MARIN COUNTY PENSION OVERVIEW

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County of Marin

May 16, 2011

COUNTY OF MARIN

Overview

- We agree pension reform is needed and current plan levels are unsustainable
- Pensions are legally binding and most of liability has already been incurred
- Pension plans and rules governing pension are established by state legislation
- We've already taken several steps to reduce our pension liabilities
- We are currently in negotiations with our safety unions regarding less costly retirement plans and are supporting efforts to increase options to local government through state legislation
- Comprehensive pension reform needs to occur on a statewide basis through legislation or a statewide referendum

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We need to take a long-term view

- Our new economic reality

A slowdown in property tax growth and sales tax revenue

Ongoing state & federal budget cuts

Higher required pension contributions due to market losses

Greater demand for County “safety net” services

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As with other cities and counties, the economic downturn is impacting the County in several ways, including:
•A slowdown in property tax growth and sales tax revenue
•Ongoing State and federal budget reductions
•Higher required pension contributions due to market losses
•Greater demand for County “safety net” services, such as employment training, healthcare and other social service programs

As a result, we see the need for long-term restructuring to adapt to our new reality- controlling pension costs are part of this effort.

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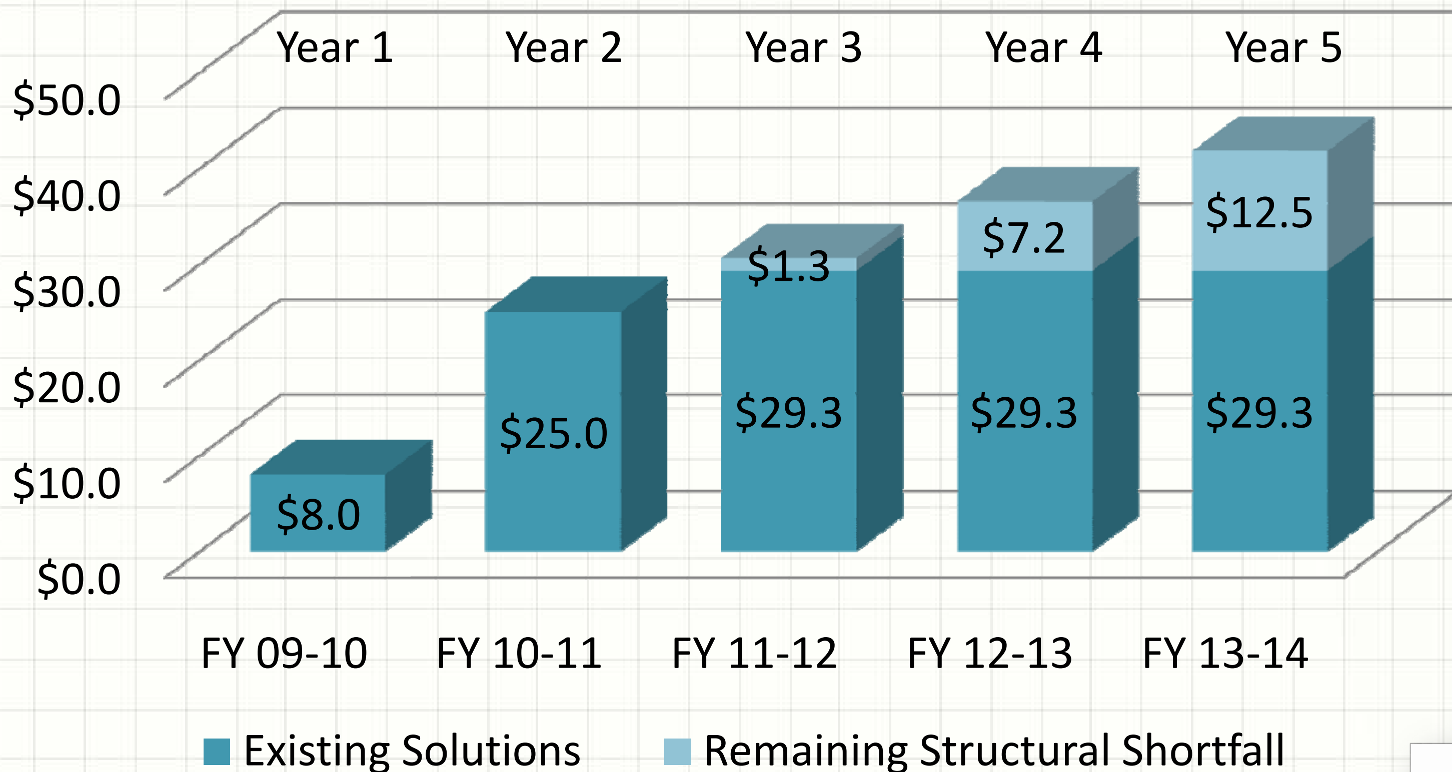
We have closed more than half of our five-year budget gap



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Property tax revenue growth has fallen considerably

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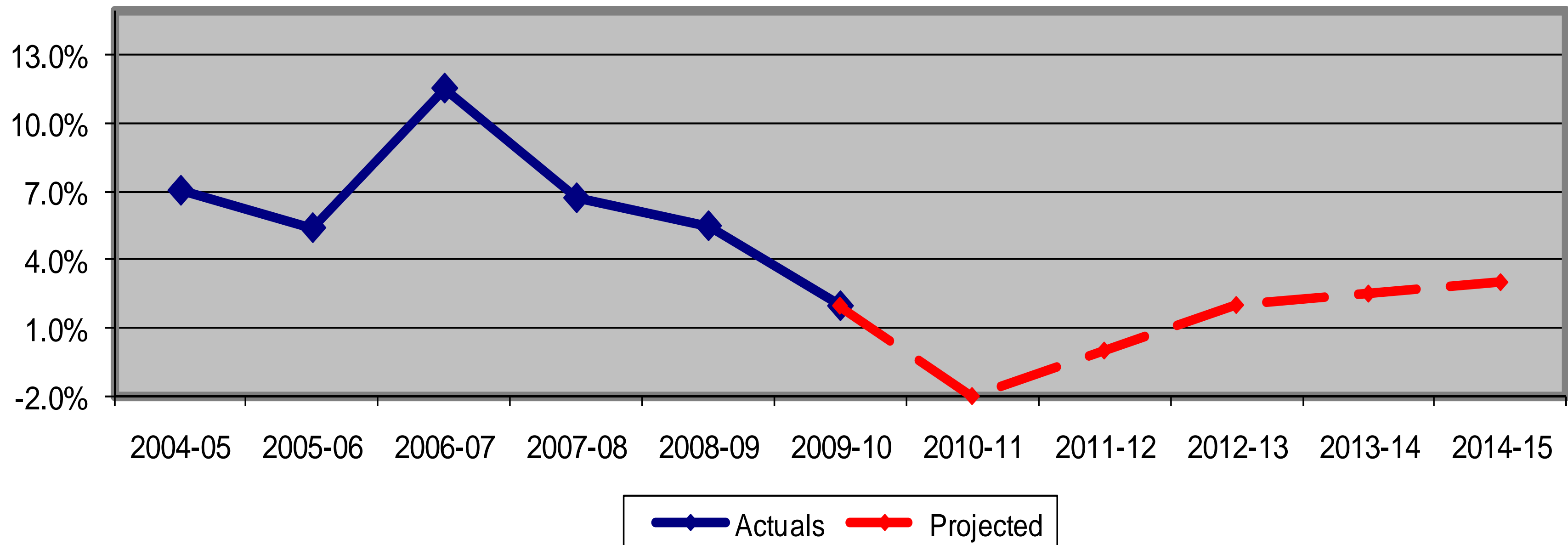
Growth Projections Starting FY 2010-11: -2%; 0%; 2%; 2.5%; 3%



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Required pension contributions are projected to almost double (since FY 2009-10)

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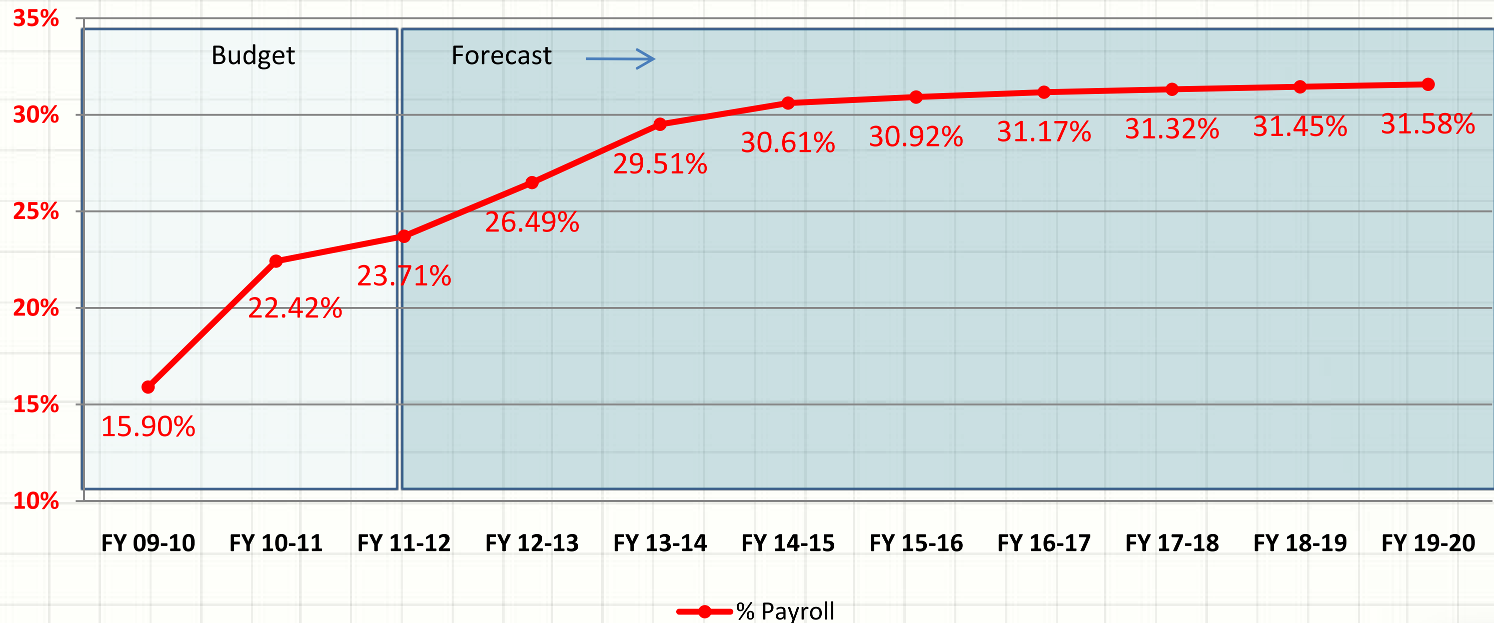
As a percentage of payroll, June 30, 2009 market losses are having a long-term budget impact.



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Long-Term Restructuring is needed

- Approaches to adapt to our new reality:
  - Re-evaluate and reduce existing services levels to maintain quality of services - doing the right things well
  - Restructure programs to achieve efficiencies
  - Address long-term cost drivers (pension, healthcare benefits)
  - Make cost-effective capital investments
- Avoid more significant service cuts and layoffs by planning ahead

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Pension facts

- Average County pension is $33,312 per year and is in-lieu of Social Security
- County employees pay 6-18% of their salary for pension; averaging 9.4%
- Defined benefit plan results in the employer bearing the market risk for investment losses
- People are living longer today compared to when plans were established

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Comparable counties

Counties	Plan (newest tier)	Annual Contribution ($ millions)	% of Funded Liabilities	Dependency Ratio
Marin	Safety: 3% @ 50 Misc: 2% @ 61¼ Final Comp: 3 yrs	$34.8	72.6%	1,906:2,186 87.2%
Monterey^	Safety: 3% @ 50 Misc: 2% @ 55 Final Comp: 1 yr	$42.8	Safety: 65.2% Misc: 53.8% (2009)	2,820:4,570 61.7% (2009)
San Luis Obispo^	Safety: 3% @ 50 Misc: 2% @ 60 Final Comp: 1 yr	$32.5 (2009)	77.1%	1,734:2,506 69.2%
San Mateo	Safety: 2% @ 50 or 3% @ 55 Misc: 1.725% @ 58 Final Comp: 3 yrs	$118.3	70.3%	4,002:5,347 74.8%
Santa Barbara	Safety: 3% @ 55 Misc: 2% @ 57 Final Comp: 3 yrs	$61.2	73.7%	3,318:4,228 78.5%
Sonoma	Safety: 3% @ 50 Misc: 3% @ 60 Final Comp: 1 yr	$24.3 (2009)	79.6% (2009)	3,570:3,984 89.6% (2009)

^ = CalPERS counties

Annual contribution, percent of funded liabilities and dependency rate are generally based on FY 2010-11 data.

Pension plans are based on the newest tiers established. Final Compensation are generally based on the highest 12-month average or the highest 3 years average.

The annual contribution refers to General Fund employer pension budget; whereas:
Pension = Normal + Unfunded Actuarial Accrued Liability (UAAL) + any employer pick-up
Marin County budgets Pension Obligation Bonds (POB) separately.

The Dependency Ratio is the number of retirees (beneficiaries) to the number of actives paying into the plan.

Governor's 12-pt plan

Implemented by County

- Eliminate purchase of airtime
- Prohibit pension holidays
- Prohibit pension spiking: 3 yr final compensation

Requires State legislation

- Prohibit employers from making employee pension contributions
- Prohibit retroactive pension increases
- Define compensation as only regular pay
- Prohibits payment of pension benefits to those who commit a felony

Under Development

- Impose pension benefit cap
- Improve retirement board governance
- Limit post-retirement public employment
- Hybrid option
- Address CalSTRS Unfunded Liability

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GOVERNOR'S 12-POINT PLAN

In addition to the Governor 's twelve-point pension reform plan, the Little Hoover Commission had also released recommendations on pension reform. The four main recommendations are:

1. To reduce growing pension liabilities of current public workers, state and local governments must pursue aggressive strategies on multiple fronts.
2. To restore the financial health and security in California's public pension systems, California should move to a "hybrid" retirement model.
3. To build a sustainable pension model that the public can support, the state must take immediate action to realign pension benefits and expectations.
4. To improve transparency and accountability, more information about pension costs must be provided regularly to the public.

What the County has already done

- Cap pension COLAs to 2% annually
- Use average of highest 3 years' earnings for pension calculations (vs. highest single year)
- Negotiated new Misc. tier of 2% @ 61 ¼ with 5 of 6 bargaining groups
- Adopted statewide reform principles to create more sustainable benefit levels
- Reduced long-term liability for retiree health by $18 million over the past 4 years
- **Employees** pay for:
  - employee contributions
  - 50% of COLAs
  - 50% of enhanced formulas costs

County is committed to pension reform, and we've taken several steps over time to put the County in a better fiscal position than most cities and counties. Benefit levels should be fair and adequate, but also fiscally sustainable both for employers and taxpayer. An additional interest is ensuring that changes to pension plans are mindful of regional impacts to recruit and retain competitively for the best employees.

In addition, the County has been setting aside additional amounts to begin paying down unfunded retiree health liabilities that employees continue to accrue in anticipation of their retirement.

What we still need to do

- Currently negotiating with safety bargaining groups for new, lower cost tier
- Advocate for more statutory options for local governments to reduce costs. For example:
  - Hybrid plans
  - Limit what is considered pensionable to avoid pension spiking (e.g., vacation buybacks, allowances, premium pays)

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