CITIZENS FOR
SUSTAINABLE PENSION PLANS
A Nonpartisan Group of Marin Residents

******Report Summary*****

Pension Roulette

A Comparative Analysis of the Pension and Other Retiree Benefits of Marin County and its Municipalities

Presented By
Citizens for Sustainable Pension Plans
September 2013

Citizens for Sustainable Pension Plans (CSPP) believes that pensions and other retirement benefits such as retiree medical benefits provided to public sector employees at the state and local levels have a number of flaws:

- Public employee pensions are exceptionally generous, many times more generous than those provided to the average American.
- Public employee pensions are provided through defined benefit plans, the most risky type of plan for taxpayers. Such plans have created large unfunded liabilities that are passed down to succeeding generations that then must pay for the excesses of the past with no corresponding benefit to themselves.
- Public pension plans are currently under financial stress because their investment-return assumptions have not been met.
- The resulting systematic underfunding of the pension plans has led to steady increases in plan costs which in turn have led to so-called "Service Insolvency", the ongoing erosion of services provided by the sponsoring entities and/or the continuous escalation taxes, assessments, and fees to pay for services.
- The decision makers of the sponsoring entities have shown little interest in correcting these flaws, relying instead on (i) claims they can do nothing about the flaws, (ii) the goodwill of the public to mitigate "Service Insolvency" by paying more taxes, assessments, and fees, and (iii) the hope that financial markets will bail them out and the problems will go away.

The beneficiaries of pensions provided to public sector employees (i.e., the employees, retirees, and decision makers), not surprisingly, take a different view. They believe, or claim to believe, that everything is fine, that the budgets of the sponsoring entities are healthy and that their plans are fair and sustainable; or they simply do not care enough to make the hard decisions required.

To determine who is correct CSPP decided to adopt an unbiased approach: It looked at the facts. We examined the financial reports of the County and its Municipalities. Here is what we found:

Both San Rafael and San Anselmo maintain plans that are three times more generous than for the "average" plan in the private sector.

The pensions provided to public sector employees are two to three times more generous than corresponding pensions for private sector employees. This applies to those private sector employees who have pension plans. Compared to private sector employees who have only Social Security, the public sector employee is even better off.

The San Rafael pension plan is the worst off at only 56% funded. To be funded at even this level the plan needs to earn 7.5% annually.

Every pension plan maintained by the County, cities and towns is substantially underfunded. Including the impact of underfunded retiree medical plans and pension obligation bonds, the cumulative underfunding totals $1.2 billion, about $13,500 for every household in Marin.

If the San Rafael plan assumes earnings of only 4.8% it is only 43% funded. The plan has earned less than 4.8% over the past 10 years.

This estimate of $1.2 billion requires that the County and its Municipalities achieve their assumed 7.5% annual rate of return. If a 4.8% rate of return is earned (and this is what CalPERS earned over the past 12 years), then the $1.2 billion amount would nearly double. All of this shortfall will be born by the taxpayer, none by the public employee.

The County contributes 26% for past service benefits, both pension and retiree medical (i.e., amounts that should have been funded in the past). That's the bad news! The good news is that the County is not in the same shape as San Rafael. San Rafael contributes an astronomical 47% for past service benefits.

All of the unfunded liabilities of the County and its Municipalities are owed for services rendered in the past that should have been paid for when they were incurred. They were not. This is another indication of the risk of the defined benefit pension plan and the pay as you go medical plan. If anything goes wrong, it is the sponsoring entity, the taxpayer and ultimately the succeeding generations who pay the tab.

Per analysis by the Cities and County: Nothing meaningful to report!

Your policymakers have made no *meaningful* reforms to public employee pensions. The proof of this statement comes from a study conducted by the Marin County Council of Mayors and Councilmembers in June 2011.

Increasing taxes are one side of what is referred to as Service Insolvency. Layoffs, reductions in service hours, bad roads and a general deterioration in public services is the other.

MERA is asking for a parcel tax increase, the BOS has “reserved” a place on the 2016 ballot for a quarter cent sales tax increase for early education and four of the eleven Municipalities were asking for sales tax increases at the time of the publication of Pension Roulette.

San Rafael, a city whose pension plan has been called “sustainable” by its Mayor, spends an incredible 24% of its budget on retiree benefits. Stockton spent a “mere” 12% of its money on retiree benefits…before declaring bankruptcy.

Interestingly, one measure of “Service Insolvency”, the level of Retiree Spending as a percent of Government Activity Spending, shows that the County and three of the four Municipalities asking for sales tax increases are worse off than Stockton was when it filed for bankruptcy.

Marin policy makers seem content with the status quo: very generous pension and retiree medical plans that heap extraordinary risk on the taxpayer. They have made minor nips and tucks around the edges, claiming action, while not taking meaningful steps to address the problem. Meaningful reform does not mean throwing more money at the problem. It means taking steps to reduce the future obligations of the taxpayer. CSPP wonders how long the Marin electorate will put up with reduced services and higher taxes, assessments and fees.

Important note: For the purposes of this report the phrase “retiree spending” includes spending on both retiree pensions and retiree health care.

Citizens for Sustainable Pension Plans

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******Report Summary*****

Pension Roulette, Part 2

"Do You Feel Lucky?"

Special District Supplement to:

Comparative Analysis of the Pension and Retiree Benefits of Marin County and its Municipalities

Presented By
Citizens for Sustainable Pension Plans
August 2014

In its earlier research[1], Citizens for Sustainable Pension Plans (CSPP) was not surprised to find that an examination of the facts showed quite clearly that:

- Public sector pensions for County and Municipal employees are extremely generous.
- Such pensions are provided through a type of plan that subjects the sponsoring entities, the County, its Municipalities and, ultimately, its taxpayers to substantial financial risk.
- The plans of these entities have failed to meet their actuarial assumptions due to poor investment performance and increasing life expectancies of plan members, thereby generating large unfunded liabilities and escalating costs to their sponsoring entities and taxpayers.
- Policy makers have done nothing significant to deal with the problems of these plans other than to cut services and/or raise taxes, assessments and fees.

With the publication of the 2013/14 Marin County Grand Jury report, What Are Special Districts and Why Do They Matter?, released on May 29, 2014, the question naturally arose: Do the same problems that impact the pensions and retiree medical plans of the County and its Municipalities similarly impact the special districts of Marin County? CSPP's suspicion was that the answer to this question was "yes" and, as with our earlier research, we utilized the unbiased approach: to look at the facts. We examined the financial reports of a selected handful of special districts[2]. Here is what we found:

The typical pension for Novato Fire Protection District is an astounding 5 times as generous as the plan for the "average" person in the private sector.

Marin's special districts provide pension plan benefits at extremely generous levels. For the five special districts reviewed, the pensions provided were two to five times more generous than corresponding plans in the private sector. Compared to private sector employees who receive only Social Security, the public sector employee is even better off

[1] See Pension Roulette, A Comparative Analysis of the Pension and Retiree Benefits of Marin County and its Municipalities, September 2013.

[2] Marin Municipal Water District, North Marin Water District, Novato Fire Protection District, Marinwood Community Services District, and Golden Gate Bridge Highway & Transportation District were considered. In that Marin County more than 70 special districts, it was impractical to look at them all.

Three of the five special districts examined were even less well funded than the poorly funded County plan… Marinwood Community Service District, MMWD and Golden Gate Bridge Highway & Transportation District.

The special districts' plans are awash with unfunded liabilities (both pension and medical). Funding levels range from 48% to 69%. This level of funding requires the plans earn 7.5% per year in the future. If the plans earn only 4.8% then the plans' funding levels range from but 39% to 50%. Private sector plans that are less well funded than 80% are deemed by the government to be "at risk" plans and are required to take remedial action.

CSPP was surprised to find a special district that spends a larger share of its budget on retiree benefits than does San Rafael. Novato Fire Protection District spends 25%.

As was the case for the plans of the County and its Municipalities, the level of benefits and the presence of unfunded liabilities translated into exceptionally high retiree benefit costs. Contributions for the special districts range from 6% to 25% of spending. This contrasts to 4% for Danville, CSPP's example of a municipality with a prudently established retirement program. This money must come from somewhere, either service cutbacks or increased taxes.

Some may think it's no big deal having to hike tolls to pay for retiree benefits. To paraphrase Blue Diamond Almonds: Just one dollar a day!

CSPP did note that the Golden Gate Bridge Highway & Transportation District recently enacted a toll increase that has been forecast to produce additional revenues of $137 million over the next 5 years. The district has unfunded liabilities totaling $274 million. Money is fungible. Could they be connected?

As CSPP found in Pension Roulette for the County and its Municipalities, policy makers for the special districts are pushing ahead with expensive, burdensome pensions plans without taking the initiative to make serious attempts to improve the situation. What CSPP learned is that, unfortunately, it is not just the County and Municipalities of Marin that are mishandling their retirement policies. The special districts - that too often fly under the public's radar - are in equal trouble.

Important note: For the purposes of this report the phrase "retiree spending" includes spending on both retiree pensions and retiree health care.