CITY OF VENTURA

# COMPENSATION POLICIES TASK FORCE
# AGENDA

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

**SPECIAL MEETING**
**FRIDAY, OCTOBER 9, 2009, 1:00 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 Meeting of September 28, 2009.

2. **Distribute and Confirm Completeness & Accuracy of “List of Key Points” Developed at Sept 28 Meeting**

3. **Discuss, Define and Contrast “Competitiveness” and “Comparability” Regarding Salaries**

4. **Discuss Retirement Alternatives**

5. **Information Item - League of CA Cities Pension Reform White Paper**

## 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 Tuesday, October 6, 2009, at 1:00 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, October 8, 2009, at 4:00 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

| | | |
|---|---|---|
| Vern Alstot | Ramon De La Rosa | Jim Monahan |
| Neal Andrews | Quinn Fenwick | Richard Newsham |
| Eric Burton | Sylvia Lopez | John Snowling |
| Ben Davis | Frank Maxim | Ed Summers |

**SEPTEMBER 28, 2009**

The Compensation Policies Task Force met in regular session at the Police/Fire Headquarters' Training Room, 1425 Dowell Drive, Ventura, at 3:37 p.m.

## ROLL CALL

Present: Glen Albright, Vern Alstot, Neal Andrews, Bart Bleuel, Eric Burton, Ben Davis, Ramon De La Rosa, Quinn Fenwick, Randolph Hinton, Frank Maxim, Ed McCombs, Jim Monahan, Richard Newsham, John Snowling, Ed Summers

Absent: None

Chairperson McCombs called the meeting to order.

## PUBLIC COMMUNICATIONS

Andy Soter spoke.

## TASK FORCE BUSINESS

**2. <u>Review Data and Begin the Development of a Report to the City Council</u>** (This item taken out of sequence)

Chairperson McCombs asked all Task Force members to express their opinions about next steps moving forward with the development of a report for the full City Council. Most members provided feedback to Chairperson McCombs and a lengthy discussion ensued regarding the various feedback provided. The following is the list of key points identified during the discussion that will need further discussion:

## COMPENSATION

a. Define competitiveness:
   (1) Does competitiveness equal comparability?
   (2) What alternatives are there to comparable city studies?
   (3) Competitiveness can be a red herring:
      (a) Define quality of service we want; and
      (b) Retention only relevant factor.

b. What is a fair salary? Total compensation must be centered on a number.

c. Comparable data is used to negotiate with. We are not at top—have been behind for years.

d. Must factor in Social Security when comparing costs.

## RETIREMENT

a. Need more information from CalPERS.

b. We need an economic forecast—what can we afford?
   (1) Long-term future, 20-30 years; and
   (2) Greater longevity and long-term contribution impact.

c. What is sustainable?
   (1) Define City's ability to pay; and
   (2) Build up reserve with CalPERS when we are "super" funded and don't spend elsewhere.

d. Consider public perception.

e. Problem will be much greater in the future than it is today.

f. Cannot afford CalPERS termination costs.

g. Need to create two tiers.

h. Need to increase our understanding of the impact and hidden costs of a two-tier system:
   (1) Especially on lowest paid workers—most of who can't retire before age 65, if then.

i. Why be first and have lowest compensated retirement group?

j. Not all employees take advantage of retirement (leave early).

k. Our society has a mobile work force and pensions stimulate staying within an organization.

## OVERRIDING CONSIDERATIONS

a. Public perception:
   (1) Private sector has largely transitioned to defined contribution from defined benefit; and
   (2) Public anger based on its perceptions—doesn't matter whether it is true or false.

b. Don't rush the process.

c. Is there really a long-term problem?

d. Do we need to make a change? (CalPERS does not seem to be in trouble.)

e. Get the relevant facts out:

   (1) Average annual current retiree payments:

      (a) $14,000 - Miscellaneous

      (b) $38,000 - Safety

Chairperson McCombs asked for feedback from Task Force members regarding the establishment of a subcommittee consisting of one public member, one Councilmember and three representatives for the various union groups. The Task Force members were not in agreement at this time to break out into a subcommittee. No action was taken.

Chairperson McCombs suggested the Task Force meet on a Saturday for four hours in order to allow for more time to work through the data that has been provided and to compile information for the report to Council. Not all Task Force members were available on a Saturday, therefore, it was decided that the next meeting would be held on a Friday when City Hall is closed. The next meeting will be held October 9, 2009, at 1:00 p.m. at the Police/Fire Headquarters training room, if available.

Chairperson McCombs moved to approve that he provide Council with a verbal presentation on the status of the work effort of the Compensation Policies Task Force in October. Member Summers seconded. Motion carried.

**1. Minutes** (This item taken out of sequence)

Recommendation: Approve Minutes of Task Force meeting of September 22, 2009.

Action:

Co-Deputy Chair Bleuel moved to approve the minutes as presented. Member Monahan seconded. Motion carried.

## TASK FORCE AND STAFF COMMUNICATIONS

None.

## ADJOURNMENT

The meeting was adjourned at 5:10 p.m.

____________________________________
Vickie Poliquin, Administrative Secretary

**PENSION REFORM IN CALIFORNIA**
**League of California Cities**
**November 1, 2009**

For 78 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 some period of highest salary (typically the last one or three years of work). These plans generally provide an annual cost-of-living adjustment and additional inflation protection that maintains the purchasing power over time at a specified minimum level. The California Public Employees’ Retirement System (CalPERS), the State Teachers’ Retirement System (STRS), and a variety of individual cities and counties administer these retirement plans.

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. In 1999, the California Legislature enacted dramatic benefit enhancement plans quite often by way of the collective bargaining process – for a variety of reasons, 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.

Last year’s stock market crash wiped out a quarter of the CalPERS investment fund, forcing CalPERS to increase member rates over the next thirty years to make up for the losses. Ron Seeling, the CalPERS Chief Actuary, says 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. The League of California Cities agrees. Such increased city pension contributions will add financial pressure to cities at a time when local budgets are already in distress.

## League Pension Reform Task Force

In late 2004, the Executive Director asked the City Manager’s Department Standing Task Force on CalPERS to undertake a study of the defined contribution proposal and potential other defined benefit reforms. A group of other appointed and elected officials were subsequently added to the Task Force to provide broader input. The League also retained the services of a retirement actuary, John Bartel of Bartel Associates, LLC, who worked with the Task Force to ensure its recommendations for reform of the defined benefit system were actuarially sound.

In March 2005, the Board accepted the Task Force report, with modifications, and offered it for discussion and consideration in the pension reform debate. Since that time, an initiative proposed by former Assemblyman Keith Richman that would have switched all new State and local hires to a 401(k)-style plan failed to move to the ballot, despite backing from the Governor. In January 2008, the Governor's Post Employment Benefits Commission made a series of recommendations as regards public pensions.

However, there has been little legislative activity aimed at Statewide pension reform in the past five years. There is currently little likelihood that the State Legislature will act on this issue without a strong constituency for responsible reform.

Although a number of ballot measures have been proposed, none has yet gone before the voters. However, media and public awareness of this issue could potentially be exploited by a range of interests, resulting in a frontal assault on public employment and representative government. When responsible reform falters in California, it often results in dangerously half-baked alternatives being placed directly before voters, either at the State or local level. Too often, the initiative process has created outcomes that have often gone astray, with the result that local governments could be faced with pension reform that does more harm than good. Even if extreme measures are ultimately defeated, these campaigns are expensive, polarizing, and risky threats to good government in our State.

Much has been written about public pension problems over the last several years. There is no question that isolated abuses, such as "pension spiking," have contributed to much of this media coverage. At the same time, defined benefit pension programs are becoming increasingly rare in the private sector, which when combined with longer life expectancies and a weakened economy, has meant that many Americans are forced to work longer than they had planned. There is ample evidence of increasing public discontent over public pensions such as those available to California local government employees.

As a result of the circumstances, a number of regional city manager groups believe this issue cannot wait for the State Legislature and have begun developing proposals for regional pension reform. By working together in relevant labor markets, local governments can effect meaningful pension reform that is fair to employers, employees, and taxpayers. Such collaborative efforts can also address public perception that "market competition" is an artificial excuse for increases in public sector pay and benefits that actually flies in the face of real market factors and forces.

This report updates the League's 2005 pension reform report to reflect current thinking and conditions.

## General Pension Reform Principles

Any serious discussion of public pension reform must begin with a set of principles/goals to guide any following recommendations. Until questions about the appropriate role and purpose of public pension benefits in local government compensation packages are answered, it would be at least premature and perhaps self-defeating to make any specific benefit recommendations. In keeping with this philosophy, it is recommended that the following principles precede any benefit recommendations:

- The primary goal of a public pension program should be to provide a full-career employee with pension benefits that 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.

## Defined Contribution Pension Options

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. Recently defined contribution plans (commonly known as 457 and 401(k)) have delivered poor investment performance. 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.

We question, however, whether the private sector shift of retirement risk to individual wage earners is a prudent path to follow. First and foremost, defined benefit plans have proven to be more efficient than defined contribution plans for delivering pension benefits. Defined benefit plans generally earn far more than defined contribution plans, because they are professionally managed. Defined benefit plans offer lower fees and cover disability retirements and death benefits that are not included in defined contribution plans. Further, defined benefit plans offer a protection for inflation and manage longevity risk better than defined contribution plans by pooling larger numbers of people. Moving from a defined benefit plan to a defined contribution plan may entail large start-up costs and force changes in asset allocations that will produce lower investment results in the defined benefit formula plans that remains for existing employees. Hence, it would likely cost the taxpayers more for many years to force future local government employees into a defined contribution plan.

## Reform Recommendations

Public employee defined benefit programs have been appropriately criticized in a number of areas. The following reform recommendations address short-comings within some defined benefit retirement programs, while preserving the aspects of the program that have served the employees, employers, and taxpayers of California well for over 70 years.

### Pension Benefit Levels

*Principles:* Public pension benefit plans 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.

- Promote career public service without creating incentives to work past retirement age, nor disincentive to early retirement. Employees who voluntarily choose to either work beyond retirement age or retire early should not be penalized or rewarded.

*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.

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

**The above formulas would incorporate:**

- "Three-Year-Average" for "final compensation" calculation. All "Highest Final Year" compensation calculations would be repealed for newly-hired employees.

[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).

- 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.

- 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.

- Rates have historically been relatively constant and comparable to rates currently paid by most public agency employers.

- Recent rate volatility is primarily due to large fluctuations in annual investment returns for the retirement plan investment portfolios, causing significant changes in plan funding status.

- Normal costs for defined benefit plans have remained relatively constant over time.

*Recommendations*

- 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.

- 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 and Retirement System Board should be changed to achieve both 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.