary range for executive, management, supervisory and professional employees will be based on (1) fiscal prudence (2) performance, and (3) pay structure adjustments.

Compensation adjustments for represented employees and confidential employees will be made in accordance with the appropriate memorandum of understanding and/or salary resolution.

9. COLLECTIVE BARGAINING

The City's practice is to honor the integrity of the collective bargaining process through good faith negotiations. It is understood that these negotiations will take place exclusively through the recognized representatives of the City and the representatives of the appropriate bargaining unit.

10. SHARING OF COMPENSATION SURVEY INFORMATION

Consistent with the City's commitment to an open and collaborative relationship with employees, the compensation survey data collected pursuant to this program will be shared with unrepresented employees, or the appropriate recognized employee representatives.

11-97: new policy
01-17-01: Deleted City of Escondido from labor market
04-04-06: Revised policy to include appropriate private and non-profit comparisons where applicable

f/salary Issues/Salary/Coun-Comp-Policy/04-06 Comp Policy.doc

<u>LABOR MARKETS</u>

January 17, 2001
***SUPPLEMENT* TO**
CITY COUNCIL COMPENSATION GUIDELINES AND INTERESTS

<u>LABOR, TRADES, GENERAL, CONFIDENTIAL UNITS</u>

CITY OF CAMARILLO
CITY OF OXNARD
CITY OF SANTA BARBARA
CITY OF SIMI VALLEY
CITY OF THOUSAND OAKS
SANTA BARBARA COUNTY
VENTURA COUNTY

CONEJO VALLEY PARKS AND RECREATION DISTRICT
PLEASANT VALLEY RECREATION AND PARK DISTRICT
CASITAS MUNICIPAL WATER DISTRICT
LAS VIRGENES MWD
VENTURA COUNTY REGIONAL SANITATION DISTRICT

<u>FIRE UNIT</u>

CITY OF OXNARD
CITY OF SANTA BARBARA
SANTA BARBARA COUNTY
VENTURA COUNTY

<u>POLICE UNIT</u>

CITY OF OXNARD
CITY OF SANTA BARBARA
CITY OF SIMI VALLEY
SANTA BARBARA COUNTY
VENTURA COUNTY

SUPERVISORY-ADMINISTRATIVE-PROFESSIONAL UNIT
and MANAGEMENT UNIT

CITY OF CAMARILLO
CITY OF OXNARD
CITY OF SANTA BARBARA
CITY OF SIMI VALLEY
CITY OF THOUSAND OAKS
SANTA BARBARA COUNTY
VENTURA COUNTY

CONEJO VALLEY PARKS AND RECREATION DISTRICT
PLEASANT VALLEY RECREATION AND PARK DISTRICT
CASITAS MUNICIPAL WATER DISTRICT
LAS VIRGENES MWD
VENTURA COUNTY REGIONAL SANITATION DISTRICT

CITY OF BURBANK
CITY OF COSTA MESA
CITY OF IRVINE
CITY OF REDONDO BEACH
CITY OF SANTA MONICA
CITY OF CARLSBAD
CITY OF NEWPORT BEACH

EXECUTIVE UNIT

CITY OF CAMARILLO
CITY OF OXNARD
CITY OF SANTA BARBARA
CITY OF SIMI VALLEY
CITY OF THOUSAND OAKS
SANTA BARBARA COUNTY
VENTURA COUNTY

CONEJO VALLEY PARKS AND RECREATION DISTRICT
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CITY OF BURBANK
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CITY OF IRVINE
CITY OF REDONDO BEACH
CITY OF SANTA MONICA
CITY OF CARLSBAD
CITY OF NEWPORT BEACH

CITY OF PALO ALTO
CITY OF SAN MATEO
CITY OF SUNNYVALE
CITY OF CONCORD
CITY OF WALNUT CREEK

01-17-01Deleted City of Escondido

ATTACHMENT TWO: **DRAFT CALIFORNIA LEAGUE OF CITIES PENSION REFORM PRINCIPLES (NOVEMBER 2009)**

- The primary goal of a public pension program should be to provide a full-career employee with pension benefits which when combined with private savings maintain the employee's standard of living in retirement.

- The proper level of public pension benefits should be set with the goal of providing a fair and adequate benefit for employees and fiscally sustainable contributions for employers and the taxpayers. The practice of employers picking up the employee contributions should become the exception versus the normal protocol, so that investment risks are equitably shared.

- Public pension benefits should be supported with proper actuarial work to justify pension levels. The Legislature and cities should reject any and all attempts to establish pension benefits that bear no relation to proper actuarial assumptions and work.

- Pension benefits should be viewed in the context of an overall compensation structure whose goal is the recruitment and retention of qualified employees in public sector jobs. In recognition of competitive market forces, any change in the structure of retirement benefits must be evaluated in concert with other adjustments in compensation necessary to continue to attract and retain an experienced and qualified workforce.

- The reciprocity of pension benefits within the public sector should be maintained to ensure recruitment and retention of skilled public employees, particularly in light of the retirement of the post World War II "Baby Boom" generation, which will result in unprecedented demand for public sector employees.

- Perceived abuses of the current defined benefit retirement programs need to be addressed. Benefit plans, which result in retirement benefits that exceed the levels established as appropriate to maintain employees' standard of living, should be reformed. It is in the interest of all public employees, employers, and taxpayers that retirement programs are fair, economically sustainable, and provide for adequate benefits for all career public employees, without providing excessive benefits for a select few.

- The obligation to properly manage public pension systems is a fiduciary responsibility that is shared by CalPERS, employers, and employees. This joint responsibility is necessary to provide quality services while ensuring long-term fiscal stability. These parties need to be held responsible to ensure a high level of protection against mismanagement of public resources that could jeopardize a community's ability to maintain services and provide fair compensation for its workforce.

- Charter cities with independent pension systems should retain the constitutional discretion to manage and fund such pension plans.

Principles: Public pension benefit plans in combination with private savings should:

- Allow career employees to maintain their standard of living post-retirement.
- Be designed with consideration of age at retirement, length of service, compensation level, and applicability of Social Security.
- Be supported with proper actuarial work to justify pension levels. The Legislature and cities should reject any and all attempts to establish pension benefits that bear no relation to proper actuarial assumptions and work.

Recommendations

- Maintain the defined benefit plan as the central pension plan for public employees in California.
- Rollback/repeal public retirement plans that provide benefits in excess of levels required to maintain a fair, standard of living[1] that are not financially sustainable and may have no actuarial justification to pre-1999 levels for new hires after a date certain. The new and exclusive benefit formulas to achieve these goals of fiscal sustainability should be:

    1. **Safety Employees:** 2% @ 55 formula, offset by 50% of anticipated Social Security benefits for miscellaneous employees with Social Security coverage. Safety employees retain the current cap on retirement at 90% of final compensation.

[1] This should be determined in accordance with a CalPERS 2001 target replacement benefit study and/or the Aon Georgia State Replacement Ration Study (6th update since 1988).

2. **<u>Miscellaneous Employees (Non-Safety):</u>** 2% @ 60 formula, offset by 50% of anticipated Social Security benefits for miscellaneous employees with Social Security coverage.

<u>The above formulas would incorporate:</u>

- "Three-Year-Average" for "final compensation" calculation. All "Highest Final Year" compensation calculations would be repealed for newly-hired employees.
- Current employees shall participate in the funding of the pensions in all cities. This reform will generate immediate budgetary savings to cities to the extent that existing employees participate in paying for their own retirement.
- Provide alternatives to a Defined benefit plan for job classifications not intended for career public service employment.
- Eliminate options to purchase service credits for time not spent in direct public service, sometimes known as "air time."
- Statewide legislation should give employers great flexibility to determine when a part-time employee is entitled to public pension benefits. The current hourly threshold in CalPERS is too low.

Rate Volatility

Principles

- Responsible fiscal planning suggests the need to "manage" volatility in Defined benefit plan contribution rates.
- Public agency retirement contribution rates, over time, should be constructed to stay within reasonable ranges around the historical "normal cost" of public pension plans in California. Sound actuarial methods should be adopted to limit contribution volatility, while maintaining a sound funding policy.

Recommendations

- Establish “reserve” funding for public pension systems that will help smooth the volatility of pension benefit costs. Plan surpluses are to be retained within plan assets, but should be reserved for amortization of future unfunded liabilities, and should not be used to offset plans’ normal cost contribution rates.

Shared Risk

Principles

- Currently, in most local jurisdictions, employers shoulder the burden of rate volatility risk – both positive and negative. This principle should be carefully examined with the intent of better spreading the risk of rate volatility among both employers and employees.

- Negotiated labor agreements containing language whereby employers “pick-up” employees’ retirement contributions should become the exception versus the norm to provide better cost-sharing between the employer and employees.

Recommendations

- When employer contribution rates exceed the “normal costs” threshold, employees should be expected to take some of the financial responsibility for those excessive increases.

Disability Retirement

Principles

- Retirement-eligible employees who are injured in the workplace should be entitled to full disability retirement benefits; disability retirement benefits should, however, be tied to the individual’s employability and be structured so as to encourage return to work , where applicable.

- A larger disability reform measure should be considered outside of the scope of general pension reform.

Recommendations

- Full tax-exempt disability retirement should be retained for employees who are injured and cannot work in any capacity.

- Reform the disability pension provisions of public retirement systems to restrict benefits when a public employee can continue to work at the same or similar job after sustaining a work-related injury.

- Employees eligible for disability retirement should be first afforded applicable service retirement benefits, and THEN provided disability retirement benefits up to applicable “cap” on total retirement benefits.

Portability of Plan Benefits

Principles

- Reciprocity of public agency retirement benefits is critical to recruitment of qualified, experienced, public sector employees.

- Limiting portability of retirement plan benefits to non-public sector employment helps in the retention of senior and management level employees.

Recommendations

- Any pension reform package should retain transferability of retirement benefits across public sector employers. No employee currently in a defined benefit plan should be required to involuntarily give up a defined benefit formula before retirement.

Tiered Plans

Principles

- Pension benefits promised to current employees are considered vested rights as determined by the California Supreme Court. Thus, they cannot be reduced or eliminated unless traded for something of equal or greater value. Accordingly, there is little ability to affect pension benefit levels for current employees. New employees can be offered different levels of pension benefits.

- Agencies should strive to avoid multi-tiered compensation structures where there are large discrepancies in benefits accruing to employees. In addition to having adverse impacts on recruitment and employee morale, multi-tiered approaches can raise issues of comparable worth and equity.

- Each city has an obligation to meet and confer in good faith to reach agreement with its respective bargaining units. Such pension changes can be negotiated and then legislated at the local level.

Recommendations

- A second tier of pension benefits should be negotiated for newly hired city employees after a date certain, such as July 2010.

- Any pension reform measure should seek to minimize disparity between current and prospective public agency employees by adjustment of total compensation, including making additional defined compensation options (457 or 401(k) plans) available.

Management Oversight

Principles

- The obligation to properly manage public pension systems is a fiduciary responsibility that is shared by CalPERS, employers, and employees. This joint responsibility is necessary to provide quality services while ensuring long-term fiscal stability. These parties need to be held responsible to ensure a high level of protection against mismanagement of public resources that could jeopardize a community's ability to maintain services and provide fair compensation for its workforce.

Recommendations

- Public agencies that do not make the Annual Required Contribution under GASB 27 should be made subject to appropriate oversight.

- The membership of the Public Employees' Retirement System Board should be changed to achieve a better balance of public agency representatives.

Support for Regional Pension Reform Efforts

Principles

- The League of California Cities supports comprehensive Statewide pension reform consistent with the principles and recommendations set forth within.

- Until such time as that is possible, regional efforts to reform pension offerings are to be encouraged as good fiscal stewardship.

Recommendation

- Support regional efforts for pension reform consistent with the principles and recommendation set forth in this report.

Conclusion

Defined benefit retirement plans have been the traditional approach for over 70 years in California and have produced fair and sustainable retirement benefits that have been central to recruiting and retaining quality public employees. However, public pension costs are becoming unsustainable and benefits are out of alignment with the private sector generating public resentment toward local government employees and retirees.

Statewide reform is preferable, but regional efforts should be encouraged and supported until a Statewide solution is found. Defined benefit plans should be retained as the central component of public pension systems in California. However, benefit levels should be rolled back to pre-1999 levels for new employees and current employees should participate in funding their pensions. In this way, public pensions will become financially sustainable.

ATTACHMENT THREE: SAN MATEO COUNTY REGIONAL PENSION REFORM PAPER

Santa Clara County/Cities Managers' Association

San Mateo County
City Managers Association

Policy Statement on Local Government Retirement Benefits

Background

For more than 70 years, the State of California and local governments have offered a "defined benefit" retirement plan to employees. This system provides a guaranteed annual pension based upon retirement age, salary, and years of service. Most, but not all, municipalities in California are part of the Public Employees' Retirement System (PERS).

Over the years, local government retirement costs have risen and fallen based on two key factors: investment returns and the level of benefit payments provided to employees. In the late 1990's the California legislature enacted significant benefit enhancements for public employees in the PERS system that were optional for participating local governments. At that time, some retirement plans were deemed to be "super funded" and many local governments adopted benefit enhancement plans. For example, most public safety personnel are on the "3% @ 50" plan, which provides a pension benefit of up to 90% of salary after 30 years of service as early as age 50.

When the retirement system suffered serious investment losses in the early part of this decade, these losses, combined with newly approved benefit enhancements, caused dramatic increases in employer contribution rates. Cities in our two counties have seen the percentage of their General Fund budget dedicated to PERS costs increase while their retirement liability funding had decreased from over the past decade. For example, in Mountain View, General Fund PERS costs have gone from $2.8 million in FY00 to $7.7 million in FY10; in San Bruno, it has gone from $240,000 to $4 million. Daly City's percent of the General Fund budget spent on retirement benefits has increased from 4.3% to 10.4% between FY00 and FY10; in Belmont, it has gone from .5% to 11.4%. And Campbell has seen its public safety retirement system fall from 122% funded to 70% funded over ten years.

In the past five years, a number of proposals have been introduced to reform or dramatically revise the public pension system in California. In 2004, a task force of the League of California Cities began an extensive study of the defined benefit system and proposed reforms. In 2005, the League board of directors accepted a report on pension reform from the task force as an initial assessment and for consideration in the ongoing debate of this issue. The report included a number of "general principles" and specific reform recommendations. To date, no concrete action has been taken by the legislature.

Recently, the city managers of San Diego County have prepared a white paper on this issue calling for a new and lower second tier retirement benefit for new hires. Other manager groups across the state have begun a similar dialogue in recognition that the costs of the current system are not sustainable. Additionally, Governor Schwarzenegger has proposed returning pension formulas to 1999 levels for new hires – a move he says will save the state $74 billion through 2040. The City of Sunnyvale has done a preliminary analysis of a lower tier and has estimated it could save a total of $44 million over 20 years. The cities of San Carlos and Brisbane have already initiated a lower, second tier for new hires (among other cities statewide).

Discussion

While the debate is ongoing, no clear consensus has been achieved on addressing the high cost of pension benefits and no action appears imminent. The city managers of Santa Clara and San Mateo counties believe it is important to take a proactive stance on this issue which has long-term implications for the fiscal stability of our cities. This issue is even more important now, given the tremendous losses suffered in the stock market in the past year. At fiscal year end in June 2009, PERS annual returns were down 23.4% from the previous year. This is on top of losses of 5.1% in Fiscal 2008. PERS assumes a 7.75% gain annually to maintain its pension obligations, but clearly there is no guarantee this rate can be achieved. Based on this year's negative returns, employer rates are expected to jump significantly as of July 1, 2011.

Therefore, as a matter of public policy, we endorse the following principles for a revised pension system.

Guiding Principles

- Our residents deserve fiscal policies that preserve local government's ability to meet community needs, while attracting competent and motivated employees to public service.

- Providing adequate retirement benefits is an important part of attracting and retaining public employees; this continues to be an issue as, demographically, there are fewer young people to enter the public sector.

- Current retirement benefit formulas are not fiscally sustainable. The costs are escalating beyond our ability to fund them and diverting limited resources from direct service delivery to our communities. In addition, current pension benefits exceed what private sector employees receive and what is reasonably needed to attract public employees.

- Ideally, this situation would be addressed at a statewide level and there would be consistent standards for all. We cannot, however, afford to wait for a statewide solution. Therefore, the cities of Santa Clara and San Mateo counties support implementation of a reduced and sustainable level of retirement benefits for all new employees of agencies in the region.

- Each city has different histories, perspectives, and fiscal conditions; a "one size fits all" approach may not be realistic, but all cities in the region compete for the same employees and therefore should move in the same direction to a lower-cost benefit.

- Each city has the legal duty to meet and confer in good faith with its recognized bargaining unit representatives concerning changes to existing terms and conditions of employment.

- Every city is committed to moving toward a two tier system for all new contracts.

- Any new system or tier should be fair to employees, sustainable for taxpayers and employers, and based on objective actuarial data.

Action Steps

The city manager associations of Santa Clara County and San Mateo County support the statements in this document and their members pledge to work with their elected officials and labor groups to implement its principles. We further pledge to work with other city managers across the state and the League of California Cities to advocate for changes consistent with this document.

Dave Anderson, SCCCMA

Connie Jackson, SMCCMA

Adopted July, 2009

ATTACHMENT FOUR: **DEFINED BENEFIT VS. DEFINED CONTRIBUTION PENSION PLANS**

By Co-Vice Chairs Bart Bleuel and Randy Hinton

The following is Co-Vice Chair Bleuel's summary of Defined Benefit and Defined Contribution Plans organized around the Compensation Policies Task Force Mission and Purposes (quoted in bold below) along with a scenario for potential return on investment in a Defined Contribution Plan prepared by Co-Vice Chair Randy Hinton

"REDUCE LONG-TERM PENSION COSTS TO TAXPAYERS" and "ENSURING THAT LONG TERM COSTS ARE MANAGEABLE[2]":

<u>DEFINED BENEFIT PLANS</u>*:*

The city can reduce the cost to taxpayers under a DB Plan by adopting some or all of the following:

a. Increase the age for full retirement.
b. Decrease the multiple of pay at full retirement.
c. Cap the maximum percentage of service pay.
d. Increase the number of years of service pay which is averaged to determine retirement pay.
e. Increase the number of years of required service before retirement rights are vested.
f. Increase the required employee contribution.
g. Limit or eliminate COLA adjustments during retirement.
h. Require in contracts the ability to change the benefits,

However, because DB Plans are subject to Actuarial Characteristics (see below), the long term cost of any DB Plan cannot attain the degree of precision available to DC Plans. All actuarial calculations rely upon assumptions which may change over time.

As long as Ventura's DB Plan is with CalPERS there will be minimum requirements that must be observed. They are: ____.

[2] Some members of the Task Force have stated their preference that Ventura not take action now, but rather wait until other cities act, and at least until we see if the proposed Public Benefits Reform Act qualifies for the ballot and is passed. Others feel that the sooner the Council gets its arms around these issues, the more manageable the long term costs will become. There will always be a reason to put these decisions off to another day. The only delay that is necessary is that of obtaining from CalPERS the amount and terms for a buy out of the current pension benefits.

In any event, if any two-tiered DB Plan is adopted, regardless of the limits set, the Council must do the math!

DEFINED CONTRIBUTION PLANS:

Defined Contribution Plans are controlled by the Council as a definitive calculation each year along with salary and other benefits. More specifically, under a DC Plan the following (referred to in this paper as "Actuarial Characteristics") are irrelevant to the contribution by the city to its employees' pensions:

i. Vagaries of the Market[3]
j. Age at retirement
k. Life expectancies[4]
l. Pay rate of retirees after retirement
m. Set contributions based on past contracts (if properly structured)
n. COLAs after retirement
o. Other actuarial calculations.

Under a DC Plan the Council knows the exact cost from year to year for the overall employee compensation, including pensions, and there are no future surprises on account of assumptions proving to be untrue. As opposed to the requirements of a DB Plan, the DC Plan does not require this year's cost to fund a retirement figure that will mature years from now.

"EMPLOYEE CONTRIBUTION TOWARD PENSION COSTS"

DEFINED BENEFIT PLAN:

It has been suggested that one detriment to the current DB Plan is that the employee has no stake in the downsides. Currently if the Plan costs increase, only the City is affected. The benefit to the employee is unaffected. Having the employees contribute on a percentage basis does allow the employee to share, to a limited extent, in the increased costs of the Plan. However, in a DB Plan the

[3] The current projection by CalPERS of 29% to 30% contribution levels is premised on a 7.75% annual return on investments. In the current markets, that is relatively optimistic for a fund that should be invested conservatively. If this investment level cannot be sustained, the cost to the City will be increased.

[4] A spreadsheet is attached to give a very basic, crude example of a possible effect of an incorrect assumption about life expectancy when actuarial calculations are made to predict funding of Defined Benefit Plans. In essence it shows that an error in the assumption of life expectancy can require additional funding for 100 retired persons in the range of $46,000,000 if the error is 5 years, $95,750,000 if the error is 10 years, $149,250,000 if the error is 15 years, and 209,500,000 if the error is 20 years. Even if the additional funding is spread over decades, the effect would be a substantial increase in the percentage of pay statistic which is already predicted to be over 30% in two years. And this is for just one erroneous assumption – life expectancy.

effect on the employee is probably less dramatic as a "stakeholder" than in a DC Plan.

It has been suggested that any contribution by the lower paid employees is regressive because those employees need all they make just to get by. The proposed Public Employees Benefits Reform Act, if it qualifies for the ballot and passes, will require at least some contribution in a DB Plan by employees, regardless of need. There is nothing that would prevent the Council from requiring contributions on a sliding scale based on different salaries.

Note that there is also nothing that would prevent the Council from coupling a DB Plan with social security.

<u>DEFINED CONTRIBUTION PLAN:</u>

While not a requirement, traditionally Defined Contribution Plans are funded by matching contributions of no more than a 50-50 match, and usually with a maximum contribution level by the employer based on either a percentage of pay or a specific dollar amount. This encourages the employee to take responsibility for his or her own retirement levels with a savings incentive, and at the same time allows the employer to control the amounts contributed to a specific dollar range each year.

As with DB Plans, there is nothing that would prevent the Council from arranging scaled contributions and coupling with Social Security. It is common with DC Plans that they be coupled with Social Security.

"ABILITY TO ATTRACT AND RETAIN QUALITY EMPLOYEES":

p. **<u>Attracting New Employees</u>**

In today's environment, it is not likely the city can continue to attract high quality employees by offering substandard wages with the lure of a more competitive retirement package. Some on the Task Force believe that the newly hired employee is more interested in salary and other current benefits than the ultimate retirement package.

<u>DEFINED BENEFIT PLAN:</u>

In order to stay in the CalPERS plan new hires are going to have to have specified minimums (such as 1.5 times years of service, times an average of the last 3 years' service salary at age 65). If the Council decides to stay with a DB Plan it is unknown what it can negotiate as a minimum. The question, then, is, will that leave the Council with any flexibility at all to offer better salaries and other non-pension benefits, let alone adequate city services? The numbers may change some, but the dilemma of DB Plans, with increasing salaries, lower retirement ages and increasing life expectancies could continue to be a sustainability problem. I.E., if you put too many of your total compensation eggs in the pension basket, you don't have enough left to offer attractive benefits in other areas of compensation.

Nevertheless, DB Plans are the current standard and any city offering anything different could be suspect to new hires.

DEFINED CONTRIBUTION PLANS:

In the DC Plan the Actuarial Characteristics are not relevant and the city can tailor a salary package which is attractive today, while still offering an adequate pension system that will not be at risk of future surprises. The flexibility is much greater than with a DB Plan, which in turn should enable the city to design a compensation package that would be very attractive to new hires. I.E., If you can control your pension costs, you have more room for other compensation elements.

Employee Perceptions

BOTH PLANS:

The primary traditional downside to a DC Plan over a DB Plan is that it puts the risk of the market on the employee. Although financial products available today provide for a hedge against the downside of this risk through insurance, the DC Plan could provide less retirement benefits to the employee than a DB Plan on account of market performance. There is also an opportunity that it could provide more. In any event, the employee has more control over the investments in the DC Plan.

Attachment XXX provides an analysis of how a DC Plan may benefit employees under specific assumptions.

Even though insurance products can be provided to assure a minimum rate of return, DC Plans are traditionally dependent upon hypothetical market assumptions, whereas a DB Plan promises a specific monthly amount based on last years' pay. It is reasonable to assume that the incoming employee may feel more comfortable with the latter and be more skeptical of the DC Plan.

Retention:

BOTH PLANS:

One of the risks of a DC Plan is that as employees get closer to retirement they may be lured to another city with a DB Plan. They can take whatever is vested in the DC Plan with them, and, if they have sufficient years of service available to them, they may be able to qualify for an attractive DB Plan elsewhere.

The assumption here is that the DB Plan will pay more than the DC Plan. That is not necessarily true, and a DC Plan coupled with Social Security should compete well with a DB Plan, at least for the first 15 years for pay brackets of $50,000 or less. Also, the same risk would be present if Ventura's DB plan paid less than another city's.

Through a discussion resulting from a presentation by City Manager, Rick Cole, the Task force considered the proposition that defections may well be reduced significantly if the City of Ventura were to become a superior employer. If the City can get its pension costs under control, it will be able to be more functional in providing basic and even enhanced public services. The premise is that if an employee has the advantage of living and working in the community with an employer who concentrates on the non-monetary advantages to its employees, and where the employee can truly be proud of the services rendered to a more satisfied community, then that employee will be less likely to defect to another City, even if the pension benefits were more attractive.

Lateral Hires:

<u>BOTH PLANS:</u>

If Ventura offers only a DC Plan, is it going to be possible to hire seasoned employees from another city with a DB Plan? The same issue is presented if Ventura offers only a DB Plan that pays less at retirement than another city's Plan. The desired employee is going to have to be satisfied that the salary plus DC contributions and other benefits are going to be enough to offset the loss of a continued accrual toward the DB Plan pay being lost by the move. There is nothing that precludes paying more into the DC Plan (up to IRS allowances) for one targeted employee than others. Nevertheless, lateral hires are always going to be difficult if neighboring communities continue to engage in unsustainable plans.

"AVOID BEING TIED TO THE DECISIONS OF OTHER GOVERNMENTAL AGENCIES":

<u>BOTH PLANS</u>

The Council will always have the duty to pay a fair wage. What other agencies are paying will be a part of that analysis. Nevertheless, it is very dangerous for cities to continue down the current leap frog path. As mentioned in other portions of this paper, the Council has the option of adopting a flexible fair compensation package that is consistent with maintaining adequate (dare we say superior) services to its citizens and concentrates on non-compensation employee benefits. This appears to be more easily accomplished through a DC Plan. These same principles apply to setting limits to a DB Plan that are less than those offered by other cities. While the Council has to keep one eye on what other cities are doing, it should concentrate on the overall service affordable.

"HOW DO WE FACILITATE RESCESSINARY PERIODS?"

DEFINED BENEFIT PLANS:

Once DB Plans are in motion the city is dependent on the effects of Actuarial Characteristics. Even if the city retains in each contract the ability to adjust the amount and rate of contributions, the adjustments do not take effect for years (even decades). This makes it very difficult to adjust contemporaneously with recessionary periods.

DEFINED CONTRIBUTIONS PLANS:

Getting rid of the Actuarial Characteristics gives the Council control that can be calculated with precision from year to year. The city should place in each contract the ability to change the package in future contracts so that a specific percentage or dollar amount offered in one year does not become vested for future years. The city should also build into the calculations sufficient reserves to ride through minor recessions. Finally, the Council needs to be responsible to the analysis of just what the calculations mean and anticipate the recessionary periods whenever possible.

HYBRID PLAN

One impediment to adopting a pure DC Plan is that under the current rules it will require the City to buy out of the current CalPERS plan. City Staff has requested a buy out figure from CalPERS, but it is not available at the time this Report is written. If the cost of that buy out is prohibitive, the City will be required to offer its new hires some form of DB Plan. AND, there may be other reasons the Council decides to maintain a DB Plan, at least on some minimal level.

One solution may be to adopt a hybrid plan for new hires. One such structure could be a DB Plan at minimum levels (e.g., 1.5% at 65 with a 70% maximum) with a DC Plan as a supplement – perhaps coupled with Social Security. The math is beyond the scope of this paper, but must be an integral part of the Council's analysis.

Summary

If a CalPERS buyout of the current plans is financially feasible, the Council has a means of ensuring future predictability, control and sustainability of its 2nd Tier pension plans under a system that will allow the Council to base total compensation upon the calculations of all benefits year by year without the vagaries and risks of the Actuarial Characteristics. That is by creating a 2nd Tier with a total DC Plan.

The easier path is to stay with a DB Plan. This avoids the buy-out with CalPERS, probably makes negotiations with the unions easier and less complicated, and maintains traditional concepts. Leaving CalPERS would make working for Ventura potentially less attractive to those currently in the system covering the vast majority of local government agencies in California. However, the Council still must make the DB Plan sustainable. This is much more difficult than with the DC Plan. To do this, the Council must get involved with the math under actuarial assumptions, and then establish probabilities.