INTRODUCTION

Background

An important role of The U.S. Conference of Mayors is that of a forum in which mayors throughout the nation exchange information on approaches they have taken to solving their cities’ most pressing problems. Within the Conference this year, attention is being focused on a problem that has grown in severity and visibility since the recent recession created a “perfect storm” of reduced investment values and reduced revenues for cities.

Mayors are painfully aware that, when U.S. stock markets declined along with the U.S. economy in 2008 and 2009, investments made by pension plans, including public pension plans, lost much of their value. Estimates of unfunded liabilities of state pension plans at that time were in the trillions of dollars. Since then, according to the National Conference of State Legislatures, four out of five states have revised at least one of their retirement plans, with changes made to employee contribution requirements, age and service requirements for retirement, cost of living adjustments, and other plan features. For many states, “hybrid” plans now combine defined benefit and defined contribution models, and shift more of the benefit risk to employees.

In January, for its annual winter meeting in Washington, D.C., the Conference of Mayors produced an overview of research on public pension problems, focusing on the work of the Center for State and Local Government Excellence and the Center for Retirement Research at Boston College. (This report is available at http://www.usmayors.org/uploads/2012/0309-pension-paper.pdf.) One of the studies reviewed found that, as a result of the economic downturn, the funding ratios of state and local government pension plans dropped from 84 percent in 2008 to an estimated 77 percent in 2010, and were projected to decline to 72 percent by 2013. Reversing this decline will be difficult, the analysts say, as plans today are limited in their ability to increase revenues using either employee contributions or taxes.

In the simplest of terms, the outlook on public pension plans is a reflection of the outlook on the nation’s economy.

During this year’s winter meeting in Washington, mayors were briefed on current public pension issues by Elizabeth Kellar, President and CEO of the Center for State and Local Government Excellence. Among the many points covered in that briefing:

- Aggregate state and local pension liability in 2010 was $0.8 trillion.
- As a percentage of public payrolls, annual required contributions (ARCs) to pension plans increased steadily over the past 10 years, reaching more than 13 percent in 2011.
• While most pension plans were over 80 percent funded in 2008, only 33 percent of plans studied in 2010 were over 80 percent funded.
• Some pension plans made changes that exacerbated their funding problems – changes such as lowering the retirement age and authorizing, but not funding, retroactive benefit enhancements.
• Of the more than 40 states enacting pension legislation between January 2010 and September 2011, 27 increased employee contributions, 20 increased age and length of service requirements for normal retirement, and 14 lengthened the period used to calculate final average salary.
• Characteristics of better-funded plans include: consistent funding of the annual required contribution (ARC), appropriate full-retirement ages, and realistic investment assumptions. These plans do not allow extraordinary income to be included in pension formulas, and they do not take pension contribution “holidays” in good times.

During the winter meeting, Conference leaders put pension issues on the agenda for the 80th Conference of Mayors, to be held five months later in Orlando. The focus in Orlando, it was determined, would be on the approaches individual cities were taking to meet their pension obligations to employees, both current and retired. The goal was to provide specific examples of how cities approach pension administration and reform – examples that other mayors might find of value in analyzing and resolving their own pension issues.

San Diego, San Jose

The week before the mayors’ Orlando conference, large majorities of voters in California’s second- and third-largest cities thrust local public pension issues into the national spotlight once again by adopting sweeping reforms which will produce significant cuts in city workers’ retirement benefits.

On June 5, two-thirds of San Diego’s voters supported Proposition B, an initiative strongly endorsed by Mayor Jerry Sanders, which, among other things:
• limits, through June 30, 2018, a City worker’s base compensation used to calculate the employee’s pension benefits to Fiscal Year 2011 levels;
• eliminates defined benefit pensions for all new City officials and employees, except police officers, and substitutes a defined contribution, 401(k)-type plan;
• requires substantially equal pension contributions from the City and its employees; and
• eliminates, unless otherwise allowed by law or agreement, the requirement of a majority vote by employees or retirees in the retirement system for changes that affect their benefits.
At a rally of Proposition B supporters, Mayor Sanders said, simply, "We believe people are tired of having services cut back because of big pensions."

In San Jose, where more than 20 percent of the General Fund is dedicated to retirement costs, nearly 70 percent of voters approved a similar measure long sought by Mayor Chuck Reed. San Jose’s Measure B provides that:

- new employees be placed in a new, lower-cost retirement plan;
- current employees be given the option of paying more to keep their current retirement plan or opting-in to a new, lower-cost retirement plan;
- the City Council be able to temporarily suspend retirees' cost of living adjustments (COLAs) during fiscal and service-level emergencies;
- disability retirement rules be reformed to prevent abuses;
- "bonus" pension checks from the Supplement Retiree Benefit Reserve (SRBR) be discontinued; and
- voter approval be required to enhance retirement benefits in the future.

Mayor Reed thanked the voters of San José “for their commitment to fiscal reform and to creating a more sustainable future for our children and grandchildren, for our businesses and neighborhoods, and for the City workers who provide the services we enjoy.”

Both cities’ reform measures were endorsed by the California Business Roundtable – the first endorsement of a local ballot initiative in the organization’s history. Both cities’ measures are being challenged in court by local employee unions.

**Shared Problems, Shared Solutions**

In this report, 16 cities responding to a Conference request for this information provide descriptions of the pension problems they are facing and their responses to them.

In describing its particular situation, one of the cities captures the experience that has been widely reported by states and cities across the nation over the past several years: A decade-long downward spiral fed by significant investment losses, insufficient employer contributions, rising health care costs, an early retirement incentive program, legacy costs of compound cost-of-living adjustments (COLAs), and other benefit enhancements.

Other cities in this report describe, for example:

- an unfunded liability problem compounded by a negative cash flow position of a pension plan which has far more retirees than it does active, contributing members;
- a plan in which investments declined by nearly 21 percent in 2008 and for which, even prior to the market downturn, normal costs exceeded annual contributions;
• responsibility for up to $157.1 million in unfunded liabilities over 40 years for retiree medical benefits for non-safety employees – a cost projected to increase by an average of 4.8 percent each year;

• an annual required contribution (ARC) of $330,000 in 2002 which, due to the bursting of the tech and housing bubbles, increased to $8.4 million this year;

• an ARC this year of $59 million, which represents 20 percent of the city’s total budget;

• an unfunded actuarial liability of $97.5 million for 484 employees under three California Public Employees’ Retirement System (CalPERS) contracts; and

• a projected ARC increase of $5 million, or 50 percent, over the next five years for about 430 employees enrolled in CalPERS.

(CalPERS is severely distressed: An analysis published in Western Cities magazine in November 2011 projected an increase in pension costs of 25 percent or more for most California municipalities over the next three years, and high contribution rates for a decade or more.)

Across the cities in this report, responses made to pension problems share many common elements, including, for example:

• increasing annual pension contributions for both cities and employees;

• eliminating benefit increases for current employees and offering fewer benefits for new employees;

• offering new employees defined contribution, not defined benefit, programs;

• lowering or deferring COLAs for both current employees and retirees;

• lowering benefit multipliers and benefit accrual rates;

• increasing retirement age and service requirements;

• increasing years of service used to determine final average salary for benefit determination; and

• modifying medical options and benefits offered.

As the following submissions from the cities show, some have developed and implemented pension reform plans or taken other actions to rein in pension costs. Others have assessed their pension problems, and work on solutions is underway.

A number of cities describe efforts to manage pension plans in states in which many, or most, employees are enrolled in state-run plans. Across the cities, there are examples of reform efforts shaped by retirement planning boards, pension commissions, pension task forces, and financial experts and actuaries. A couple of the cities achieved pension reform through ordinances.

In the submissions which follow, mayoral leadership in pension reform takes many forms, and language used to describe cities’ pension problems can be blunt.
CITY APPROACHES TO PENSION PROBLEMS

ALLENTOWN, PENNSYLVANIA
Mayor Ed Pawlowski

Allentown, Pennsylvania’s third largest City, is severely burdened with legacy pension obligations stemming from labor agreements with police and fire bargaining units that were put in place nearly a decade ago. As a result of many provisions of these contracts now considered egregious and insidious, the City’s defined benefit plan currently faces an almost insurmountable unfunded liability of nearly $130 million.

Compounding this unfunded liability problem is the negative cash flow position of a plan which has far more retirees (470) than it does active, contributing members (310). In calendar year 2010, the Firemen’s Pension Plan received $3.7 million in contributions while paying out $5.2 million in benefits and expenses. This situation grew exponentially worse in 2011, when 43 of the City’s 141 firefighters retired to take advantage of these benefits before the contract containing them expired on the last day of that year. These retirements increased withdrawals from the plan by $3.2 million.

Since early 2010, the City administration has been taking serious steps to resolve this issue. Early contract negotiations were initiated with both the police and fire unions. Police union officials recognized the seriousness of the situation and a fair and equitable agreement was reached. Fire negotiations are in arbitration, with a decision expected early this summer.

Also in 2010, the City took full advantage of certain State provisions triggered when the plan was declared “Moderately Distressed” and given a Distress Level score of 2 by the Pennsylvania Public Employee Retirement Commission. Steps taken include:

- aggregation of all funds for administration and investment purposes;
- development of an administrative improvement plan; and
- allowance for special municipal taxing authority.

Under the taxing authority, the City increased its 1 percent Earned Income Tax by .035 percent, with the proceeds going directly towards the City’s MMO – Pennsylvania’s term for annual required contribution.

The City administration recognizes these provisions only scrape the tip of the iceberg, however, and do nothing to address the real culprit: the plan’s overwhelming – and growing – unfunded liability, which in turn drives the increase in the MMO. Allentown has seen its MMO grow from $7 million in 2006 to $17-plus million this year. In three years it will be $24 million – this coming from an annual budget of $90 million.
Early this year, Mayor Pawlowski directed the City finance staff to research sound fiscal strategies that will lead to a resolution of this $150 million problem. “We have reached out to and spoken with many nationally recognized experts in our effort to fix this problem,” says the Mayor. “While it is too soon to report anything specific for this year’s discussion, I am confident that next year we will be able to report on the success of the bold, innovative, yet fiscally prudent solution we will have developed to this extraordinarily serious problem. We have no choice but to succeed. Undoubtedly what we will come up with will be an outside-the-box solution. No one can argue that what we are confronted with here in Allentown is truly a very much outside-the-box problem.”

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AURORA, COLORADO
Mayor Steve Hogan

The City of Aurora General Employees’ Retirement Plan (GERP) is a defined benefit pension plan that was established in 1967 for the City’s career service (non-public safety) employees. The plan currently covers 1,560 active employees and it pays monthly benefits to 662 retired members. There are also 199 deferred vested participants who will start to receive benefits once they reach the normal retirement age of 65.

For 2012, employees contribute 5.75 percent of their gross pay, which is matched by the City. An independent board composed of active employees, City Council appointees, and non-voting city management representatives manages the retirement trust.

Plan net assets totaled $313.3 million at the end of 2011, while the actuarial accrued liability for benefits was estimated to be $354.4 million. The plan’s funded ratio was 88.4 percent on a market value basis. From 1985 until the financial crisis of 2008, GERP had operated at a surplus; however, even prior to the market downturn, the plan’s normal costs exceeded the annual contributions.

Investments declined by 20.9 percent in 2008, along with normal costs exceeding the annual contributions, prompting the retirement board to reassess the plan’s benefit structure and funding policy. The board’s recommendations were adopted by the City Council in 2011 and went into effect at the start of this year. The GERP Board and City Council’s actions represented proactive and comprehensive steps to address the long term funding of the plan.

After many months of evaluating options, running financial projections, and listening to the advice of actuarial, investment, and legal consultants, the board concluded it would be in the participants’ best interest to create a four-part plan to bring revenues and costs back into balance and ensure GERP’s ability to pay promised benefits. The board:

1) recommended changes to the investment policy which are expected to increase returns and provide protection against rising inflation;
2) recommended that the City gradually increase the contribution rate by 0.25 percent per year, from 5.5 percent in 2010 up to 7.0 percent in 2017, for both the employer’s and the employee’s contribution; the increased cost to the City was $125,000 for each 0.25 percent increase;
3) decided to defer discretionary increases in benefits for current members until the plan’s funded status improves; and
4) recommended that the City Council approve a new lower level of benefits for new employees hired in future years.
City Council accepted the board’s recommendations and added a provision directing that, once the funding status of the plan improves, contribution rates will be lowered, rather than benefits being increased. Council felt that this “circuit breaker” was an important provision that would help to prevent benefit levels and funded statuses from bouncing up and down.

Overall, these steps are viewed as being extremely positive for the long term stability of the plan and for providing consistent and predictable funding requirements for the City.

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BEVERLY HILLS, CALIFORNIA
Mayor William W. Brien

The City of Beverly Hills has 681 full-time employees who earn a compensation package that includes retiree medical benefits for both the employee and his or her dependents. The City was responsible for up to $157.1 million in unfunded liabilities over 40 years for retiree medical benefits for non-safety employees, and this was projected to increase by an average of 4.8 percent per year.

The City’s response to the retiree medical cost issue was to develop a highly successful, voluntary Alternative Retiree Medical Program (ARMP) which allowed full-time staff to choose an alternative benefit in lieu of current retiree medical benefits. Employees were provided with an actuarially-determined amount which they had the option of disbursing to several tax-advantaged accounts, or the option of a cash lump sum.

Key elements of the ARMP, which took three years to develop and implement, include the following:

1) The City retained benefits experts, financial advisors, and actuaries to help design an Other Post Employment Benefit (OPEB) cost-containment program, following strict IRS guidelines. Actuaries calculated the actuarial equivalents of employees' accrued benefits and the City's cost savings.
2) The program was paid for by a debt issue.
3) The plan included converting accrued OPEB to a combination of tax-free defined contributions, retiree health savings accounts, and cash and tax-deferred savings plans through 457(b), 401(k), and 415(m) accounts on an individual basis.
4) All employees hired after January 1, 2010 were converted from a defined benefit program to a defined contribution program. The ARMP was only offered to employees hired prior to this date.
5) The ARMP was approved by employee bargaining units and the Beverly Hills City Council.
6) Employees were given nine months to decide whether to opt into the program. Fifty-eight percent accepted, which was well above the City’s original estimate of 35 percent participation.
7) Cumulative cost reductions over 40 years total $91 million in unfunded liabilities.

The City believes that the ARMP can be adopted by many municipalities and other governmental organizations as part of their OPEB reduction efforts, and that organizations adopting it would spend far less time than Beverly Hills (perhaps 100 to 200 hours of staff time, plus time spent on debt financing procurement), since the model and legal underpinnings have been explored and approved.
All program documentation is currently available at www.beverlyhills.org/armp.

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BINGHAMTON, NEW YORK
Mayor Matthew T. Ryan

Pursuant to New York State law, the City of Binghamton offers all employees a defined benefit pension. Also under State law, the City will begin this year to offer a 401(k)-style retirement plan to non-unionized employees earning at least $75,000. (The five employees who qualify constitute just 0.8 percent of the workforce.)

City officials strongly support retirement security in the form of a defined benefit pension, and are concerned about the increasing attacks on such pensions across New York State and the nation. The view is that, while the cost of pensions in many areas has grown dramatically in the last decade, workers are not the culprits, and the problem can be traced back to Wall Street deregulation that took place in the 1980s and 1990s.

With pension funds typically invested in the stock market, municipal contributions go up when the market goes down. Binghamton’s contributions have shot up due to the implosion of the tech bubble in 2001 and then the housing bubble in 2007 and 2008. In 2002, the City’s annual required contributions were $330,000; this year, they are $8.4 million.

Binghamton officials believe that a clear understanding of the roots of rising pension system costs is essential to designing solutions, and that, instead of scapegoating workers and increasing their financial constraints, federal and state leaders must reinstitute responsible financial regulations. They believe these leaders must resist calls to replace defined benefit pensions with 401(k)-style plans, as such a shift would endanger workers’ retirement security – essentially punishing workers for Wall Street’s casino gambling.

While it continues to push for responsible reform at the federal and state level, the City has turned to other areas to address its financial challenges. Most prominently, since 2006, it has eliminated more than 11 percent of City positions – 66 in all, largely through attrition. While decisions to reduce the workforce are reducing costs, the City sees itself at a breaking point, where any more cuts will require a reduction of the services citizens count on for their health, safety, and quality of life. Mayor Ryan pledges continuing discussions of pension issues with the many stakeholders involved – the City Council, partners in government and, importantly, the citizens of Binghamton.

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CINCINNATI, OHIO
Mayor Mark Mallory

The Cincinnati Retirement System (CRS) is a defined benefit pension plan with $2 billion in assets covering 3,300 employees and 4,500 retirees. It also provides medical benefits for 6,800 members and dependents. Ohio public employees are exempt from Social Security, which underscores the importance of achieving a stable, sustainable, and affordable retirement program for the City’s employees and retirees. Pension and retiree medical benefits are not subject to union negotiations.

Over the past decade, CRS experienced significant investment losses, insufficient employer contributions, rising health care costs, an early retirement incentive program, legacy costs of a 3 percent compound COLA, and other benefit enhancements that combined to produce a downward spiral. In 2010, City Council changed the governance structure of the Retirement Board of Trustees. Six of 11 trustee positions are appointed and five are elected by CRS members. Appointed trustees must have extensive relevant professional experience and no conflict of interest with the City or CRS, or have any relationship to a member of CRS.

After several months, the board recommended changes that addressed the financial and structural imbalances of CRS. City Council approved the recommendations with minor changes. The changes:

- lowered the rates of benefit accrual;
- increased the final average salary period, from three to five years;
- lowered the COLA from 3 percent compounded to 2 percent simple interest for future retirees;
- increased retirement ages and service requirements for current and future employees with transition periods;
- increased employee contributions from 7 percent to 9 percent over four years;
- removed subsidies for Medicare Part B and dental and vision plans; and
- modified medical plan options.

In 2011, City Council committed to graduated increased employer contributions to CRS, from 17 percent to 24 percent over a four-year period.

In terms of financial impact, the changes:

- lowered pension accrued liabilities by $111 million;
- lowered the pension ARC from $55 million for FY 2011 to $50 million for FY 2012 (31 percent payroll);
- lowered health care accrued liabilities by $231 million; and
- lowered the health care ARC from $20 million for FY 2011 to $500,000 for FY 2012 (0.3 percent payroll).
Based on their experience, City officials responsible for changing Cincinnati’s pension plan offer several recommendations to other cities engaged in pension reform:

- Forge ahead amidst the noise and discomfort and continue to educate all parties.
- Involve appropriate expertise and independent representation in governance structure.
- Design and manage benefits to the competitive norm using both public and private data.
- Manage benefits and data aggressively, proactively, and in a timely manner; ignoring the problem creates future hardships for all parties.
- Pre-fund retiree medical benefits, if provided to retirees.

Cincinnati officials also recommend that those involved in pension reform should not:

- enhance benefits because the bank is full;
- believe financial markets will fix the problem;
- believe problems can be fixed by changing benefits for new hires only; where permissible, changes for retirees and current employees must be considered;
- give up on defined benefit plans – especially for states exempt from Social Security; or
- be so quick to manage workforce issues with early retirement programs.

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HARTFORD, CONNECTICUT
Mayor Pedro E. Segarra

The City of Hartford sponsors a single employer contributory defined benefit pension plan for employees hired after May 1, 1947, which is funded through the Municipal Employees Retirement Fund (MERF). The Municipal Code requires that the City annually contribute to the MERF the actuarially-determined recommended contribution. As of July 1, 2011, there were 2,251 active members and 3,046 pensioners in MERF (including police, fire, board of education, municipal services, library, and vested deferred pensioners), and the City’s estimated 2011-2012 contribution was $28,527,301 – a funded status of 83.5 percent.

Under the Municipal Code, the City of Hartford Pension Commission and the City Treasurer are responsible for the administration of the MERF. The Pension Commission is composed of three voting members and a non-voting employee representative. The voting Commissioners are appointed by the Mayor and serve three-year terms; they are not City employees. The City Treasurer serves as Secretary of the Commission and is responsible for the care and custody of all pension funds. The Commission’s staff, also known as the Pension Administration Unit, is responsible for the day-to-day administration of the benefits provided by the MERF. A separate Investment Unit, reporting directly to the City Treasurer, is responsible for supervising the MERF’s investment portfolios.

Since 1999, the City has been negotiating with the unions, as their bargaining agreements expire, to set up a new tier of benefits for new employees. The benefits for the new tier employees vary by bargaining agreement but generally have lower benefit multipliers, higher employee contributions, increased retirement age/service eligibility, and no longer allow the purchase of additional City service with accrued sick time at retirement (sick exchange). Before any changes are negotiated with the unions, cost estimates are requested from the City’s actuarial consultant, as required by State law.

The City has periodically granted cost of living adjustments (COLAs) to retirees, but only on an ad hoc basis, and no COLAs have been granted since 2007.

Hartford, like most municipalities, has seen an increase in its annual required contribution (ARC), due in part to early retirement incentives and asset losses. To help dampen the impact of the 2008-2009 investment losses, the City increased the asset smoothing period in 2009 from four to five years. The assumed long-term rate of return of the MERF is 8 percent and the Pension Commission is currently reviewing the asset allocation of the MERF in order to sustain that assumed rate of return on the fund while lowering its volatility.
An additional reason for the increase in the City’s ARC is the amortization of the liability. Historically, the City has used the aggregate cost method, but due to the mature nature of the City’s population, the pension liabilities were spread over a very short period (10 years), which increased the City’s annual recommended contribution. The City changed to the entry age normal cost method in 2011 in order to lengthen the amortization period (to 15 years) for the unfunded liability and to align with the cost method in the proposed GASB standard.

During 2011, the MERF completed an Asset-Liability Study, leading to investments in new asset classes, Global Asset Allocation (GAA) and Emerging Markets Equity (EME). Future MERF investment may include such asset classes as Real Estate, Infrastructure, Commodities, and Hedge Funds. The MERF’s target asset allocation is 32 percent equity, 32 percent fixed income, 26 percent alternatives, and 10 percent other. The focus on new asset classes, along with a revised target allocation, is designed to help the MERF achieve its 8 percent return objective. Over the past five years, which included the nation’s dramatic economic downturn, Hartford’s investment portfolio returned an average of 5.4 percent.

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HONOLULU, HAWAII
Mayor Peter Carlisle

In accordance with State of Hawaii law, eligible employees of the City and County of Honolulu participate in the State of Hawaii Employees Retirement System, which is a defined benefit plan. Efforts to address pension reform must be done via changes in the laws and are subject to the approval of the State Legislature and the Governor. Similar to other states, the Hawaii constitution provides protections for the pension benefits of government employees, specifically requiring that an employee’s accrued pension benefits cannot be diminished or impaired.

While this may suggest that the City has little input regarding pension reforms, Honolulu’s support of a major pension reform initiative in 2011 assisted in its passage. Support of the much-needed reforms was prompted by information the Retirement System shared with the City in December 2010. At that time, the unfunded actuarially-accrued liability of the system was $7.1 billion (it is now $8.2 billion) and the funded ratio was only 61.4 percent. The Retirement System Administrator met with Honolulu officials to explain the magnitude of the problem, and received support for the significant reforms that were needed.

As a result of the efforts of all involved, the 2011 State Legislature passed reforms for employees hired after July 1, 2012 which:

- increase the age and years of service requirements for retirement;
- decrease the multiplier used in the formula to determine the pension benefit;
- increase the number of years used in the formula to determine average final compensation; the pension formula is (Years of Service) x (the Multiplier) x (Average Final Compensation);
- decrease the post-retirement adjustment;
- increase the number of years required for vesting in the system;
- decrease the interest rate on employee contributions; and
- increase the employee contribution rate percentage.

In addition to its support for efforts to change employee contributions and benefits, the City also clearly stated to the Legislature its full support for increases in the employer contribution rates. This acceptance of escalating increases, which will significantly affect the budget, was believed to be crucial to the passage of the bill. Beginning July 1, 2015, the increases change employer contribution rates from the current 19.7 percent for police and fire personnel and 15 percent for all other employees to 25 percent for police and fire and 17 percent for others.

The increased rates are projected to increase the City’s annual required contribution (ARC) by 6 to 8 percent per year from FY 2013 through FY 2016. This will increase the
City’s ARC from $96.9 million in FY 2012 to $124.9 million in FY 2016. Although the increases are significant, the incremental approach to increasing the employer contribution gives the City the ability to plan for how best to address this rising cost. The primary source of City revenue is the real property tax, and the increased annual cost at the end of the five-year escalation period is projected to represent less than one half of 1 percent of real property taxes.

“We believe that a key factor in successful reform is communication and dialog early on with all stakeholders including the State, counties, and labor organizations,” says Mayor Carlisle. “While we were successful in our reform efforts in 2011, we are facing a situation this year in which we, along with the other counties in Hawaii, are opposing a reform measure being supported by the Board of Trustees of the Employees Retirement System. This measure purports to address pension spiking but does so via a method we believe is unfair to the county employers and employees.

“We were not consulted early in the process, when the proposed legislation was being formulated, but my staff quickly mobilized a City team consisting of representatives from the first responder agencies, human resources, and budget to analyze the proposal, determine its effects, and identify potential options. In addition, the team has reached out to the other affected counties. We are hopeful we will be successful in our efforts again. In the future, we will be supporting legislation that places a county representative on the Employees Retirement System Board in order to get input on any new reform proposals.”

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
Mayor Greg Fischer

The Louisville/Jefferson County Metro government participates in the Kentucky Retirement County Employee Retirement System (CERS), a defined benefit plan which is funded through: employee contributions deducted from an employee’s creditable compensation, employer contributions paid by each county agency participating in the Kentucky Retirement Systems (KRS), and return on investments.

Louisville/Jefferson County’s annual contribution to CERS is approximately $75 million. The CERS statute requires employees in non-hazardous positions to contribute 5 percent of their creditable compensation; employees in hazardous jobs contribute 8 percent.

The most serious problems facing the retirement system today fall into familiar categories, including:
- effects of major economic recessions, which have driven investment returns below assumed rates of return;
- costs of health insurance benefits, with medical inflation rates exceeding estimated rates;
- the number of years required for full retirement;
- higher than anticipated retirement rates due to early retirement incentive windows during the 1990s and early 2000s;
- annual cost-of-living (COLA) increases for retirees; and
- increased expenditures for unfunded retiree COLAs.

“Like other cities and states throughout America, Louisville and Kentucky are in dire need of pension reform,” says Mayor Greg Fischer. “Combined with a struggling economy and soaring health care costs, the rising burden of an out-of-control pension system is putting a stranglehold on our ability to provide quality, core services to our citizens.”

Actions on retirement plans taken in 2008 by the Kentucky legislature primarily affected new employees, including those at the local level. A special session of the legislature established:
- a new benefit tier for employees who began participating in the KRS after September 1, 2008;
- a 1 percent health insurance contribution by employees who began participation in the KRS after September 1, 2008;
- an increase in the number of years required for full retirement for new employees – to 30 years; and
• an increase in the number of years for vesting in health care coverage – to 10 years.

Affecting both current employees and retirees were a clarification of rules for employees who retire and return to work, and a 1.5 percent limit on the annual COLA.

Legislation created in 2009 by the State legislature required the KRS Board to set rates for CERS employers that phased in an actuarially-recommended increase in the health insurance trust contribution over a 10-year period, rather than over the five-year period that had previously been established for this.

In the view of Louisville/Jefferson County officials, this approach to funding allows counties to anticipate and better plan for the increased annual contributions.

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MADISON, WISCONSIN
Mayor Paul Soglin

Madison is a participant in the Wisconsin Retirement System (WRS), a defined benefit plan created and administered by the State. In 2010, it had 266,629 active employees and 155,775 beneficiaries and annuitants. The fact that there is no projected shortfall is attributed to regular contributions and prudent investments.

“WRS is fully funded, well run, and financially healthy,” explains Mayor Soglin. “Contribution rates are adjusted annually to the amount necessary to fully fund the retirement benefits earned by the members, as calculated by an independent actuary.

“Funding pensions is a priority for governments. The public sector must continue to attract and retain quality employees who may be lured to the private sector by higher salaries, the opportunity for bonuses, and equity participation. Engaging an actuary to identify the contribution required to fully fund post employment benefits is an approach that should be pursued. No one can reasonably be asked to fully fund these benefits overnight, but if we avoid irresponsible practices such as the imposition of artificial tax collection restraints that make funding these liabilities impractical, setting in place a plan to provide adequate funding over the long term is an approach that works. When an employee chooses to take a 1 percent increase as a pension contribution, rather than a salary increase, everyone benefits: The employee saves for retirement and money can be invested tax free until the time of retirement. The employer also reduces its tax burden and saves on overtime and other premium pays that go up in direct proportion to wages. And the public benefits twice: lower taxes now and in the future, and a retired employee who is not likely to become a public charge.

“Pension systems that are funded appropriately, like the one in Wisconsin, can provide retired employees with security and help municipalities compete with private entities and other employers in the recruitment and retention of the most talented employees in a financially prudent way. These plans are not a burden on taxpayers or an unwarranted benefit to employees. If we use these benefits appropriately and fund them in advance we can create a competitive advantage at a lesser cost by maximizing the use of these tax sheltered benefits.”

The WRS is administered by the State’s Department of Employee Trust Funds (ETF); policy governing the ETF is set by an ETF Board. Criteria for board membership are set by State law, with some members appointed by the Teachers Retirement Board and the Wisconsin Retirement Board. Employer and employee contribution rates are set by State law, depending on employee category (general, elected, protective).
The City offers a 457 defined contribution plan, fully funded by the employee. There is no cost to the City for the administration of this plan, as this cost is covered by participants. The City’s Human Resources Department is responsible for negotiating contributions for employees in the protective services. Employees in the protective service will make a 3 percent contribution to the mandatory contribution rate in 2012, a 5 percent contribution in 2013, and a contribution matching all other City employees in 2014. Currently, the contribution rate required to fully fund the plan is approximately 12 percent, split between the City and the employee. In past years, employees preferred to take available funds as contributions to their pension, rather than a salary increase.

In discussing public employee compensation, Mayor Soglin says, the entire package, including salary, health insurance, and retirement contributions, must be evaluated. “It is disingenuous for Wisconsin public employees to focus solely on salary rates and for Wisconsin public employers to focus solely on retirement and health contributions. We need to stop looking for politically motivated quick fixes, including the unilateral imposition of artificial tax constraints, or making public employees out to be the enemy to justify slashing benefits. Amortizing pension liabilities over 30 years and staying committed to funding these pension and Other Post-Employment Benefit liabilities is the approach that should be pursued. A successful pension program is not necessarily lavish; it may reflect significant employee contributions and prudent investments of money that does not belong to either the public or the government.”

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PHOENIX, ARIZONA
Mayor Greg Stanton

To serve its nearly 1.45 million residents, the City of Phoenix employs approximately 15,000 individuals (about 10.4 employees per 1,000 residents); as of June 30, 2011, 8,256 of these employees were members of the City of Phoenix Employees’ Retirement System (COPERS), a defined benefit plan. Other employees are covered by the Public Safety Personnel Retirement System or the Elected Officials Retirement Program, which are administered by the State of Arizona.

In January 2011, a City of Phoenix Pension Reform Task Force was appointed by the Mayor and City Council to work with management, outside consultants, and other stakeholders in a review of the COPERS plan. The 16-member Task Force, charged with making recommendations on changes to the plan, included public members of the City Manager’s Innovation and Efficiency Task Force, additional members of the public, and members representing employees, retirees, and the COPERS’ Board. Independent actuarial and legal consultants provided support. The Task Force held 13 meetings – all open to the public, and with public comment opportunities – between February and December, and sunset on December 31. Task Force agendas, minutes, reports, and consultant analyses were made available to the public at www.phoenix.gov/pensionreform.

An actuarial consultant worked with the Task Force to evaluate the financial impact of possible changes to plan provisions and alternative strategies for COPERS, and to assess the financial impact to the City of changes made by the State Legislature to the elected officials and public safety plans. The Task Force reviewed comprehensive information on the COPERS system and directed the consultant team to prepare a pension systems survey of 10 similarly-sized, geographically-diverse plans. It also reviewed comprehensive information on private sector retirement plans. Among many other considerations, the panel focused on limiting growth in the City’s liability, sharing more of the plan risk with employees, and examining eligibility for, and the level of, retirement benefits. Following a goal-setting process facilitated by the actuarial consultant, the Task Force requested and reviewed numerous actuarial projections of possible plan changes for future and existing employees. The analysis modeled the impact of possible changes on the estimated City contribution rate and plan’s funded percentage. Also examined were the impact of freezing the plan to new entrants, and implementing a defined contribution plan for new employees.

A legal consultant was retained by the City to advise the Task Force and Mayor and Council on the legal issues related to the pension system and to potential reforms of it. Major legal considerations include a provision in the Arizona constitution relating to public pension programs, and provisions in the City Charter relating to COPERS.
Early in December, the Pension Reform Task Force concluded work on recommendations pertaining to both new hires and existing employees; these were presented to the City Council on February 14, 2012. Changes were recommended in the areas of retirement eligibility, the pension multiplier, the type of compensation included in the calculation of final average salary for pension purposes, termination of minimum pensions, and implementation of a floating contribution rate for all new and existing employees, based on an even split of the actuarially determined rate each year.

Actuarial analysis shows that, depending on how recommendations are implemented, between $33.5 million and $140.3 million in cumulative savings could be generated by 2016, and between $592.9 million and more than $1 billion in cumulative savings could be generated by 2031. The City Council will continue to consider the recommendations of the Task Force in light of recent court rulings on the matter in the Arizona court system.

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PINE BLUFF, ARKANSAS
Mayor Carl Redus

The City of Pine Bluff sponsors a defined benefit pension plan for non-uniformed employees. (Police and firefighters are included in a State retirement plan.) There are currently 282 participants in the non-uniformed plan, including 223 active employees, 23 retirees receiving benefits, and 36 deferred vested participants. For this city of just over 49,000, the annual contribution to the plan is $488,000, or 7 percent of gross payroll. Employees contribute 3 percent of their gross pay. The plan is 85 percent funded, with an unfunded actuarial liability of $5 million. The funded status of the plan has declined dramatically since 2004, and the plan’s actuary has recommended that the City contribute 12.6 percent of payroll, which is a 5.6 percent increase over current funding levels.

Concern over plan funding prompted the Board of Directors for the non-uniformed pension plan to appoint a sub-committee of four board members to work with the plan’s actuary on funding options for Board consideration. The sub-committee asked the actuary to outline various changes to the plan that, if implemented, would have a significant impact on the cost of the plan. Seven of these options were selected by the sub-committee and the Board authorized the actuary to prepare a cost study showing the impact of each option on the cost of the plan. The options examined included:

1) delaying the normal retirement age, applied only to future employees;
2) reducing the multiplier for future benefit accruals for all employees;
3) increasing the final average compensation averaging period for all employees;
4) eliminating lump sum distributions for retirees with vested benefits;
5) changing the normal form of benefit to 50 percent joint and survivor annuity;
6) removing the subsidy for disability benefits for all employees; and
7) increasing the employee contribution rate for all employees.

Based on its analysis of the options, the sub-committee recommended the following three changes to the Board:

- The normal retirement age for future employees should be delayed. Retirement at age 55 will require 25 years of service instead of the current 20, and years of service for retirement at any age increases to 35 from the current 28. Committee members believe this change will have favorable operational benefits, reducing early retirement of valuable employees and saving the plan a projected $47,000 per year. Further, the risk of employees retiring at 55, returning to work, and drawing a second pension at 65 is diminished by the 25 years of service requirement.

- The final average compensation averaging period for all employees should be increased from the current three highest years salary in the last 10 years to the five highest years salary in that period. The savings, based on assumed salary increases of 4 percent annually, is $86,100 per year.
The normal form of benefit should be changed to 50 percent joint and survivor annuity for all plan participants. Currently, the plan provides for 100 percent joint and survivor annuity for married participants and 50 percent for single participants. Changing to 50 percent for all participants saves the plan $163,200 annually. The sub-committee asked the actuary to compute the savings of applying this change to new employees only, and also the cost of making the normal form of benefit a life only immediate annuity for all employees and, alternately, for new employees only. The sub-committee voted to recommend that, at a minimum, the Board change to the life only immediate annuity for new employees. Any change for existing employees will be considered by the Board in view of the cost savings impact to be provided by the actuary, along with other factors.

The sub-committee did not recommend:
- reducing the multiplier for future accruals for all employees; the impact of reducing the multiplier from 2.1 percent to 2.0 percent for each year of service was estimated to save $43,000 annually;
- eliminating lump sums for retirees; this option produces a cost savings only to the extent that earnings on plan investments exceed the 6 percent assumption used in lump sum calculations;
- removing the subsidy for disability benefits for all employees; several factors were weighed in making this decision, and annual savings would be $55,000; and
- increasing the employee contribution rate for all employees; any increase in the employee contribution would result in direct improvement to plan funding, but would be perceived negatively by employees.

The Board discussed the sub-committee recommendations at length in a special meeting in March and during its regularly-scheduled meeting in April, in which the actuary answered questions about the recommendations. It was decided that, following a review of the most recent actuarial report, decisions on the recommendations would be made in the Board’s July meeting, although members were divided on the delay in taking action. The Pine Bluff City Council must approve any plan changes, and getting that approval likely will require that Board members be united behind their recommendations. Education sessions for employees would follow Council approval. It’s understood that united support from City leaders would be important to achieving acceptance of the changes by employees.

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PLEASANTON, CALIFORNIA  
Mayor Jennifer Hosterman

The City of Pleasanton has 484 employees under three contracts – Fire Safety, Police Safety, and Miscellaneous (non-safety) – with the California Public Employees’ Retirement System (CalPERS), a defined benefit pension program. As of June 30, 2011, Pleasanton’s unfunded actuarial liability for the three pension plans totaled $97.5 million.

In 2001, the City enhanced retirement benefits for all its groups in an effort to maintain its competitiveness as a desirable employer. The fire and police groups received the “3%@50” plan; this allows employees to retire at age 50 with retirement benefits calculated using years of service and 3 percent of the final year’s salary. The miscellaneous group received the “2.7%@55” plan. The City also paid the employees’ contribution of 9 percent for safety personnel or 8 percent for miscellaneous personnel, as was the practice in the region. In FY 2010/11, the rates for the retirement programs, including the employees’ share paid by the City, ranged between 29.1 percent and 40.9 percent of payroll.

As the contracts with the unions expired and negotiations commenced, it was important for all parties involved – from elected officials on the City Council, to union leadership, to City negotiators – to address the problem in a significant and meaningful way. The most recent contract concluded involved the Pleasanton Police Officers Association (PPOA). Included in the outcomes for this group:

- All active employees would begin paying their 9 percent employee contribution within an 18-month time frame. All new hires were also expected to pay the employee’s contribution.
- The “3%@55/three highest years” plan was adopted for new hires; this reduces benefits and extends the retirement age. Savings for the City will grow as the new tier becomes the standard program.
- There would be no wage increases during the term of the contract, so the payroll base does not grow.
- Although not specifically a component of the recent negotiations process, the City has been reducing its workforce by not filling all vacant positions. For the PPOA, this represented 6.4 percent of the workforce. This lower payroll expense translates into lower costs for the pension program.

Pleasanton officials believe the successful outcomes were a result of several factors:

- Pleasanton and its employees have enjoyed a strong long-term relationship that formed the foundation for concession bargaining.
- Clear and consistent parameters focused on achieving sustainable benefits were established at the onset of negotiations and articulated publicly and regularly.
• In advance of negotiations, the City Manager and Assistant City Manager participated as members of a two-county Pension Reform Task Force that developed a “white paper” outlining recommendations for pension reform. Some of these were negotiated with the PPOA.
• Discussions at the table were candid and straightforward. Union leaders understood the impact of the present economy and public concerns for unsustainable retirement benefits. They worked collaboratively with City representatives to address the challenges.

The projected savings of $4.75 million from employees paying their retirement contributions for the current budget cycle (FY 2011/12 to FY 2012/13) does not include additional savings that may be negotiated with the Fire Safety group, under contract discussions currently. Lastly, City leadership implemented a “pension stabilization fund,” utilizing one-time surplus funds to reduce the negative amortization inherent in the pension program. This action has a positive impact on the City’s unfunded liability and is viewed as a demonstration of the City’s commitment to address the pension issue.

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PROVIDENCE, RHODE ISLAND
Mayor Angel Taveras

On April 30, the City of Providence passed pension reform legislation that makes its pension system sustainable, pulls Rhode Island’s capital city back from the brink of fiscal collapse, protects the pensions that retirees currently receive, and helps position Providence to compete with other cities in the 21st century economy.

Pension reform has been a publicly stated goal for Mayor Angel Taveras since taking office in 2011 in the midst of a severe fiscal crisis in the City. Facing a $110 million structural deficit in FY12, the Mayor cut his own salary by 10 percent; negotiated new labor agreements with all of Providence’s labor unions, saving the City millions; cut spending in nearly every department, took the difficult action of closing schools; reduced the City’s workforce by about 200 employees; and grew the tax base with revenue enhancements on top of an 11 percent tax increase one year earlier.

Despite these measures, the City still faced a $22 million deficit and the looming threat of a Chapter 9 bankruptcy in the coming months because of its unsustainable pension system.

Providence’s pension fund is only 32 percent funded, with a total unfunded liability of more than $900 million. The required contribution (ARC) to the pension system this year is $59 million – 20 percent of the City’s budget. Before reforming its pension system, Providence’s annual contribution was on course to reach more than $207 million by 2039.

These unsustainable and rising pension costs were largely the result of 5 percent and 6 percent compounded raises awarded in 1980s and early 1990s to hundreds of current-day retirees. As a result of such annual raises, each of the City’s top 25 retirees collects more than $109,000 this year in a pension. The retiree with the highest pension in the system retired in 1991 with a salary of $63,000 and collects $196,000 this year – more than any current City employee earns.

With Providence poised at the time to run out of cash by the end of June, Mayor Taveras held a town hall meeting with retirees on March 3 in which he provided an overview of the City’s fiscal emergency, presented a proposal to reform the pension system, and laid out a timeline for negotiations with Providence’s labor unions and retirees to restore fiscal stability.

Because the unions that represent the City’s police and firefighters don’t represent retired police and firefighters under Rhode Island law, all parties – active police, firefighters and other municipal union employees, and retired police, firefighters and municipal laborers – needed to agree in order for negotiations to succeed.
On April 30, with negotiations at an impasse, the Providence City Council approved unanimously, and Mayor Taveras signed, a pension reform ordinance built upon more than six months of actuarial analysis, public hearings, and expert testimony. The ordinance suspends all guaranteed annual raises (COLAs) for retirees until the pension system is 70 percent funded, and caps all future pensions at one-and-a-half times the median State household income. The ordinance also reduces the disability benefit from 66.6 percent of an employee’s final salary to 50 percent, and requires all employees to pay into the pension system for as long as they are earning credit toward a pension.

The Laborers International of North America local – Providence’s largest municipal union – endorsed the pension reform ordinance, which the City’s actuaries say will save Providence almost $19 million in the FY 2013 budget and reduce its unfunded pension liability by more than $236 million.

As noted by Moody’s Investor Service on May 7, the combined annual savings from eliminating pension cost-of-living raises and new payment-in-lieu-of-tax (PILOT) agreements that the Taveras administration has recently reached with Brown University, Johnson & Wales University, and Lifespan Rhode Island will bring the City’s 2012 and 2013 budgets into balance.

“If the ordinance survives a legal challenge,” wrote Moody’s analysts, “many other Rhode Island local governments may pass similar actions that reduce benefits to manage their own significant fiscal stress.”

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REDONDO BEACH, CALIFORNIA
Mayor Mike Gin

Redondo Beach is a member of California Public Employees’ Retirement System which, as has been widely reported, is significantly underfunded. Approximately 430 active Redondo Beach employees are enrolled in CalPERS, which provides a defined contribution plan. Based on the most recent projections from CalPERS, the City’s annual contributions will increase $5 million, or 50 percent, over the next five years.

In the City’s view, the system’s problems are the result of a number of factors, including:
- escalating employer costs driven by investment losses caused by very aggressive investment options authorized by the CalPERS board;
- escalating employer costs driven by inaccurate demographic and actuarial assessments;
- a cap on employee contributions and no cap on employer contributions;
- expanding what is considered compensation for the purpose of calculating retirement benefits;
- lack of member agency/employer representation on the CalPERS board;
- public employee union influence on the benefits, cost sharing, and operations of CalPERS; and
- allowing CalPERS to offer enhanced retirement benefits and increasingly aggressively investment vehicles.

At the State level, the key players in deliberations and negotiations on solutions to CalPERS problems include the Governor, State Legislature, public employee unions, CalPERS board, and the League of California Cities. Involved at the City level have been the City Council, City Manager, employee unions, and the community.

The State has made no progress reforming CalPERS. Proposals from both the Governor and special interest groups have been made public but have not been approved by the Legislature or placed on the ballot.

The City has implemented a second tier of more modest retirement benefits for new employees, and has required existing employees to make contributions to the cost of their retirement. The second tier has lower optional benefits, increases the age for retirement, and requires most employees to pay the full employee portion of the CalPERS costs. To reduce its Other Post-Employment Benefits (OPEB) costs, the City also created a second tier for retiree medical benefits.

The local pension reforms will reduce the City’s CalPERS cost by 10 percent to 15 percent, but not for approximately 20 years. It is unlikely the City will experience
significant savings for at least 10 years. The City remains able to fund its annual CalPERS costs, but doing so is impacting service levels and likely eliminates the ability to provide employees any cost of living adjustments or other compensation increases.

The City invested considerable effort in educating employees and the community about the state of the CalPERS system and the impact CalPERS costs have on the City’s budget. Fortunately, employee associations were willing to agree to the changes, but the City Council had to take a significant political risk in preparing to impose a Memorandum of Understanding for the second tier benefits if the employees failed to agree. The State has since passed a law that largely eliminates the City’s ability to effectively impose a labor contract. The result is that the City’s ability to negotiate pension reforms has been considerably eroded.

Redondo Beach officials believe that educating employees and the community is key to the resolution of pension problems, and that helping employees appreciate the total cost of their employment – including the cost of their pensions – is an important part of adjusting compensation expectations. Also key, they say, is the resolve of local elected officials to find solutions to the problems.

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SAN FRANCISCO, CALIFORNIA
Mayor Ed Lee

In response to a nearly exponential increase in the cost of maintaining its employee pension benefits, the City and County of San Francisco has implemented two rounds of pension reform since 2008. The most recent and significant of these initiatives, approved by San Francisco voters in November 2011, is expected to save the City over $800 million in the next 10 years.

While other California public agencies struggling with this issue have encountered great resistance from employee groups, San Francisco was able to achieve agreement with its labor unions on these reforms, as well as the endorsement of nearly all of the City’s elected leadership and major elements of the City’s business community. This success was largely due to two factors: First, Mayor Ed Lee and Supervisor Sean Elsbernd led a City team of negotiators in an interest-based, multi-stakeholder process with the goal of reaching agreement on a pension reform ballot measure. Second, the City’s unions recognized that change was inevitable, a realization fueled at least in part by a succession of highly critical Civil Grand Jury reports and a failed but extremely aggressive voter initiative to reform City employee pension and health benefits.

The City and County of San Francisco encompasses 60 operating departments and employs over 26,000 workers who are represented by 33 unions. The City operates an airport, a port, a major transit system, and a public utility that provides water, power, and sewer services to San Francisco and other communities in the region. The San Francisco Employees Retirement System (SFERS) provides a defined benefit pension to the vast majority of City employees, except for approximately 900 miscellaneous safety employees who are enrolled in the California Public Employees’ Retirement System. City employee pension contributions and benefits are set forth in the City Charter, which may be changed only by the voters. These approved benefits and, to some extent, even employee contribution levels, are largely deemed to be vested for current employees.

San Francisco’s pension benefits have historically been somewhat lower than those of other California public agencies. Prior to January 2012, San Francisco provided its police officers and firefighters a “3% at age 55” defined benefit pension, compared to the regional standard of “3% at age 50.” Miscellaneous employee pensions, also with a defined benefit structure, reached their maximum at age 62, rather than the more typical age 55. Their maximum benefit factor was 2.3 percent, rather than the 2.5 percent, or even 3 percent, of many other locales. These somewhat lower pension benefits have been offset by relatively rich retiree health benefits.

Nevertheless, the massive market losses of the past several years took their toll on SFERS. The City’s projected pension contribution skyrocketed to $420-$460 million in
2011-12, and was expected to approach $2 billion per year over the next 10 years. In addition, the City’s retiree health program produced an Other Post-Employment Benefits (OPEB) liability of over $4.3 billion. A 2008 reform of retiree health benefits scaled back the program and provided pre-funding for new hires, but the benefits remained unfunded for the majority of City employees.

The financial pressures of skyrocketing pension costs pinched the City’s resources, even as the national wave of interest in pension reform hit San Francisco. The Civil Grand Jury issued two reports challenging the City’s pension structure and funding. Public Defender Jeff Adachi put forth a voter initiative – “Prop B” – to dramatically increase employee contributions and reduce benefits prospectively. That initiative found little support among other elected leaders of the City, primarily because of its aggressive approach and the fact that it was developed without input from the City’s unions. Labor unions successfully lobbied influential financier Warren Hellman to retract his support for Prop B, on the promise that they would subsequently join the City in a collaborative pension reform effort. The labor mobilization to defeat Prop B on the November 2010 ballot was successful, but the unions realized that change was coming and that, if they failed to participate, they would lose the ability to shape the result.

The City’s spring 2011 pension reform efforts proceeded on several fronts. Labor unions utilized actuaries funded by Mr. Hellman to research and identify reforms to consider, and Supervisor Elsbernd, Mayor Lee, and the City’s pension and labor negotiating teams did the same, aided by analysis from City Controller Ben Rosenfield. Although San Francisco’s Charter leaves the structure of its pension benefits to the City’s voters, state law requires negotiations with labor unions prior to the placement of such a measure on the City’s ballot by the Mayor or Board of Supervisors. In March 2011, therefore, the two processes coalesced in a series of large bargaining sessions convened by the City’s Employee Relations Division, under the direction of the Mayor, and attended by representatives of the City’s unions.

The City used an unconventional approach to bargaining on the pension initiative: Rather than presenting a draft proposal, and bargaining based on its specific terms, the City presented labor with a plethora of items and ideas it was considering including in the initiative. This brainstorming approach, borrowed from the “interest-based” model of collective bargaining, allowed the unions to have input as to the elements of the legislation from the very beginning. While the unions were initially upset that the City was considering controversial items such as defined contribution or “hybrid” plans for new hires and reductions in pension formulas for prospective service, they ultimately saw that the City was not wedded to any one solution. Over the next two months, subcommittees and the larger group met frequently to tackle tough issues regarding legal issues of vested rights, retiree health elements, new pension formulas, and cost-sharing models. Ultimately, the openness and participatory nature of this process
resulted in the development of a multi-faceted reform proposal that was endorsed by nearly every union and elected official in the City.

The voters adopted the City’s collaborative pension reform initiative, dubbed “Prop C,” despite the existence of a second, competing initiative put forth by Public Defender Adachi in the same election. The broad-based support of labor for Prop C was critical to its success in a town as union-friendly as San Francisco. Some of the most significant elements of Prop C include:

- new, less-expensive pension tiers for future employees that raise the retirement age by three years, cap pensionable salary based on IRS limits, base final compensation for pension calculation on three years rather than the single highest year, and cut retirement cash-out for non-service retirements in half;
- a mandate that supplemental COLAs to retirees will only be paid when the pension system is fully funded;
- comprehensive employee cost-sharing of the employer’s pension contributions, so that employees pay higher percentages when plan costs rise, and reduced percentages when plan costs drop;
- required employee contributions to the City’s Retiree Health Care Trust Fund, starting in 2016-17;
- restriction on retiree health benefits so that those who are not vested in benefit improvements that were implemented after the date they left service will not receive them; and
- provisions to increase the ability of the Health Service System, which controls City employee health plan design, to address rising costs.

The City will begin to see the benefits of Prop C beginning July 1, 2012, when City employee pension contributions will increase by an average of 2.5 percent. While the City will still be significantly challenged to cover its rising pension and health costs, the participation of employees in addressing them is seen as an important public policy step and key to the City’s success in restructuring its long-term liability in these areas.

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As the result of a sustained dismal economy, the City of Westland, like other cities across the nation, has experienced declining property values and reduced revenues from fines, fees, and other sources. During a strategic planning session in 2008, it was predicted that Westland would be facing a $23.7 million deficit in 2013 if serious efforts to restructure and “right size” the City were not made. Over the past several years, the City has endured layoffs, offered early-out retirements, and sought other concessions from its six labor unions and its non-union employees. Now, as a result of pension reforms and other efforts, the City’s general fund operating budget will show a $2.5 million surplus.

Historically, Westland municipal employees, not unlike public employees elsewhere, have enjoyed a generous defined benefit pension plan, often at the expense of wages competitive with the private sector. In the case of police and firefighters, this was a pension established through the State of Michigan P.A. 345; pensions for the remainder of City employees are through the Municipal Employees’ Retirement System (MERS), the State’s largest public employees’ retirement system outside of the public teachers’ pension program. Employees typically “vest” in their pensions after six or eight years of service and have the ability to qualify for early retirement (i.e., age 55 with 15 years of service), with multipliers ranging from 2.25 percent to 2.8 percent.

In 2010, the City realized it had no option but to make changes to the pensions of its employees, particularly new employees. Several key members of the City’s management team, including the Mayor, legal counsel, and finance and personnel directors, were involved in evaluating options. Contract talks already were underway with the City’s AFSCME bargaining unit and soon would commence with the City’s UAW supervisory personnel unit.

The City leaders subsequently met with the leadership of the City’s unions and negotiated contracts with two bargaining units: AFSCME Local 1602, representing 63 clerical and field crew employees, and UAW Local 174, representing 13 front line supervisory personnel. New hires into these two groups will be placed in a defined contribution plan, with the City contributing 10 percent, or a less costly defined benefit plan (1.5 percent multiplier, normal retirement age). Both plans significantly reduce the City’s pension costs, with the new defined benefit plan costing the City approximately 4 percent of an employee’s wages. New hires to both unions must contribute 5 percent of their wages to their retirement plans.

In a collaborative effort with firefighter and police union leadership, the City achieved letters of understanding with its 67-member firefighter, 32-member police command, and 58-member patrol/dispatch unions that provide for new hires to contribute 5
percent toward their pensions. Pensions are calculated on wages, with historic “roll-ins” such as allowances, longevity pay, and others no longer being used in calculating retirement benefits.

Following is a verbatim excerpt on “new hire benefit changes” from the letter of understanding the Mayor and his administration negotiated with the firefighter and police unions:

“Pay
a. Expand current pay scales from 5 years to 7 years for employees starting after 01/01/2010. New hire pay shall not be reduced by more than 20% of current 6 month rate.
b. Eliminate longevity pay for employees hired after 01/01/2010.

“Medical
a. For employees hired after 01/01/2010, and their eligible dependents the health care plan shall be a PPO 2 plan provided by Blue Cross Blue Shield and shall be funded by the employer. (City of Westland)
b. This health care coverage will be their active duty and retirement medical benefit.
c. New hires shall receive the same optical, dental and prescription drug benefits as current employees.
d. The city further agrees that if presented by the unions with an alternative health care plan that has an equal to or greater benefit than the PPO 2 for the employee but with a savings to the employer, the employer shall offer that plan to employees upon an employees request during the yearly enrollment period. In the event the cost of the alternative health care plan is greater than the cost of the PPO2 plan, the City shall have the right to reinstate the PPO2 plan instead of the alternative plan, upon 5 calendar days’ written notice to the Union.
e. The unions have until the end of the enrollment period for the year of 2011 to present any alternative health care plan.

“Pension
a. Employees hired after 01/01/2010 will receive a defined benefit pension calculated from base pay and overtime only using a 2.8 multiplier. This concession results in eliminating the following from current AFC benefit: Longevity, Holiday Pay, Uniform Allowance, Weapons Qualification P.D./Food Allowance F.D., Pay for unused sick time, Pay for unused Vacation time, Pay for senior Patrolman qualification-Knowledge Pay & ALS assignment pay.
b. The 2.8 multiplier will cease at 30 yrs of service. Each year after that will be calculated at 1%.”
The pay plan for the Mayor’s appointed staff implemented 5 percent employee contributions toward pensions, and all appointed officials realized a loss of certain benefits, such as longevity pay and allowances, as the City attempted to rein in costs. Officials note that the plan for appointed officials who contribute 5 percent toward their pension has been in place for the past four years, and the pension fund is far better funded at this time.

The City’s continued exploration of methods to reduce pension costs may include contributions toward pensions from existing personnel, and talks with the AFSCME bargaining unit will begin again soon. Contracting-out services may be an option, and positions vacated during the coming year will likely go unfilled.

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