EMPLOYEE RELATIONS POLICY COMMITTEE
Friday, June 15, 2012
10:00 a.m. – 3:00 p.m.
League Offices, 1400 K Street, Third Floor, Bud Carpenter Room

Special Order of Business
Post Redevelopment & State Budget Update
10:00 a.m., Room 204, Sacramento Convention Center

Individuals who wish to review the full text of bills included in this packet are encouraged to do so by visiting the League's Web site at www.cacities.org/billsearch. Be sure to review the most recent version of the bill.

A G E N D A

I. Welcome and Introductions

II. Public Comment

III. Discount Rate: How Calpers Sets it and How it Affects Pension Costs
David Lamoureux, Deputy Chief Actuary, CalPERS

IV. Hybrids: CalSTRS Cash Balance Approach *(Attachment A)*
Ed Derman, Deputy Executive Officer, Plan Design & Communications, CalSTRS

V. Workers' Compensation Legislative Update
Jason Schmelzer, Lobbyist, California Coalition on Workers' Compensation

VI. Legislative and Pension Update *(Attachment B)*
League Staff

VII. Next Meeting: Annual Conference, San Diego, September 5, 10:30 – Noon
Staff will notify committee members after July 7th if the policy committee will be meeting in September.

Brown Act Reminder: The League of California Cities' Board of Directors has a policy of complying with the spirit of open meeting laws. Generally, off-agenda items may be taken up only if:

1) *Two-thirds of the policy committee members find a need for immediate action exists and the need to take action came to the attention of the policy committee after the agenda was prepared (Note: If fewer than two-thirds of policy committee members are present, taking up an off-agenda item requires a unanimous vote); or*
2) *A majority of the policy committee finds an emergency (for example: work stoppage or disaster) exists.*

A majority of a city council may not, consistent with the Brown Act, discuss specific substantive issues among themselves at League meetings. Any such discussion is subject to the Brown Act and must occur in a meeting that complies with its requirements.

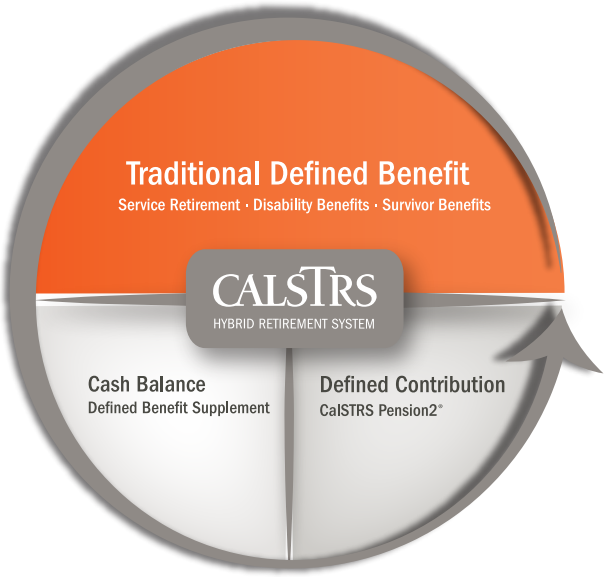
NOTE: Policy committee members should be aware that lunch is usually served at these meetings. The state's Fair Political Practices Commission takes the position that the value of the lunch should be reported on city officials' statement of economic interests form. Because of the service you provide at these meetings, the League takes the position that the value of the lunch should be reported as income (in return for your service to the committee) as opposed to a gift (note that this is not income for state or federal income tax purposes—just Political Reform Act reporting purposes). The League has been persistent, but unsuccessful, in attempting to change the FPPC's mind about this interpretation. As such, we feel we need to let you know about the issue so you can determine your course of action.

If you would prefer not to have to report the value of the lunches as income, we will let you know the amount so you may reimburse the League. The lunches tend to run in the $30 to $45 range. To review a copy of the FPPC's most recent letter on this issue, please go to www.cacities.org/FPPCletter on the League's Website.

CALSTRS
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Fact Sheet

The Basics of a Cash Balance Plan



CalSTRS administers a comprehensive, hybrid retirement system that includes a traditional defined benefit plan, a cash balance plan and a defined contribution plan. Within the cash balance component of the plan are two programs: the Defined Benefit Supplement Program, available to full-time educators and the Cash Balance Benefit Program for part-time educators.

A cash balance plan acts like a hybrid, with 401(k) and defined benefit features.

Defined Contribution Features of a Cash Balance Plan

In a defined contribution plan, often a 401(k), the employee has an individual account in which contributions and any investment earnings are credited to the employee's account. At the time of retirement, disability, death or termination of employment, the employee receives a benefit equal to the balance in that account. In a cash balance plan, the employee also has a nominal account in which contributions and any investment earnings are credited to the employee's account. At the time of retirement, disability, death or termination of program membership, the employee also receives a benefit equal to the balance in that account as they would in a defined contribution.

Defined Benefit Features of a Cash Balance Plan

In a traditional defined benefit plan, the employee is guaranteed a benefit based on a formula, generally reflecting the employee's age, final compensation and years of service at retirement. In addition, CalSTRS invests the assets of the traditional defined benefit plan. In a cash balance plan, payment of a benefit is also guaranteed, but the nature of the guarantee is different than in a traditional defined benefit plan. Rather than basing the benefit on a formula, the payment of contributions previously made is guaranteed, as well as the earnings that were credited to the account. CalSTRS also invests the assets of the cash balance plan on the same basis that it invests traditional defined benefit plan assets. In contrast, in a defined contribution plan, the amount of money paid at the time of retirement could be less than the amount contributed if investment returns were negative. In addition, the individual employee is responsible for selecting how his or her account balance is invested.

How the Plan Works

Investment Earnings

Each year, the Teachers' Retirement Board establishes the guaranteed minimum interest rate. At CalSTRS, the guaranteed minimum interest rate is based on 30-year U.S. Treasury bonds for the period from March to February immediately prior to the plan year. The rate for plan year 2011–12 is 4.25 percent. Consequently, for 2011–12, CalSTRS is guaranteeing that accounts will be credited 4.25 percent, regardless of the actual earnings from investing the plan assets. Because a cash balance plan such as CalSTRS is invested in a diversified portfolio, it is very unlikely that the long term return on investments will be less than the guaranteed interest rate based on 30-year U.S. Treasury bonds.

Distribution Options

Benefits paid under CalSTRS cash balance plans can be distributed either as a lump sum or—if there is at least $3,500 in the account—a monthly annuity, either for the life of the employee and, if elected, a surviving beneficiary, or for a specific number of years. If a lump sum is chosen, funds may be rolled over to another qualified plan, such as a 401(k), 403(b) or 457 plan, or a traditional or Roth IRA.

Funding Guarantee

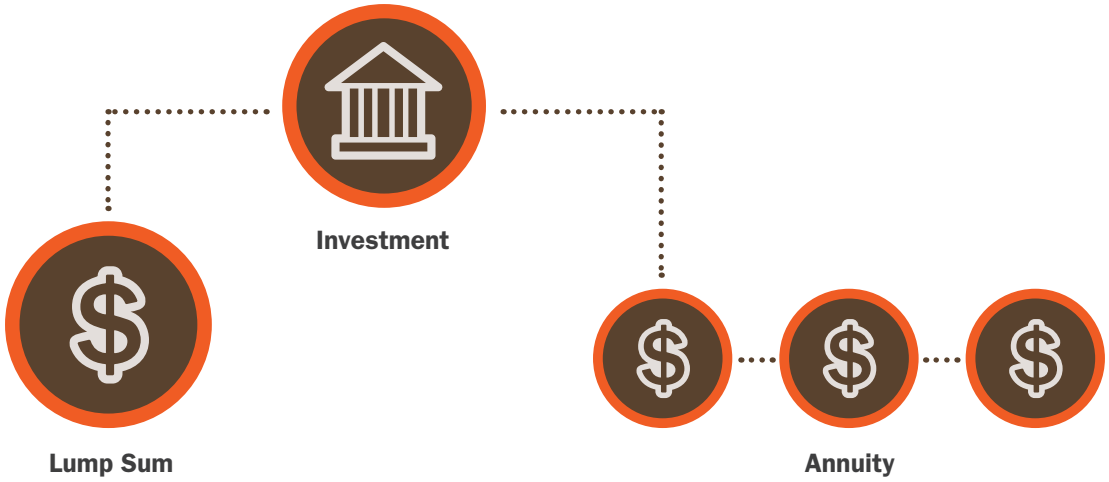
The earnings from investing cash balance plan assets are used to pay the guaranteed interest to member accounts. Any investment earnings in excess of the amount needed to pay the guaranteed interest is credited to a Gain and Loss Reserve maintained by CalSTRS. In years in which the rate of return on investments is less than the guaranteed interest rate, the difference is paid from the Gain and Loss Reserve.

After the end of the plan year, when the total investment earnings for the immediately preceding plan year are known, the plan may declare an additional earnings credit. Under Teachers' Retirement Board policy, no additional earnings credit is paid unless the ratio of program assets to program liabilities—the funded status—exceeds 100 percent by an amount equal to twice the guaranteed interest rate for the following year.

Member Vesting

CalSTRS members have an immediate vested right equal to any contributions made including any compounded interest earned.

Distribution Model



Contributions Risks and Benefits

Cash Balance Contributions

Contributions to the cash balance program component are made from employer and employee contributions on compensation from extra duty assignments, such as summer school, after-school activities or other extra-pay assignments and any other forms of compensation that may enhance a member's final compensation. The compensation credited to the cash balance program component is not included in the final compensation associated with the Defined Benefit Program.

Plan Risks

With any retirement plan there is always the risk that investment earnings are insufficient to pay either earned or guaranteed benefits. In a traditional defined benefit plan, the employer generally bears that risk, and employers would face increased contributions if long-term earnings are less than the assumed investment return. In a defined contribution plan, the employee bears the entire risk of lower investment returns. In a cash balance plan where interest rates vary, such as the CalSTRS plans, those risks are shared.

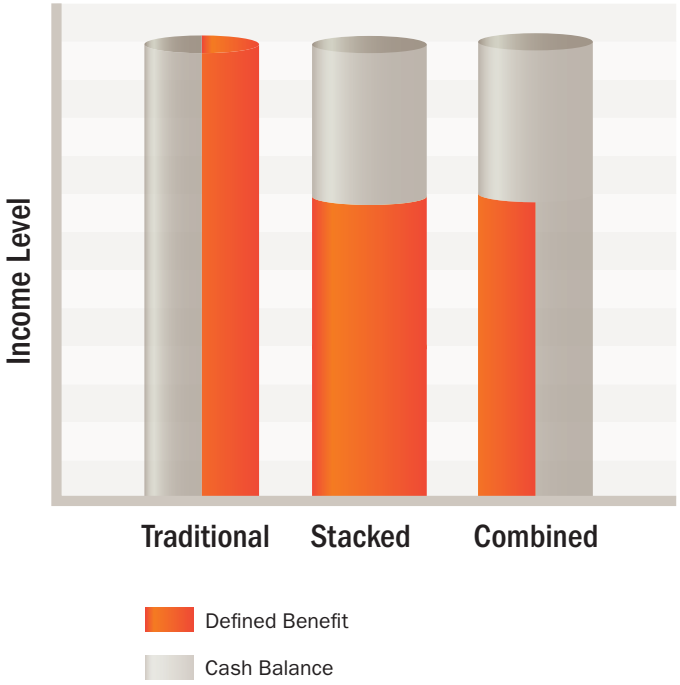
Longevity Risk

In order to maintain a secure retirement, a person should not be able to outlive the benefit provided under a primary retirement plan. In a traditional defined benefit plan, the benefit is paid in the form of a lifetime monthly annuity, which the employee cannot outlive. In a defined contribution plan, the benefit is typically paid out in a lump sum, which can be allocated over time. Once those assets are depleted, however, the employee would no longer have those funds available to pay living expenses. In a cash balance plan, an annuity is typically available, and could be mandated.

Prevention of Inappropriate Benefit Enhancement

The hybrid nature of the CalSTRS benefit program includes a built-in mechanism that credits extra compensation for summer school or other extra-pay assignments to a cash balance account, thus not allowing extra compensation to figure into final compensation, a factor in setting pension benefits. Additional bases for determining what compensation gets credited to a cash balance program are possible. For example, there could be a limit in the compensation that is credited to the traditional defined benefit program, which would affect what contributions are credited to the member's defined benefit account, as well as the determination of final compensation.

Benefit Models



Plan Comparison

	CalSTRS Defined Benefit Program	CalSTRS Defined Benefit Supplement Program/Cash Balance Benefit Program	Defined Contribution Plan
Amount of benefit	Formula based on age, service credit and final compensation	Account balance	Account balance
Form of benefit payment	Lifetime monthly annuity	Lump-sum and/or monthly lifetime annuity or period certain monthly annuity	Generally lump-sum
Nature of guarantee	Full guarantee that benefit based on formula is paid	Payment of contributions and minimum interest	None, other than payment of account balance, which could be less than amount contributed
Current guaranteed investment return	Implicitly 7.75 percent	Explicitly 4.25 percent	None
Potential additional benefits	None	Additional earnings credits from excess investment earnings	None
Participation	Mandatory levels of contributions	Mandatory levels of contributions	Could be either mandatory or voluntary levels of contributions
Assumed long-term rate of return	7.75 percent	7.75 percent (based on current asset allocation)	No assumed return, but actual long-term returns typically at least 1 percent less than in defined benefit plan
Vesting	Five years	Immediate	Varies, but can be immediate
Responsibility for investments	CalSTRS	CalSTRS	Individual
Risks borne	Employer bears risk that long-term investment return is less than assumed return	Employee bears risk that interest rates are low. Employer bears risk that long-term investment returns lower than interest rates.	Employee bears risk that long-term investment returns are less than needed to meet personal benefit target. Also bears risk of outliving assets.

CALSTRS®

California State Teachers' Retirement System | P.O. Box 15275 | Sacramento, CA 95851-0275 | CalSTRS.com | CalSTRSBenefits.Us

1/19/12

ATTACHMENT B

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May 15, 2012

TO: Members, Conference Committee on Pensions

FROM: Dwight Stenbakken, Deputy Executive Director
Natasha Karl, Legislative Representative

RE: **League Position on Pension Reform and Proposed Language to Increase Flexibility at Local Collective Bargaining Table**

With the Conference Committee on Pensions (Committee) working on the development of language for an upcoming Committee report, the League would like to take the opportunity to briefly outline our position on pension reform and to provide language for consideration by the Committee to implement greater flexibility in the local government collective bargaining process as it relates to negotiating pension changes. The League's suggested language on flexibility is critical for local governments to deal with the current costs of pension benefits for current employees.

League Position Mostly Consistent with Governor's Plan

The League's overall position on pension reform is mostly consistent with the Governor's proposed 12-Point Pension Reform Plan. The following is an abbreviated comparison of the League's position and the Governor's plan:

Issue	League Position
Eliminate Purchase of "Air Time" Service Credit	Support
Prohibit Pension "Holidays"	Support
Prohibit Employer Paid Member Contributions	Support
Prohibit "Pension Spiking" (3 year avge. final comp)	Support
Prohibit Retroactive Pension Increases	Support
No Pension Payments for Felony on the Job	Support
Impose Pension Benefit Cap	Support
Improvement Retirement Board Governance	Support

Two Areas of League Policy Not Consistent with Governor's Plan

Issue	League Position
Mandatory Hybrid Plan/Dollar Benefit Cap	Permit optional Hybrid Plan and cap benefits on a percentage basis, not a dollar cap.
Employers and employees 50/50 share of Pension "normal costs"	Permit employer/employee cost sharing for ALL pension costs if AGREED to in collective bargaining

The Critical Local Government Issue

The elements of the Governor's plan primarily apply prospectively. He proposes to make important changes to help deal with future pension costs, but local governments have to find a way to deal with the current pension costs for current employees. Without the right tools to address this growing problem, employers will be forced to make layoffs that will severely affect public services in California.

The pension reform proposals in the Governor's plan and the issues being considered by the Committee will play an important role in addressing public pension costs, but when all is said and done, most of the difficult decisions are going to take place at the local collective bargaining table, as they should. However, there are changes that must be made in law for the collective bargaining process to be successful.

We recognize that the Governor's plan includes a proposal for employers and employees to equally share in the "normal costs" of the pension system. While this proposal is a valuable step, it is very limited in its ability to tackle the enormity of the problem, particularly at the local government level. This proposal may be effective for the State of California, but local government is in a very different place than the State when it comes to public pension costs.

The League Proposal

We propose that the law be changed to permit employers and employees to bargain over the full cost of pensions, that is both the *normal cost,* and the *unfunded actuarial accrued liability* (UAAL).

Under this proposal:

- Employers and employees in the collective bargaining process would be able to AGREE to bypass current statutory caps on employee contributions to CalPERS.

- The current statutory provision (Government Code 20516) that allows for limited cost sharing between employers and employees would be expanded to permit cost sharing for both normal and unfunded actuarial accrued liability costs.

- A provision would be added that allows employers and employees to AGREEon a bargaining unit by bargaining unit basis to changes for sharing pension costs, as opposed to the current requirement that changes can only be made to an entire classification of employee (miscellaneous or public safety).

A copy of our proposed language to insert more flexibility into the local government collective bargaining process is attached for your review and comment. The language amends the existing section of the law that permits employers and employees to cost share on pension costs. The language only proposes changes to the Public Employees' Retirement Law (PERL). There may be need to develop language for other retirement systems. We look forward to talking about these proposed changes with you.

Why This Proposal?

We believe that this proposal is reasonable and makes tremendous sense given the enormity of the problem at the local level. The staggering growth in UAAL now amounts to, some experts argue, over half of the annual pension costs for California local governments. This proposal makes sense because:

- Adoption of post-1999 benefits were not fully funded actuarially, in many instances because the agencies funding ratios were above 100 percent (*superfunded*);
- The new benefits were applied retroactively and inadequately funded at the time; and
- The substantial downturn in pension investment earnings at the end of the great housing bubble caused and continues to cause financial stress on the ability of the retirement systems to achieve the long-term actuarial discount rate.

When we look closely at the drivers behind the UAAL growth, there is no legitimate basis for exempting current local government employees from paying a fair portion (as long as agreement is reached in the collective bargaining process) of those costs. Here's why:

- All current employees are beneficiaries of the recently improved benefits, and all current employees will benefit from those recently improved benefits for all their retirement years.
- Likewise, the retroactive application of those new benefits will apply to all their years of service, and thus all their years as retirees.
- Finally, current employees should also share in the responsibility for poor investment returns as much as the employer. There is nothing inherently logical about putting all the burden of the investment return on the public employer. And, to be completely consistent, both parties should share in the investment returns when those returns are above average. Again, the collective bargaining arena allows these kinds of agreements to be reached and appropriate adjustments to be made.

We think this proposal deserves some serious attention for the following reasons:

- Employers under our proposal will benefit with better, more flexible tools that will enable them to deal with some very serious pension and budget deficits;
- Employees will benefit because this plan gives employers and employees real alternatives to the harsh reality of layoffs and furloughs, currently one of the only options that makes substantial gains to address these costs; and
- Taxpayers will benefit because it gives a real alternative to better maintain public services at acceptable levels without devastating the workforce that delivers those services.

State and Local Government Comparison

Local government budgets contain a much higher amount of resources going to personnel costs than state government. On top of this, a much higher percentage of local government personnel costs are for police and fire services. A normal full-service city in California spends on average 60 to 70 percent of its

general fund on public safety services. Public safety pension costs is where the bulk of the financial problem rests with local public pensions. These costs in many communities are simply 0 untenable in the mix and demand for local public services.

While the Governor's proposal for employers and employees to share the normal costs of pensions may be appropriate to address the state's fiscal challenges, it is likely to fall far short of providing local government with useful tools to address their growing fiscal challenges. It is imperative that the local government collective bargaining table be opened up on public pension issues to permit a greater range of bargaining options.

Conclusion

We hope that these thoughts can at least serve as a constructive basis for further dialogue as the Governor, the Legislature and stakeholders grapple with this very real fiscal and political problem. These recommendations go beyond how we have historically funded public sector pension costs, but these are not normal times. Current and future conditions require that we look outside of what we have already been doing to find new and lasting solutions and we believe our proposal gets us there. We look forward to continuing the discussion.

Proposed Amendments to Govt. Code Section 20516

20516. (a) Notwithstanding any other provision of this part, a contracting agency and its employees may agree, in writing, to share the costs of **the actuarial determined annual required contribution of the contracting agency.** ~~any optional benefit that is inapplicable to a contracting agency until the agency elects to be subject to the benefit.~~ The agreement shall specify **the duration and** the exact percentage of member compensation that shall be paid toward the current service cost of the benefits by members. The member contributions shall be normal contributions over and above normal contributions otherwise required by this part and shall be treated as normal contributions for all purposes of this part. ~~The contributions shall be uniform with respect to all members within each of the following classifications: local miscellaneous members, local police officers, local firefighters, county peace officers, and all local safety members other than local police officers, local firefighters, and county peace officers. The balance of any costs shall be paid by the contracting agency and shall be credited to the employer's account.~~

~~(b) This section shall not apply to any optional benefit that is elected by a contracting agency prior to January 1, 1979.~~

(b) The contributions shall be uniform either with respect to all members of a recognized bargaining unit, or within one ~~each~~ of the following employee groups ~~classifications~~: local miscellaneous members, local police officers, local firefighters, county peace officers, and all local safety members other than local police officers, local firefighters, and county peace officers. The balance of any costs not specified as the member contributions shall be paid by the contracting agency and shall be credited to the employer's account.

(c) The member contributions shall be subject to the meet and confer process as required by Chapter 10 (commencing with Section 3500) of Division 4 of Title 1, if a recognized bargaining agent represents the members. The ratification of any agreement with a bargaining agent and the approval by the contracting agency shall constitute the basis for the written agreement required by subsection (a) above. Notwithstanding any other provisions of this Chapter, including Section 20479, no other approval by the members shall be required for an amendment of the contract with the board.

~~(c)~~ **(d)**~~This section~~ **For any group of employees not part of a recognized bargaining unit, a change in the member contribution rate** shall not apply ~~to any contracting agency nor to the employees of a contracting agency~~ until the agency elects to be subject to this section by contract or by amendment to its contract made in the manner prescribed for approval of contracts. Contributions provided by this section shall be withheld from member compensation or

otherwise collected when the contract amendment becomes effective. ~~Contributions provided by this section shall be withheld from member compensation or otherwise collected when the contract amendment becomes effective.~~

(e) Contributions provided by this section shall be withheld from member compensation or otherwise collected when the contract amendment becomes effective.

~~(d)~~ **(f)** For the purposes of this section, all contributions, liabilities, actuarial interest rates, and other valuation factors shall be determined on the basis of actuarial assumptions and methods that, in the aggregate, are reasonable and which, in combination, offer the actuary's best estimate of anticipated experience under this system.

~~(e) The additional employer contributions required under this section shall be computed as a level percentage of member compensation. The additional contribution rate required at the time this section is added to a contract shall not be less than the sum of (1) the actuarial normal cost, plus (2) the additional contribution required to amortize the increase in accrued liability attributable to benefits elected under this section over a period of not more than 30 years from the date this section becomes effective in the public agency's contract.~~

~~(f) Nothing in this section shall preclude a contracting agency and its employees from independently agreeing in a memorandum of understanding to share the costs of any optional benefit or when initially entering into a contract, any benefit, in a manner inconsistent with this section. However, any agreement in a memorandum of understanding that is inconsistent with this section shall not be part of the contract between this system and the contracting agency.~~

(g) Any change in member contributions pursuant to this section shall not be considered a vested benefit, to the fullest extent permissible, under the California Constitution or the United State Constitution.

ATTACHMENT B

Calpensions

CalPERS, CalSTRS and other government pensions

Will San Jose, San Diego lead pension reform?

June 4, 2012
One reason San Jose and San Diego will vote on widely watched pension reforms Tuesday: Retirement costs are eating up about 20 percent of their general fund budgets, well above the old norm.

A commission on public employee retirement appointed by former Gov. Arnold Schwarzenegger reported in 2008 that the average pension cost was 4 percent of the general fund.

The state's second largest city, San Diego, and it's third largest city, San Jose, have made cuts in police, fire and other services that are painfully clear to residents, and rising retirement costs are getting much of the blame.

Public pension amounts in California are based on what unions are able to obtain through collective bargaining, not what is needed for a reasonable retirement. There is a growing gap with workers in the private sector, where retirement benefits are shrinking.

Many public employees can retire at age 50 or 55 and receive a generous pension based on years of service (up to 90 percent of pay for most police and firefighters) with inflation adjustments, health coverage and an expectation of living another three decades.

A state ballot measure, Proposition 21 in 1984, lifted a lid that kept most pension fund investments in predictable bonds, enabling promises that more generous pensions could be paid by investments in volatile stocks and other higher-yielding assets.

But after a decade of below-target investment earnings, government retirement costs are going up and there is a national debate about whether public pensions are "sustainable."

Much of the debate is focused on pension funding levels, now often about 70 percent of projected assets needed to pay future pensions, and on pension debt or "unfunded liability," an alarming $1 trillion to $3 trillion in some national estimates.

These two measurements of pension system financial health are based on forecasts of investment earnings during the next several decades. And like any prediction of the future, earnings forecasts are far from certain.

An example of how earnings forecasts make big changes in pension funding levels and debt can be seen in the annual valuation of the California State Teachers Retirement System prepared by Milliman actuaries in April.

As of last June 30 CalSTRS had a funding level of 69 percent and a debt or unfunded liability of $64.5 billion, mainly due to earnings averaging 5.5 percent during the last decade. CalSTRS has lowered its earnings forecast from 8 to 7.5 percent.

The actuaries estimate that the total annual contribution to CalSTRS from employers and employees, 19.4 percent of pay, would have to increase by an additional 12.9 percent of pay each year (about $3.25 billion) to reach full funding in 30 years.

Now here's the potential power of earnings. As the nation's second largest public pension system, CalSTRS had an investment portfolio valued at $154 billion on April 30, still down from a peak of $180 billion in 2007.

But without a contribution increase, the actuaries estimate, CalSTRS could reach full funding in 30 years if earnings average 9.6 percent — or CalSTRS could be fully funded in just five years if earnings average 16 percent, and the big debt vanishes.

Of course, if earnings are below the new 7.5 percent target, as critics of public pensions think is likely, the funding shortfall widens. But the point is that earning forecasts are uncertain.

No one knows the future. So earnings in the decades ahead, which are expected to provide about two-thirds of the money needed to pay pensions, are open to debate. And in an argument, one method-derived guess is as good as another, until proven wrong.

What San Diego and San Jose share is the "real" number of current pension costs, not alarming but possibly mirage-like projections open to debate. Pension costs are already eating up a fifth of their general funds and diverting money from other services.

In San Diego, the annual required pension contribution from all funds went from $137.6 million in fiscal 2006 to $231 million this year and is projected to be about $500 million in fiscal 2025.

In San Jose, the annual retirement contribution for pensions and retiree health from all funds went from $73 million in 2001 to $247 million this year and is projected to grow about 27 percent by 2016.

All public pension systems in California share a cost-cutting problem. Powerful pension boards can set an actuarially determined contribution rate each year that must be paid by government employers. (An exception is CalSTRS, which needs legislation.)

A series of court decisions are widely believed to mean that pensions promised public employees on the date of hire become "vested rights," protected by contract law, that can't be cut without providing an offsetting benefit of equal value.

Most attempts to cut pension costs are bargained with unions and 1) give new hires a lower pension and 2) raise employee contributions, though CalSTRS and others say this too must be offset by a benefit of equal value.

The nonpartisan Little Hoover Commission recommended legislation giving employers a way to cut the pensions current workers earn in the future, while protecting pensions already earned, which would likely result in the courts revisiting the issue.

Now the measures in San Diego and San Jose, backed by mayors Jerry Sanders and Chuck Reed, are widely watched because they could cut pensions earned in the future by current workers, but through different methods.

The San Diego measure gives new hires, except police, a 401(k)-style investment plan instead of a pension. The city would bargain with unions for a six-year freeze on pay used to calculate pensions, which can be overridden by a two-thirds city council vote.

San Diego has struggled with a self-inflicted pension "crisis" following deals in 1996 and 2002 that cut city pension contributions and gave employees bigger pensions. Some of the fallout has been lawsuits, a moratorium on bond sales and budget cuts.

In a race for San Diego mayor, the leader in a poll last week, Councilman Carl DeMaio, is a key sponsor of the pension reform measure. The runnerup in the poll, U.S. Rep. Bob Filner, has his own pension reform proposal based on issuing bonds.

The San Diego pension measure did not spark the heated and expensive campaign battle expected by some. A Channel 10 News/USA Survey last week showed Proposition B favored by 57 percent of voters and opposed by 21 percent with 22 percent undecided.

The San Jose measure would give current workers the option of switching to a lower pension or staying in the current plan and paying off pension debt with annual contribution increases of 4 percent of pay, capped at 16 percent or half the debt cost.

A union-backed attempt to unseat Councilwoman Rose Herrera could undermine the slim council majority backing Reed's pension reform. A poll done for the Silicon Valley Chamber of Commerce two weeks ago showed Measure B leading with 55 percent of the vote, 23 percent opposed and 22 percent undecided.

In the national media over the weekend, the San Jose measure was the subject of a lengthy page-one story in the Wall Street Journal. A Reuters story said the San Jose decision could "set an important precedent for many other cities, not only in California but across the nation."

Reporter Ed Mendel covered the Capitol in Sacramento for nearly three decades, most recently for the San Diego Union-Tribune. More stories are at http://calpensions.com/ Posted 4 Jun 12

Posted in Local, Reforms, San Diego, San Jose | 14 Comments »

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ATTACHMENT B

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San Diego Voters Approve Cuts To City Pensions

As of Wednesday, June 6, 2012

By Katie Orr and ELLIOT SPAGAT, Associated Press

Credit: Lorie Zapf

Above: Mayor Jerry Sanders and other supporters of Proposition B to change city pensions.

June 5th Election Results

SAN DIEGO — Voters overwhelmingly approved a measure to cut retirement benefits for government workers in San Diego on Tuesday

In San Diego, 66 percent voted in favor of Proposition B while 33 percent were opposed, with more than 66 percent of precincts reporting. To hold down future pension costs, Proposition B seeks to impose a five-year pay freeze on current employees.

It would provide most new hires, excluding police officers, with a 401(k) in which a retiree's income depends on how well their investments perform.

Supporters had a straightforward pitch: Pensions for city workers are unaffordable and more generous than many private companies offer, forcing libraries to slash hours and potholes to go unfilled.

"We believe people are tired of having services cut back because of big pensions," San Diego Mayor Jerry Sanders, a Republican who is being forced from office by term limits, said recently.

Shrinking tax revenues during the recession are also responsible for service cuts, but pensions are an easy target. San Diego's payments to the city's retirement fund soared from $43 million in 1999 to $231.2 million this year, equal to 20 percent of the city's general fund budget, which pays for day-to-day operations.

As the pension payments grew, San Diego's 1.3 million residents saw roads deteriorate and libraries and recreation centers cut hours. For a while, some fire stations had to share engines

and trucks. The city has cut its workforce 14 percent to 10,100 employees since Sanders took office in 2005.

Opponents, led by public employee unions, say the measures deprive workers of benefits they were counting on when they got hired. Some workers decided against potentially more lucrative jobs with private companies, figuring their retirement was relatively safe.

"This is part of a broader effort to attack workers and to make their lives miserable," San Diego Councilman Todd Gloria said during a debate on the San Diego measure.

Opponents also argue that San Diego workers are not enrolled in Social Security. In the 1980s, employees voted to opt because they were promised a good pension and health care in retirement. Michael Zucchet with the Municipal Employees Association, the city's white-collar union, said those benefits have been slashed or eliminated over the years. He said to make more cuts when workers have no Social Security to fall back on raises a red flag.

"So the deal that was cut with employees, so to speak, and the reason they were willing to give up Social Security is now gone," he said. "Add that to the fact that Proposition B intends to take away even a defined benefit pension, and there's really some grave fairness issues here."

If Proposition B passes, the city may be required to re-enroll in Social Security.

Proponents of the measure say it would save nearly a billion dollars over 30 years. Lani Lutar, president and CEO of the San Diego County Taxpayers Association, which supports the measure, said there are several parts of the measure that save money. She said the measure's rule that all new city hires will receive 401(k)s instead of pensions may mean the city pays more money at first, but it will result in long term savings.

"It accelerates the payments, so it's like paying your credit card debt down a little faster," she said. "That doesn't actually result in any new costs, you're just paying your debt down faster. And in fact, again, without Proposition B over a 10-year period, pension costs would increase by $100 million."

But Zucchet maintains the majority of the savings would come from the proposed five-year pay freeze, which he said isn't even guaranteed because you can't negotiate labor contracts through the ballot box.

"The only thing that could save money… is if you freeze pensionable pay for the next five years - as employees have already done essentially for the last seven years, I might add - there are savings. But this initiative doesn't do it, it's the future actions of the City Council that would do it."

Investigative Newsource has found supporters of Proposition B have outspent the opposition committees more than six to one according to the most recent financial statements filed with the City Clerk.

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ATTACHMENT B

San Jose unions sue to block pension reform

By John Woolfolk Staff writer San Jose Mercury News
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San Jose police officers and firefighters Wednesday made good on promises to legally challenge San Jose's voter-approved pension reform with a pair of lawsuits filed in Santa Clara County Superior Court.

San Jose voters Tuesday approved Measure B by a nearly 70-percent margin. Mayor Chuck Reed championed the measure to control pension costs that have soared from $73 million to $245 million in a decade and are projected to continue rising, outpacing revenues and forcing the city to cut staffing and services to residents to cover the bill.

But unions maintained the measure violates court rulings that prohibit government employers from reducing workers' pension benefits during their career without offering something comparable in return.

"Measure B is unlawful and unconstitutional," said Christopher Platten, an attorney for the firefighters. "Measure B impairs promises made to current and retired San Jose employees for decades."

The unions asked the court to block implementation of Measure B's provisions while the case is decided.

"If we lose, so be it, but we'll at least try to fight it," said San Jose Police Officers' Association President Jim Unland.

Reed said he was not surprised by the union lawsuits. San Jose preemptively filed suit in federal court Tuesday seeking a ruling affirming Measure B's legality.

"This is California," Reed said. "Nothing important happens without litigation."

Reed was confident Measure B will withstand legal challenges because the state constitution and city charter grant its elected leaders authority over employee compensation.

"The California constitution grants charter cities complete authority over employee compensation, and our own charter provides that the council can from time to time amend or change any retirement plan," Reed said. "So I think we're in a strong position on the facts and the law."

Measure B does not change pension benefits employees and retirees earned to date. The measure limits retirement benefits for new hires and requires current employees to either pay up to 16 percent of their salary more for their current pension plan or switch to one that is less generous. It also would allow the city to temporarily suspend cost-of-living pension increases for retirees in a fiscal emergency.

The provisions affecting current employees would not take effect for another year to allow

time for courts to weigh in. City officials next week will consider implementing reduced pensions for new hires except for police and firefighters, for whom that will be decided in arbitration. City officials this week also plan to ask federal authorities to approve a reduced pension plan current workers could choose for their remaining years rather than pay more for the existing plan.

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