CITY OF VENTURA

COMPENSATION POLICIES TASK FORCE
AGENDA

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

SPECIAL MEETING
THURSDAY, NOVEMBER 5, 2009, 3:00 P.M.
SANTA CLARA SENIOR CENTER
420 E. SANTA CLARA STREET, 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 Special Meeting of October 9, 2009.

2. City Manager Progress Report

3. Review the Updated League of CA Cities Pension Report White Paper Draft

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, November 3, 2009, at 10:00 a.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 Wednesday, November 4, 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

OCTOBER 9, 2009

The Compensation Policies Task Force met in regular session at the Police/Fire Headquarters' Training Room, 1425 Dowell Drive, Ventura, at 1:15 p.m.

ROLL CALL

Present: Glen Albright, Neal Andrews, Bart Bleuel, Eric Burton, Benny Davis, Ramon De La Rosa, Luis Espinosa, Frank Maxim, Ed McCombs, Jim Monahan, Richard Newsham, John Snowling, Ed Summers, Ray Vance

Absent: Vern Alstot, Quinn Fenwick, Randolph Hinton

Chairperson McCombs called the meeting to order and summarized some statistics regarding California's current economy. Chairperson McCombs noted that public speakers are limited to five minutes to address the Task Force.

Chairperson McCombs asked when the Task Force members could expect to receive the actuarial data from CalPERS. Human Resources Director, Jenny Roney, stated that the data has been delayed from CalPERS, but that the City can expect its receipt by mid-November 2009.

PUBLIC COMMUNICATIONS

Jim McDermott and Andy Soter spoke.

TASK FORCE BUSINESS

1. <u>Minutes</u>

<u>Recommendation</u>: Approve Minutes of Task Force meeting of September 28, 2009.

<u>Action</u>:

Member Snowling moved to approve the minutes as presented. Member Albright seconded. Motion carried.

2. <u>Distribute and Confirm Completeness & Accuracy of "List of Key Points" Developed at September 28, 2009, Meeting</u>

The "List of Key Points" that was identified during discussions held at the September 28, 2009, Task Force meeting was distributed. Member Maxim suggested that the title of this document be revised to read: "Key Points for Further Discussion" and all Task Force members agreed unanimously to revise the title as referenced. Discussion ensued and no action was taken.

3. <u>Discuss, Define and Contrast "Competitiveness" and "Comparability" Regarding Salaries</u>

Chairperson McCombs distributed the City Council's "Compensation Guidelines and Interests" from May 15, 2006, and recommended that the Task Force members jointly review its content. Several Task Force members spoke, at length, regarding defining competitiveness and regarding the previous CalPERS data that had been provided.

Andy Soter and Jim McDermott spoke.

Rick Cole, Jay Panzica and Jenny Roney provided verbal information regarding compensation guidelines and benchmarks and answered a variety of questions.

Rick Cole offered to provide assistance, in conjunction with help from the City's Chief Financial Officer, Jay Panzica and Human Resources Director, Jenny Roney, to assist the Task Force by providing suggested changes to the existing Council compensation guidelines that address the key issues, data and suggestions that have been made. Member Monahan moved to approve utilizing the assistance of Rick Cole, Jay Panzica and Jenny Roney in this role. Member Summers seconded. Motion carried.

4. <u>Discuss Retirement Alternatives</u>

Chairperson McCombs reiterated that more information is needed from CalPERS. Nancy Rasmussen answered questions and provided a brief overview of the California Society of Municipal Finance Officers recent session regarding CalPERS pension contribution rates. Jenny Roney also spoke regarding long-term CalPERS projections and recovery rates and the two-year lag to receive updated information from CalPERS. It was noted that it would be very difficult for CalPERS to provide data projects out 20 to 40 years.

5. **<u>Information Item – League of California Cities Pension Reform White Paper</u>**

Co-Deputy Chairperson Bleuel briefly discussed the findings within the League of California Cities Pension Reform White Paper that was distributed and suggested additional comparative analysis be generated for the Task Force. Jenny Roney will provide Task Force members with a copy of John Bartel's 2005 White Paper on Defined Benefits and Defined Contributions.

Rick Cole stated that the League's White Paper was a draft and has been revised since its distribution.

Chairperson McCombs raised the question if the Task Force should obtain an actuary to conduct a larger study on economic indicators and economic impacts. It was noted that a study of this nature could range in the $30,000 to $40,000 range. Member Andrews suggested the Task Force complete this type of analysis as a group. Following further discussion, Member Andrews suggested contacting a reputable actuarial firm, such as Millman & Robertson, to obtain an estimate for the analysis work. The Task Force unanimously agreed with Member Andrews' suggestion. Jenny Roney to contact an actuarial firm.

Chairperson McCombs suggested that a recommendation be made for City staff to pay for a portion of their CalPERS contribution through a phased-in approach. No action was taken.

COMPENSATION POLICIES TASK FORCE AND STAFF COMMUNICATIONS

None.

ADJOURNMENT

The meeting was adjourned at 3:28 p.m.

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Vickie Poliquin, Administrative Secretary

PENSION REFORM IN CALIFORNIA
City Managers Department
November 1, 2009

California state and local governments started offering “defined benefit” retirement plans to employees in 1931. This type of benefit structure provides a formula-based guaranteed annual pension determined by retirement age, years of service, and some period of highest salary (typically the last one or three years of work). Usually, such plans include an annual cost-of-living adjustment 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.

Local and state government retirement costs have risen and fallen over the years due to: (1) Investment returns of the various systems; and (2) The level of benefit payments provided to employees. The California Legislature enacted sizable benefit enhancement options in 1999 for state and local government employers. For example, 3% @ 50 became the standard pension formula for police officers and firefighters allowing them to retire with 90% of their salaries in their early fifties. These enhanced plans spread rapidly, often through the collective bargaining process. They were justified as needed to retain and attract qualified employees. Some of the increased costs of these enhanced plans were shared by the employees. When the dot com bubble burst in 2001, dramatic increases in employer contribution rates occurred due to the losses sustained by the retirement systems and the true costs of the benefit enhancements.

Almost one quarter of CalPERS’ investment fund was wiped out by the serious downturn in the stock market starting in 2009. To make up the losses CalPERS is forced to increase member rates over the next 30 years. Ron Seeling, CalPERS chief actuary, says that pension costs are “unsustainable.” He predicts that costs may rise to 25 percent of pay for miscellaneous plans (non-safety) and 40 to 50 percent for safety plans (police and firefighters). Increased employer contributions will add financial pressure to cities at a time when local budgets are already in distress.

League Pension Reform Task Force

League Executive Director Chris McKenzie requested that the City Manager's Department Standing Task Force on CalPERS undertake a study in late 2004 of the defined contribution proposal and potential other defined benefit reforms. The Task Force was expanded to include a group of other appointed and elected officials to provide broader input. The League also retained the services of a retirement actuary, John Bartel of Bartel Associates, LLC, to ensure any Task Force recommendations for reform of the defined benefit system were actuarially sound.

The League's board of directors accepted the Task Force's report in March 2005, with modifications, and offered it for discussion and consideration in the pension reform debate. Subsequently former Assembly Member Keith Richman proposed an initiative that would have required all newly hired state and local government employees to be placed into a 401(k)-style retirement plan (defined contribution plan) instead of a defined benefit plan. Despite backing from Gov. Arnold Schwarenegger, it failed to move to the ballot. In January 2008, the Governor's Public Employee Post-Employment Benefits Commission made a series of recommendations regarding public pensions, some of which the Legislature passed and were then adopted by CalPERS.

Yet, there has been little substantive legislative activity since 2004 on statewide pension reform. There is also little likelihood that the Legislature will act on pension reform due to current political realities, combined with a lack of a strong constituency for responsible reform.

Although a number of ballot measures have been proposed, none have 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 governments. The faltering of responsible reforms in California, often produces dangerously half-baked solutions being placed directly before voters – either at the state or local level. The initiative process has frequently created unintended consequences.

Should the voters be presented with and pass a poorly conceived solution for pension reform, local government could be faced with a result that does more harm than good. Even if extreme measures are ultimately defeated, these campaigns are expensive, polarizing, and pose significant risk to good government.

Much has been written about public pension problems over the last several years as there is increasing public discontent over California's public employee pensions. There is no question that isolated abuses, such as "pension spiking," have contributed to this media coverage. At the same time, with the exception of the federal Social Security system, defined benefit pension programs are becoming increasingly rare in the private sector. This combined with longer life expectancies and a weakened economy, means that many Americans are forced to work longer than they had planned.

Mounting pressures including fiscal realities, media attention, public scrutiny, and the Legislature's lack of interest in statewide reform have inspired a number of regional city manager groups to draft public pension reform proposals. By working together in relevant labor markets, local governments can achieve 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.

General Pension Reform Principles

Any serious discussion of public pension reform should begin with a set of principles and/or goals to guide any following recommendations. It would be premature to make specific recommendations until questions about the appropriate role and purpose of public pension benefits in local government compensation packages are answered. Thus, 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 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 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.

<u>Defined Contribution Pension Options</u>

Defined benefit pensions have since 1990 become increasingly rare in the private sector. The vast 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. Individuals are responsible for building sufficient retirement assets to provide for their needs (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 community 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.

The League of Cities questions whether the private sector shift of retirement risk to individual wage earners is prudent. First and foremost, defined benefit plans are 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. They also offer lower fees and cover disability retirements and death benefits that are not included in defined contribution plans. These plans provide inflation protection 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 remain for existing employees. 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 <u>in combination with private savings</u> 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

[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).

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

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 contribution plan 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.

<u>Support for Regional Pension Reform Efforts</u>

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 more than 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. The League of Cities recommends that benefit levels are rolled back to pre-1999 levels for new employees and current employees should participate in funding their pensions. The goal is to achieve adequate and financially sustainable pensions for California's municipal employees.