San Jose State University
SJSU ScholarWorks

Master's Projects | Master's Theses and Graduate Research

4-1-2012

Public Sector Pension Reform: Benchmarking pension reform efforts in the cities of San Jose, San Diego and Sacramento

Anita Asher
San Jose State University

Follow this and additional works at: http://scholarworks.sjsu.edu/etd_projects

Recommended Citation
Asher, Anita, "Public Sector Pension Reform: Benchmarking pension reform efforts in the cities of San Jose, San Diego and Sacramento" (2012). *Master's Projects.* Paper 256.

This Master's Project is brought to you for free and open access by the Master's Theses and Graduate Research at SJSU ScholarWorks. It has been accepted for inclusion in Master's Projects by an authorized administrator of SJSU ScholarWorks. For more information, please contact Library-scholarworks-group@sjsu.edu.

Public Sector Pension Reform:

Benchmarking pension reform efforts in the cities of San Jose, San Diego and Sacramento

A Thesis Quality Research Project Submitted in Fulfillment of the Requirements

for the Masters of Public Administration

San Jose State University

Author: Anita Asher

Advisor: Dr. Frances Edwards

INTRODUCTION

Pensions in the public sector and the increasing costs for providing defined benefit (db) retirement plans to public employees is a topic of great concern for many jurisdictions in California and across the nation. In 2009, the City of San Jose faced almost $2 billion dollars in unfunded liability for their pension funds (City of San Jose, Office of the Independent Auditor, 2010). From fiscal year 90-91 to fiscal year 10-11, the City of San Jose's contribution to employee pensions doubled, from 10% of payroll to over 20% for employees in the Federated plan, and from just under 20% to almost 40% for public safety employees (City of San Jose, Office of the Independent Auditor, 2010).

What are jurisdictions doing to solve the problem? In response to these unfunded liabilities and pension plan rate increases, the City of San Jose and other jurisdictions are actively exploring options to reduce future pension obligations and pay down the unfunded liability for current pension obligations. Three jurisdictions in various stages of pension changes are the City of San Jose, the City of Sacramento and the City of San Diego. This research compares and contrasts different pension reform efforts in the City of San Jose, City of Sacramento and City of San Diego. In particular, this research analyzes fiscal challenges the jurisdictions face, legal obstacles to pension reform, potential savings and work place impacts.

Prior to analyzing various pension plans and respective reform efforts it is useful to provide a general background and definition of the terms, such as db plans and defined contribution (dc) plans. In addition, a discussion about pension plan reporting requirements and who bears the risk in each type of plan is relevant to this research

Terms

A pension is a form of deferred compensation. Employees opt to receive a specified current salary and an additional salary in the form of regular payments into an investment fund that will provide income in retirement. Some employers pay for the entire cost of the pension, while other employers share the cost of future pension payments with the employees. The rate of pension payments in relation to earned salary and years of service is negotiated as part of an overall labor contract. Contributions by employer and employee earn interest, and together these three sources provide the financial basis for the post-retirement pension payments.

Dc plans dictate specific contributions from the employer and the employee. The payouts from these dc plans are not specified and generally depend on the amount contributed by plan participants and the investment income generated by these contributions (Mitchell, McCarthy, Wisniewski, & Zorn, 2001). Some commonly recognized dc plans are 401(a), 403(b), employee stock and profit sharing plans (Department of Labor, n.d.). Contributions to dc plans in some cases are matched by employers (Department of Labor, n.d.). Investments in dc plans are self-directed, meaning the individual plan participant (employee) is responsible for making investment choices and bears the risks for any investment losses (CNN Money.com, n.d.).

Db plans provide a specific monetary benefit to participants based on a formula. Typically the formula integrates a participant's age, years of service and salary at retirement to determine the benefits received in retirement (Mitchell, McCarthy, Wisniewski, & Zorn, 2001) (Taylor, 2011). The plans are referred to by their formula: 2% at 55, 2.7% at 60 or 3% at 60, for example. The participant, after vesting in the plan, is eligible for the specified pension upon reaching retirement age. Vesting periods can vary depending on the employee's classification and the plan requirements (Mitchell, McCarthy, Wisniewski, & Zorn, 2001). In a 2.5% at 55

plan, a vested participant, aged 55, would receive 2.5% of his salary (as defined by the plan) times his years of service. The definition of salary base for estimating pension payouts varies, such as being an average of several years, the last year's salary, or salary plus specified additions like unused vacation pay and bonuses. Employers make contributions to the plan and in many cases employees make contributions as well (Taylor, 2011).

The specific employer and employee contributions and make-up of the plan are unique to the employer and usually a subject of collective bargaining (Taylor, 2011). The actual amount of annual required contributions is dependent on actuarial assumptions about the plan. Some factors considered in the calculations include the age of plan participants, their years of service, pay, mortality of participants, and investment returns. (Hustead & Mitchell, 2001) In a db plan the employer (and by extension the taxpayers) is responsible for investment decisions and any losses. (Brown, 2011)

To determine the health of a db plan, plans often refer to the term "unfunded liability" (City of San Jose, Office of the City Manager, 2011). According to the City of San Jose Fiscal and Service Level Emergency (2011) report, the:

> Funded status is determined by comparing the plan's assets (the money available to pay for the benefits) to the present value of the plan's future liabilities (the money which the plan will eventually have to pay out). If Plan Assets (PA) equal or exceed the Actuarial Accrued Liability (AAL), then the plan is fully funded. If the PA is less than the AAL, then the plan is underfunded. (City of San Jose, Office of the City Manager, 2011, p. 44)

Unfunded liabilities are not a new concept. Many private sector organizations, with db pension plans, have experienced unfunded liabilities. United Airlines had $7.1 billion in unfunded liabilities in 2005 when it declared bankruptcy (Brown J. R., 2008). Fortunately, the employees with a pension in the United Airlines plan were protected by pension guarantee insurance of the federal government. Public employees have no such coverage.

Pension Liability

In 1963 when Studebaker-Packard Corporation declared bankruptcy, thousands of employees lost their pensions and there was no recourse for those employees. To protect workers' pensions, Congress enacted the Employee Retirement Income Security Act (ERISA) of 1974, and created the Pension Benefit Guaranty Corporation (PBGC) (Brown, 2008). The PBCG insures pension plan assets, "encourage[s] the continuation and maintenance of private-sector db pension plans, provide timely and uninterrupted payment of pension benefits, and keep pension insurance premiums at a minimum" (Pension Benefit Guarantee Corporation, 2011). However, these guarantees only apply to private sector pension plans (Brown, 2008) (Pension Benefit Guarantee Corporation, 2011).

There is some debate regarding the actual size of the public pension unfunded liability problem. Government Accounting Standards Board (GASB) rules require pension plans' liabilities to be reported at a discounted rate (Novy-Marx & Rauh, 2010), however Novy-Marx and Rauh contend that such a representation undervalues the actual extent of liabilities faced by each jurisdiction. The City of San Jose calculated its unfunded liability using two methods, the market rate and the actuarial method. The market rate is the current market value of the assets. The actuarial rate spreads market gains and losses out over a certain time period in a so-called "smoothing" (City of San Jose, Office of the City Manager, 2011, p. 44) of the assets. Both asset calculation methods show a large unfunded liability, but there is a marked difference in the size of the liability.

For City of San Jose Police and Fire pension plan the market rate unfunded liability is $1 billion and $.65 billion using the actuarial method, while for Federated employees the market rate unfunded liability is $.99 billion versus $.78 billion using actuarial calculation (City of San

Jose, Office of the City Manager, 2011). Regardless of the size of the unfunded liability, jurisdictions are facing increasing liabilities, and without the safety net of pension guarantee insurance it is clear that changes are needed, and the public is very interested in the discussion because the financial burden is resulting in loss of direct services, such as library hours.

As the economy has stagnated, and the State and local jurisdictions are facing years of budget deficits, there has been increasing public pressure to review all aspects of public finances. Particular scrutiny has been directed to public employee pension plans. In the past few years there have been various news articles describing retirees with pensions over $100,000 per year (Taylor, 2011). These articles, along with increasing unfunded pension liabilities, and cuts to public services, have led to the public perception that public pension costs, entitlement, and benefits are too generous and must be reduced or modified.

In October 2011, Governor Jerry Brown released a plan to change pension plans for California state workers (Taylor, 2011). Some of the main points in his twelve point plan include changing the cost sharing structure of contributions to pension plans, moving new employees to a "hybrid plan" which included a db and dc combination plan, increasing the retirement age for new employees, and prohibiting retroactive pension plan increases. (Brown, 2011) In November 2011, the Legislative Analyst's Office (LAO) provided an analysis and response to Brown's proposals (Taylor, 2011). The public pressure, partnered with the Governor's plan and corresponding analysis, has put pressure on those cities in the midst of pension reform efforts, and may inform their reform decisions.

Voters have also weighed in at the polls. A pension reform measure in San Francisco and an advisory measure on pension reforms in Modesto, in November 2011, passed with significant local support in each jurisdiction (Oney, 2011). As Oney (2011) points out, these recent ballot

results can help jurisdictions contemplating pension reform efforts, such as the cities of San Jose and San Diego, to create ballot measures that will meet voter approval and decrease city pension costs.

To provide context, the United Parcel Service (UPS), a private sector employer, changed pension plan providers for Teamsters members, in part due to large unfunded liabilities. This increased employee costs and potentially created an additional decrease in benefits (Greenhouse, 2007). The change required approval from the union members, with UPS paying a penalty to leave the unfunded plan (Greenhouse, 2007). This is different than the process allowable in public sector pension plans.

Role of Social Security

For all private sector employees in the United States, and many public sector employees, there is a federal retirement program commonly called "Social Security." Originally public agencies were not included in the program, but over the years some public agencies, like the California State University system and the City of Sacramento, have joined the Social Security system. In this case the employer and employee pay the standard contributions mandated by the federal program, as well as the contributions to any public agency pension program.

Social Security payments are covered by a variety of complex regulations. Retirees who have paid adequate amounts into the Social Security system to receive monthly payments, but have also derived pensions from any public entity that did not pay onto Social Security, will get a reduced Social Security payment compared with a retiree who has worked only in the private sector. This is known as the windfall provision. Retirees who have worked in private sector jobs covered by Social Security and jobs covered by a public pension program cannot get the full Social Security payment for the years of private sector employment if they receive a public

sector pension. (Social Security Administration, 2012a)

LITERATURE REVIEW

Since public perception is an important aspect of pension reform efforts there is increasing political pressure to change public employees' pensions. It is useful to know what public employees will receive in retirement. The Social Security Administration website, "Information For Government Employees" page, provides information on what a government employee can expect in Social Security benefits while drawing a pension from a public sector retirement plan. Employees who participate in the Teamster's plan do not see an "offset or reduction in any Social Security Retirement income" (United Parcel Service, 2011). Munnell, Aubry, Hurwitz, and Quinby (2011) attempt to compare the wealth of retired state-local workers versus the wealth of retired private sector workers to determine if one set is wealthier. This comparison concludes that a third of state/local employees who worked more than half their career in the public sector had wealthier household income at age 65 than similar families who worked in the private sector, and two-thirds of employees who worked less than half their career in the public sector were not as wealthy as private sector counterparts, which could further color public opinion.

Hess and Squire (2010) argue that pension plans stifle recruitment and create a stagnant atmosphere. They advise that it is politically difficult to change pension plans because of the organized opposition of those vested in the system. The authors describe what happened in New Jersey as a cautionary tale, where a fiscally sound state pension plan was decimated by legislative decisions. The legislature enhanced pension benefits in 2000 when the plan had a surplus; by 2003 it had turned into a large pension deficit. In 2004, to make their contributions to the pension plans, local jurisdictions raised taxes. These actions led to a shake-up in the

Governor's race, friction with the public employee unions and eventually resulted in salary and benefit concessions.

Novy-Marx and Rauh (2010), in their journal article "Public Pension Promises: How Big Are They and What Are They Worth?", postulate that current reporting regulations under represent the amount of debt and unfunded liability that public pension funds are carrying. Using various db plan documents, they attempt to estimate tax-payer liability. Baker (2011), in "The Origins and Severity of the Public Pension Crisis", examines pension fund assets and argues that the economic downturn caused most of the unfunded liability, not systematic government underfunding. In contrast, Borenstein (2011), in his article: "A bad market is just part of San Jose's pension problems", examines the situation in the City of San Jose and attributes only a small part of the unfunded liability problem to the economy. Instead he advises that most of the unfunded liability is due to unrecognized costs such as retirees' living longer, retroactive pension increases, and guaranteed cost of living adjustments (Borenstein, 2011). The Pew Center for the States (2010) also provides insight on the unfunded liability of pension plans in "The Trillion Dollar Gap: underfunded state retirement systems and the roads to reform". They say that state and local pension systems are facing significant unfunded liabilities due to their public policies and political choices, such as benefit increases and underfunding the plans. The League of California Cities also studied the California pension problem and substantially agrees with other authors that the primary reasons for increased costs of pensions are due to recent losses in pension investments, changes to benefit formulas, retirees' living longer and higher salaries (Gould, 2011).

Another factor to consider is the potential impact of the so called "Currency Wars", the systematic devaluation of national currency to increase exports and create job growth (Keating,

2010). This devaluation of currency could escalate as nations try to keep their competitive advantage. (Clancy, 2010) Retirees in this situation would have less buying power as their retirement fund is worth less (Clancy, 2010), but potential increases in the job market and more revenue for local jurisdictions could mean smaller unfunded liabilities in pension plans.

As a counterpoint, Forman (2009), in his journal article "Funding Public Pension Plans", discusses the fundamental differences between dc plans and db plans, options to paying for db plans and potential investment strategies. Jametti (2008), in his journal article "Underfunding of Defined Benefit Pension Plans and Benefit Guarantee Insurance: An Overview of Theory and Evidence", describes the problem of adequately funding pension plans in Canada, and provides insight into the use of pension guarantee insurance. He advises that this analysis can be applied in numerous jurisdictions. Kilgour (2009) provides information about pension funding mechanisms and employer required contributions. His conclusion is that California faces serious problems with unfunded liabilities in pension and retiree health plans; fixing these problems will require long-term solutions, which may increase costs in the short term and buy-in from public sector unions.

There are legal questions that jurisdictions must explore when discussing pension reform. Monahan (2010) provides information in her article "Public Pension Plan Reform: The Legal Framework". She describes the various legal protections and contradictions jurisdictions will face in creating, defending and implementing pension reform plans. The Public Employee's Retirement System (PERS) (2011) provided guidance on questions regarding vesting of PERS pension benefits, in their member publication *Vested Rights of CalPERS Members: Protecting the pension promises made to public employees*. This publication strives to inform PERS members about plan provisions that are vested and those that may not be vested. In November

2011, the California Supreme Court ruled that retiree health benefits are vested and cannot be changed if there is an implied promise that the jurisdiction wanted to create a lifetime benefit. The case has now been remanded to U.S. 9th Circuit Court of Appeals for further review (Dolan, 2011). While retiree health benefits are different from pension benefits, it is possible that case law created for the retiree health benefits can be applied to the question about the vesting of pension benefits. To provide an employee perspective, former deputy city attorney Brian Doyle (2011), in his article "San Jose's assault on vested rights is patently illegal", vehemently opposes arguments that pension benefits are not vested, and claims that any changes to pension plans for current employees are illegal. (Doyle, 2011)

Boyken's (2008) article, "Actuarially Speaking: A Plain Language Summary of Actuarial Methods and Practices for Public Employee Pension and Other Post-Employment Benefits", provides a basic guide to pension calculation methods, benefits calculations for public officials and other stakeholders involved in public sector pension policy making. The article includes information about actuarial methods, policies and assumptions. The League of California Cities also provides guiding principles for reform. They advocate plans which appeal as a recruitment tool, are sustainable, share costs between employers and employees, and are portable with other similarly situated jurisdictions (Gould, 2011). Included in their guiding principle document are pension plan changes that can happen now which will save money in the near future, and other changes that will require legislative action (Gould, 2011).

On a national level, the National Association of State Retirement Administrators (NASRA) created a matrix of retirement plan benefits in the USA. It includes information about the current contribution rates, benefits, early retirement options, actuarial methods, and any recommendations for study or changes (National Association of State Retirement

Administrators, 2010). Rauh's (2010) article, "Are State Public Pensions Sustainable? Why the Federal Government Should Worry About State Pension Liabilities", discusses potential dates State pension plan funds could be exhausted if changes are not made, and how assumptions regarding the funding calculations could be masking the severity of the problem.

Pension plans are subject to oversight from their respective jurisdictions and many plan documents can be found on their respective websites. Additionally, the jurisdictions themselves are subject to oversight from the State. The Little Hoover Commission (LHC) "…investigate[s] state government operations and – through reports, recommendations and legislative proposals – promotes efficiency, economy and improved service" (Little Hoover Commission:, n.d.). The LHC is studying the long term costs of California public pensions and their effect on State and local finances. The Commission's agenda, meeting minutes and public testimony provide valuable insight into the pension systems in California (Little Hoover Commission:, n.d.). The commission meets periodically and accepts testimony from various stakeholders. Jon H. Hamm, CEO of California Association of Highway Patrolmen (CHP), responded to questions posed by the LHC. His response discusses the CHP retirement formula, the union's support of changes in retirement costs and its responsibility to partner with the State in finding fiscally responsible options for funding pension benefits. Mr. Hamm's viewpoint provides an alternative perspective to City and State opinions on pension reform (Hamm, 2010).

Bartel and Associates, a firm specializing in actuarial consulting services primarily on retiree health and pension plans, provided the LHC with information regarding California public pension issues. They analyzed three questions about the California pension systems: 1) If pension enhancements had not taken place in 2000 what would the scale of the problem be today? 2) How bad will the problem get? and 3) a description of actuarial best practices. (Bartel

and Associates, 2010)

David Crane, Special Advisor to the Governor for Jobs and Economic Growth, testified at the April 22, 2010 LHC meeting. His supporting documents included Government Finance Officers Association (GFOA) recommendations for best practices for boards governing retirement plans and sustainable plan design. The best practices document outlines responsibility of a retirement board and advises jurisdictions to create a manual, governing polices, a code of ethics, and provides guidance on the size and scope of the board (Government Finance Officers Association (GFOA), 2010). He also presented a document entitled "New Normal" Retirement Plan Design, where the authors, Miller and Link, outline a strategic plan for jurisdictions that wish to implement changes to their retirement plans. They outline diagnostic questions, reasons why plans are unsustainable, and how to reform plans (Miller & Link, 2010).

City of San Jose Mayor Chuck Reed provided testimony to the LHC about the City's pension system and its responses to increased pension costs. He testified that the City of San Jose's general fund grew by 21% in the last ten years, while the average cost per employee increased by 87%. The mayor discussed two ballot measures, Measures V and W proposed in 2010. Measure V changed the City of San Jose charter with regards to arbitration for police and fire unions. Measure W allows the City to implement a two tiered pension system. (Reed, 2010)

In May 2011, the City of San Jose contemplated declaring a state of fiscal emergency in advance of placing a measure about pension reform on the ballot. The fiscal emergency declaration and ballot measure were postponed for six months to allow time for the City to negotiate pension plan changes with the various bargaining units. Those negotiations failed; the city council was set to discuss the fiscal emergency and the ballot measure at their December 6, 2011 Council Meeting (Figone, 2011b), but improvement in the city's financial status led the

council to postpone the discussions until spring, with the plan for a June ballot measure (Woolfolk, 2011a). The Fiscal and Service Level Emergency Report: An Evaluation of Conditions in the City of San Jose (2011) provides a history of the economic conditions and budget impacts for the City of San Jose, and describes the proposed new pension plans. One of the proposals for retirement benefits for new employees was to create a three-part retirement plan, where one part is participation in Social Security, the second is a dc plan and the third is a lower level db plan. In the initial proposal, current employees could elect to stay in the current plan and pay a higher amount or elect to opt-in to the lower plan (City of San Jose, Office of the City Manager, 2011). The opt-in plan could prove problematic because during the past six years, the Social Security Administration has not ruled the on request for tax exemptions for plans with opt-in provisions (San Jose Mercury News Editorial Board, 2011).

In Santa Clara County, the Civil Grand Jury produced a report that reviewed the growing cost of employee compensation, including pension obligations. The Santa Clara County Civil Grand Jury report looks at cost of employee compensation and changes in revenue and services in the fifteen cities of Santa Clara County. The report criticized changes in employee compensation that led to long-term unfunded obligations. The report admonished cities to negotiate changes in employee costs to better correspond with city revenue. The cities were required to respond to the Grand Jury Questions (Santa Clara County Civil Grand Jury, 2010). The City of San Jose's response outlined projected budget shortfalls, revenue growth and employee costs. Half of the responses focus on employee benefit costs. There are diagrams on changes in pension contribution rates and it describes the City of San Jose's thoughts on pension obligations and strategies for employee cost containment (City of San Jose, 2010a).

The fiscal year 2010-2011 City of San Jose budget provides information on the need for

service cuts, projection on employee costs, and cost containment strategies. It includes an extensive breakdown on current costs per employee and the other fiscal challenges faced by the city (City of San Jose, 2010b). The budget information from the City of San Diego and City of Sacramento provides similar information.

The City of San Jose Office of the Independent Auditor studied both of the City of San Jose's retirement plans. The audit focused on increases in benefit costs due to pension enhancements, made worse by declining economic circumstances. The audit advises that pension costs could lead to a decrease in City services, and that the unfunded pension liabilities are getting bigger. The audit cites two reasons for increased costs: the age of retirees and guaranteed cost of living adjustments. It also has a section on alternatives to reduce pension costs, such as higher employee contributions, adding a tiered retirement plan, and other legal and procedural changes (City of San Jose, Office of the Independent Auditor, 2010).

Woolfolk describes a City of San Jose stakeholder group tasked with studying the City of San Jose structural deficit and options to create an "affordable retirement benefit plan". This article provides insights on the labor view of city structural deficits and potential changes to retirement plan options (Woolfolk, 2010).

The City of San Diego's pension problems are infamous. A New York Times article (2004) likens the San Diego pension problems to Enron in "San Diego Finds Itself being Viewed as a Kind of Enron-By-The-Sea". Lowenstein's book *While America Aged: How Pension Debts Ruined General Motors, Stopped the NYC Subways, Bankrupted San Diego, and Loom As the Next Financial Crisis* (2008) discusses excessive benefits provided to City employees, the risks taken by the City Treasurer, and the aftermath of decisions made by the Employees Retirement System Board.

The San Diego Pension Reform Committee (SDPRC), created by the Mayor and approved by the city council, "address[es] concerns about the current unfunded liability of the San Diego City Employees Retirement System (CERS)" (City of San Diego, n.d.). The SDPRC website includes documents about the creation of the committee, various historical documents, the committee's final report, the City Manager's action plan and analysis, and a minority report.

In his article "San Diego needs fundamental pension reform", McMahon (2004) discusses the San Diego pension plan and its unfunded liability. Additionally, many groups in San Diego are fighting for pension reforms (10News.com, 2011). The Comprehensive Pension Reform (CPR) for San Diego group gathered signatures to get a pension reform measure on the June 2012 ballot. Their website had information concerning the ballot initiative and their campaign (Comprehensive Pension Reform for San Diego, n.d).

In the City of Sacramento, the Mayor called for police officers to agree to pension changes in order to mitigate layoffs (Lillis, 2011). The City of Sacramento participates in the Public Employees' Retirement System (PERS) (City of Sacramento Human Resources, n.d.). The PERS website has specific information about the City of Sacramento pension plans. The City of Sacramento report, "Audit of Employee Health and Pension Benefits", provides information about the City's benefits and presents recommendations for changes to the pension plan (City of Sacramento, Office of the City Auditor, 2011). There are various news articles that discuss potential pension reform efforts in the City of Sacramento. Also in the 1990's there was a court case between the City of Sacramento and PERS regarding implementation of enhanced pension benefits without electing it (City of Sacramento v. Public Employees' Retirement System, 1994) which provides historical perspective on the City of Sacramento pension plan.

METHODOLOGY

With the economic downturn, all public expenditures are being scrutinized, with particular emphasis on taxpayer-backed expenses without dedicated funding sources, or those that are susceptible to economic changes. The first part of this research project examined what the pension obligations are and what they are projected to be for three similarly situated jurisdictions in California: the City of San Jose, the City of San Diego and the City of Sacramento.

For this research project, the reform efforts in the City of San Jose are benchmarked against the City of San Diego and the City of Sacramento. While all three jurisdictions are in different stages of pension reform efforts and have different political climates, they all have to operate within the same state constitutional framework, are covered by the same state and federal court decisions, and are of similar size. In analyzing the different reform efforts it was useful to understand the political and economic climate of each jurisdiction. An understanding of the political climate can be developed from newspaper articles about the jurisdictions. The discussion of the political climate includes information about the jurisdiction's union activity and its involvement in the jurisdiction's decision making process. Economic conditions of the cities can be determined from their budget documents, Comprehensive Annual Financial Report (CAFR) and various financial audits, where available. All of these documents were available from the respective jurisdiction's website or finance department.

The heart of the analysis is to determine if the reform efforts in the three cities have made or will make a difference in the current and future pension obligations. Some of the indicators of this difference in pension obligations are data that shows if there is a reduction in employer contribution rates, if there is a reduction in the unfunded liability, if the jurisdiction has been able

to reduce future pension obligations by implementing additional retirement tiers, and whether the jurisdiction has achieved concessions from bargaining units. Some examples of concessions could be increasing employee contributions to pension plan rates, increasing contributions to other benefits, and changing COLA or other retirement benefit options. If changes have been implemented, this data will be available in the city council reports and/or reports of the retirement board.

There are a number of ways jurisdictions can approach the pension obligations. Some options for the jurisdictions to explore are: to do nothing, implement a different type of plan, change benefits for current employees, or reduce or eliminate cost of living adjustments. Information about the pension rates, plan design, and projection models is public information which is available on the respective jurisdictions' websites or through the respective jurisdictions' retirement or human resources departments.

The goal of the benchmarking research is to provide useful information for California cities confronting the long term implications of the current pension systems. Findings are developed to analyze whether what the jurisdictions are doing will make a difference to their future pension obligations, and if one of the processes has produced a better outcome than another.

FINDINGS

City of San Jose

The City of San Jose is located in the San Francisco Bay Area; it is the seat of Santa Clara County and comprises over 175 square miles of land (US Census Bureau, 2012). With nearly one million people, it is the third largest city in the State of California (California Department of Finance, Demographic Research Unit, 2012). The City is racially diverse,

approximately 28% is White, 32% Asian, and 33% of Hispanic origin (US Census Bureau, 2012) (City of San Jose, Office of the City Manager, n.d.). Over 80% of the City's population has graduated from high school, with a median household income of $79,405 (US Census Bureau, 2012).

The City of San Jose is a Charter City (City of San Jose, n.d.). Per Article II, Section 200 of the Charter, the City has the "power to make and enforce all laws and regulations in respect to municipal affairs, subject only to such restrictions and limitations as may be provided in this Charter and in the Constitution of the State of California" (City of San Jose, 2010). As of April 10, 2012, there were 5,180 full time equivalent (FTE) represented employees for the City of San Jose, of which 1,730 are safety employees (City of San Jose, Office of Employee Relations, 2012), with a total position count of 5,470 (City of San Jose, Office of the City Manager, n.d.). For comparison purposes, the count in FY 2001-2002 was nearly 7,500 positions (City of San Jose, Office of the City Manager, n.d.).

The safety employees are members of the International Firefighters, Local 230 and the San Jose Police Officers' Association (City of San Jose, Office of Employee Relations, 2012). The remaining 3,450 FTEs are members of various bargaining units, some of which include the International Brotherhood of Electrical Workers, Confidential Employees' Organization, and Municipal Employees' Federation (City of San Jose, Office of Employee Relations, 2012). There are a total of eleven bargaining groups plus an unrepresented unit (City of San Jose, Office of Employee Relations, 2012).

According to the CAFR for the Federated Plan, there are 2,976 retired members as of June 30, 2011 (City of San Jose, Department of Retirement Services, 2011a, p. 121). The

number of retirees includes members who have service retirements, disability retirements, and those connected with deferred vesting (Maria Loera, personal communication, April 30 2012).

The Fire and Police retirement system's CAFR describes eight categories of retirees, including ex-spouses and survivors. The total number of safety retirees effective June 30, 2011 is 1,637 (City of San Jose, Department of Retirement Services, 2011b, p. 127), which includes retirees with regular service retirement, disability retirements, early retirement and those with deferred vesting (Maria Loera, personal communication, April 30 2012).

The City of San Jose's budget for fiscal year 2012-2013 is over $2.6 billion dollars (City of San Jose, Office of the City Manager, n.d.). Nearly $883 million of the budget supports general fund departments, such as the Library, Finance, Police and Fire departments. Approximately $1.4 billion of the budget is for enterprise fund departments that raise most of their own revenues from fees and charges, such as the Airport, Waste Water Treatment Plan and Sanitary Sewer fund (City of San Jose, Office of the City Manager, n.d.). Over 60% of the City's revenue is generated from property tax (26%), sales tax (20%), and utility taxes and franchise fees (17%) (City of San Jose, Office of the City Manager, n.d.).

There are three retirement plans for City of San Jose employees. The Federated City Employees' Retirement System (Federated) covers all full-time, non-safety employees (City of San Jose, Department of Retirement Services, 2011a) also known as "miscellaneous employees", the Police and Fire Department Retirement plan (PFDR) covers police and fire employees, and a plan through PERS covers City of San Jose Council members (Woolfolk, 2012a).

The employee contribution rates range from 8% to over 16%. Specifically, as of June 26, 2011 the employee contribution rate for miscellaneous employees is 11.20% of the base salary (City of San Jose Federated City Employees' Retirement System, Benefits Summary, 2011).

Some employees may pay a different amount depending on the provisions of their union contract (City of San Jose, Department of Retirement Services, 2011a). The employee contribution rate as of June 26, 2011, for police safety employees is 17.47% of the base salary (City of San Jose Police and Fire Department Retirement Plan, Benefits Summary, 2011a). The fire employee contribution rate to the pension plan is 15.62% of the base salary (City of San Jose Police and Fire Department Retirement Plan, Benefits Summary, 2011b). The employee contribution rate to the PERS plan is 8% (Sarah Nunes, Personal Communication, March 22, 2012).

The City of San Jose's contributions to the pension plans are significantly higher than the employee contributions, ranging from 15% to over 50% of the base salary. The employer contribution to the Federated plan, effective June 26, 2011, is 35.50% of the base salary (City of San Jose Federated City Employees' Retirement System, Benefits Summary, 2011). The City's contribution to the police employee retirement plan is 56.90% of the base salary effective June 26, 2011 (City of San Jose Police and Fire Department Retirement Plan, Benefits Summary, 2011a). The City's contribution to the fire employee retirement plan, effective June 26, 2011, is 56.32% of the base salary (City of San Jose Police and Fire Department Retirement Plan, Benefits Summary, 2011b). The employer contribution rate to the PERS plan is 15.33% (Sarah Nunes, Personal Communication, March 22, 2012).

The city and employee contributions to the various retirement plans have steadily increased. In 2010, the City released tables to illustrate the increase in contribution rates over the last decade. Tables 1, 2 and 3 show the city and employee contribution rates for Federated, Police and Fire employees.

Table 1: Federated Employees' Retirement System Contribution Rates

Effective Date	Total City Contribution Rate	Total Employee Contribution Rate	Total Contribution Rate
06/27/10	29.59%	10.30%	39.89%
06/28/09	24.01%	9.35%	33.36%
06/29/08	23.56%	8.93%	32.49%
07/02/06	21.98%	7.58%	29.56%
07/04/04	17.12%	6.06%	23.18%
06/23/02	15.20%	5.08%	20.28%
08/19/01	17.40%	4.96%	22.36%
06/25/00	16.09%	4.76%	20.85%
01/11/98	16.52%	5.31%	21.83%

(City of San Jose, Office of Employee Relations, 2010a)

Table 2: Police & Fire Department Retirement Plan (Police Contribution Rates)

Effective Date	Total City Contribution Rate	Total Employee Contribution Rate	Total Contribution Rate
06/27/10	44.58%	15.57%	60.15%
06/28/09	26.89%	12.96%	39.85%
06/29/08	25.80%	11.96%	37.76%
07/01/07	28.90%	11.67%	40.57%
12/17/06	28.51%	11.67%	40.18%
07/02/06	25.22%	11.26%	36.48%
07/03/05	25.04%	11.16%	36.20%
07/04/04	24.59%	11.16%	35.75%
06/23/02	14.22%	10.25%	24.47%
06/25/00	15.70%	9.79%	25.49%

(City of San Jose, Office of Employee Relations, 2010c)

Table 3: Police & Fire Department Retirement Plan (Fire Contribution Rates)

Effective Date	Total City Contribution Rate	Total Employee Contribution Rate	Total Contribution Rate
06/27/10	44.16%	13.70%	57.86%
06/29/08	28.31%	12.40%	40.71%
07/01/07	25.61%	11.26%	36.87%
07/02/06	25.22%	11.26%	36.48%
07/03/05	25.04%	11.16%	36.20%
07/04/04	24.59%	11.16%	35.75%
06/23/02	14.22%	10.25%	24.47%
06/25/00	15.70%	9.79%	25.49%

(City of San Jose, Office of Employee Relations, 2010b)

Pension plan designs and benefit formulas are unique to jurisdictions and the benefit options vary by represented unit. In San Jose, miscellaneous "[m]embers may retire at age 55 with five or more years of service or at any age with 30 years of service. The monthly retirement allowance payable is the Final Average Salary multiplied by 2.5% per year of service (Maximum Benefit: 75% of the Final Average Salary)" (City of San Jose, Department of Retirement Services, 2011a, p. 18). Employees in this plan also have reciprocity with PERS (City of San Jose, Department of Retirement Services, 2011a), meaning their years of service with the City plan can be used in conjunction with PERS years of service when calculating their retirement benefits.

The plan design and benefit formulas are more complicated for City of San Jose police and fire employees. The benefit formula for police and fire employees changes depending on the employee's date of hire (City of San Jose, Department of Retirement Services, 2011b), and is dependent on the employee's years of service and retirement date. Specifically, the Police and Fire Department Retirement Plan CAFR states:

> An employee who reaches the normal retirement age of 55 with 20 years of service; an employee of age 50 with 25 years of service; an employee of any age with 30 years of service; or an employee of age 70 with no service requirement is entitled to a monthly retirement allowance equal to the final compensation multiplied by 2.5% multiplied by years of service up to 30 years (Maximum benefit, 75% of final average salary) if the employee retired prior to February 4, 1996. After February 4, 1996 but prior to February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next ten years (Maximum benefit, 80% of final average salary). After February 4, 2000, the monthly allowance consists of final compensation multiplied by 2.5% for the first 20 years of service, by 3% for the next five years of service, by 4% for the next 5 years of service (Maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final compensation multiplied by 2.5% for the first 20 years of service and by 4% for the next 10 years of service (Maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance for a service retirement

> consists of final average salary multiplied by 2.5% for the first 20 years of service. For Fire members with 20 or more years of service, allowance for a service retirement consisting of final average salary multiplied by 3.0% for each year (maximum benefit, 90% of final average salary). (City of San Jose, Department of Retirement Services, 2011b, p. 18)

In addition to the db plan, the City of San Jose offers a deferred compensation plan, also called a 457 plan, to its employees (City of San Jose, Human Resources Department, 2012) and a Mandatory Contribution plan for part time, temporary and contract employees (City of San Jose, Human Resources Department, n.d.).

The City of San Jose does not participate in Social Security (City of San Jose, Department of Retirement Services, 2007). Therefore, the employees are subject to the windfall elimination provisions as well as the governmental pension offset, which applies to the spouses or dependents of the retired employee (City of San Jose, Department of Retirement Services, 2007).

According to the 2010-2011 Police and Fire plan CAFR, the investment rate return assumption was 7.75% (City of San Jose, Department of Retirement Services, 2011b) and for the Federated plan it was 7.95% (City of San Jose, Department of Retirement Services, 2011a). Recently, actuaries for the plans recommended changing the assumption rate to 7.25%, but the city council decided to set the assumption rate at 7.5% (Sarah Nunes, Personal Communication, March 22, 2012).

As of June 30, 2011, the Police and Fire plan had over $2.6 billion dollars in net assets (City of San Jose, Department of Retirement Services, 2011b, p. 28) and the Federated plan had over $1.7 billion dollars in net assets (City of San Jose, Department of Retirement Services, 2011a, p. 26). Plan assets fluctuate daily as the plans realize investment gains and losses, therefore the Civil Grand Jury's estimate that the City of San Jose plans have approximately $4

billion dollars in assets (Santa Clara County Civil Grand Jury, 2012) is likely a good approximation of the current plan assets.

The City of San Jose anticipates that the fiscal year 2014-2015 annual contribution will be approximately $319 million dollars, or employer contribution rates of 78% for police and fire employees and 65% for federated employees (City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21, 2012) (pg. 6). When discussions of the required contributions and pension efforts began in January 2011, the projected cost was over $400 million (Figone, 2012a). Through the discussion process, an off the cuff comment seemed to indicate the city's contribution could be upwards of $650 million dollars (Figone, 2012a). Considering the number of assumptions required to create the pension fund projections, changes in the projected shortfall are expected. However, the City of San Jose faces increasing media scrutiny and pressure to explain the changes in the projected contribution to pension plans. As a result, legislators in the California State Assembly called for an independent audit of the pension system (City of San Jose, Office of Mayor Chuck Reed, 2012) in part, according to Assemblyman Ricardo Lara, "to make sure the numbers the city is using are actually correct" (Woolfolk, 2012c). In response to these reports, officials with the City of San Jose released a detailed memo, with a timeline, illustrating how their discussion of an anticipated pension shortfall has been consistent (Figone, 2012a), yet a recent investigative report continues to question the conduct of City officials during the pension reform discussions (Susko, Putnam, & Villarreal, 2012).

The City of San Jose is in a politically contentious climate, with Mayor Reed advocating for a fiscal reform platform (City of San Jose, Office of Mayor Chuck Reed, n.d.) (Figone, Fiscal

reform plan, managers budget addendum #1, 2011a), while his methods are generally opposed by the unions (Stevens, 2011). Communication issues between the city and the unions have resulted in long, drawn out, public arguments about scope, scale and implementation of fiscal reform efforts (Saillant & Perry, 2012). Over the past three years the City of San Jose has provided many documents about the state of their pension finances. The increase in pension payment obligations as a function of payroll is one of the main reasons that precipitated the call for pension plan reforms in the City of San Jose (Reed, 2011) (Figone, 2012a). Estimates for the total retirement costs in the next few years vary. According to the City Manager's Retirement Projections Fact Sheet, in fiscal year 2015-2016 the total obligation for retirement costs is approximately $400 million dollars (Figone, 2012a).

The City of San Jose negotiated with the bargaining units to make changes to the pension plans, but the parties were unable to come to agreement (City of San Jose, Office of Mayor Chuck Reed, n.d.). To address the obligations, on March 6, 2012, the San Jose City Council voted on modified language for a pension reform ballot measure. The measure they discussed sets parameters for another pension plan tier for new employees, requires current employees to pay more towards their pension plans or move to the new lower tier plan, allows the city to suspend cost-of-living-increases in times of fiscal emergency, and requires voter approval for any increases to pension benefits (Woolfolk, 2012b) (Reed, 2012). The requirement to increase contribution or move to a lower retirement plan for current employees would not take effect until June 23, 2013, allowing the City to verify the legality of the measure prior to its implementation (City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21, 2012). The San Jose City Council's approval of the ballot language

for the June 2012 primary, changing City pension plans, generated various pension plan option reports, public testimony (San Jose Mercury News Editorial Board, 2012) and a lawsuit.

Four taxpaying, registered voters of San Jose argued the language of the ballot measure, as approved by the city council, was misleading and partial towards passage, rather than being neutral (McDonough, et al. vs City of San Jose, et al., 2012). A Superior Court judge agreed and ordered the City of San Jose to change the title of the measure from "Pension Reform" to "Pension Modification" and change all references to "reform" in the description to "modify" (McDonough, et al. vs City of San Jose, et al., 2012). The intent of the ruling was to make the description impartial, as required by Elections Code and the City Charter (McDonough, et al. vs City of San Jose, et al., 2012).

Once the revised measure was placed on the ballot, on May 1, 2012 the City of San Jose Council tried to implement a second retirement tier for new employees through the approval of the last, best and final offer on various bargaining units (City of San Jose, City Council Agenda May 1, 2012 Synopsis, n.d.) (Woolfolk, 2012d). After a spirited discussion, the item failed and was referred back to committee to be re-agendized at a future meeting date (City of San Jose, City Council Agenda May 1, 2012 Synopsis, n.d.). Re-agendizing this item essentially postponed action on the second tier until after the June 2012 election (City of San Jose, City Council Agenda May 1, 2012 Synopsis, n.d.).

Over one million dollars (Woolfolk, 2012e) was spent by the campaigns supporting and opposing the measure. In the end, the ballot measure passed (Woolfolk, 2012f), with 69.02% of the voters selecting "yes" on the measure (Seipel, 2012b). Following passage of the ballot measure, the City again moved to implement a second tier retirement plan.

On June 12, 2012, the San Jose City Council approved Agenda Items 3.7 through 3.16 which imposed the last, best and final offer on the following bargaining units:

- Association of Building, Mechanical and Electrical Inspectors (ABMEI);
- Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Units 041 and 042;
- Association of Engineers and Architects, International Federation of Professional and Technical Engineers, Local 21, Unit 043;
- Association of Legal Professionals of San Jose (ALP);
- Association of Maintenance Supervisory Personnel, International Federation of Professional and Technical Engineers, Local 21 (AMSP);
- City Association of Management Personnel (CAMP);
- International Federation of Professional and Technical Engineers, Local 21;
- International Brotherhood of Electrical Workers, Local No. 332 (IBEW);
- International Union of Operating Engineers, Local No. 3 (OE3);

and implemented similar terms for unrepresented employees. Together, the unrepresented group and the various bargaining units listed comprise all of the employee groups in the Federated retirement plan (City of San Jose, Office of the City Clerk, 2012). The council action, precipitated by approval of Measures V, W and B, created a second tier retirement plan for new employees and significantly changed the health care options available to retirees, current and future employees.

The health plan changes added a new high deductible plan with lower premiums that could save between $10 million to $11 million dollars. These cost savings would be shared

equally between the City and the employees (Figone, Supplemental Information for Items 3.3 to 3.12 on April 27, 2012 City Council Meeting, 2012b).

The new retirement tier offers lower benefits, specifically non-safety employees hired on or after July 1, 2012, will participate in a 2% at 65 db plan (Figone, 2012c), a retirement age that is ten years higher than the retirement age for current employees. The maximum pension amount for participants in the second tier is 65% of final compensation. The cost of living increases in retirement will be tied to inflation and capped at 1.5% (Figone, 2012c). It is anticipated that the employer contribution to the second tier plan will be significantly lower than the contributions for the current retirement tier, especially since the employer and employee share equally in the costs associated with the plan (Figone, 2012c).

According to Bartel and Associates, the City's actuary, the normal costs for the second tier could be between 13.8% to 15.9%, meaning the City's cost would be between 6.9% to 7.95% (Figone, 2012c). These figures assume that the demographics of the second tier are similar to the demographics of the employees hired in the last five years, thus the estimated rates are subject to change (Figone, 2012c).

While written documents indicate the second tier will apply to employees hired after July 1, 2012, the second tier plan still must be reviewed by the Federated Retirement Board, and the city council must approve a City ordinance implementing the new tier (City of San Jose Council Meeting, June 12, 2012). It is only after the ordinance is passed that the second tier will apply to new employees (City of San Jose Council Meeting, June 12, 2012). Any savings from the second tier are delayed until the implementation. The City of San Jose was in negotiation with the safety bargaining units to implement a second tier for new safety employees. However, the parties did not reach agreement and are pursuing arbitration on this item (Woolfolk, 2012g). The

Council action does not address the most contentious part of the ballot measure, in which pension plans or plan contributions for current employees will be changed on a prospective basis.

On June 5, 2012, the City filled a complaint for declaratory relief (City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21, 2012). This suit requests that the Court determine if Measure B violates the contracts clause of both the Federal and State constitutions, due process guarantees and infringes on vested rights. The City argues that Measure B is a cost containment vehicle and its implementation avoids putting the City's benefit program in financial risk, and that the measure does not impinge on constitutional and vested rights (City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21, 2012). Further, the City argues that the San Jose City Charter allows for modifications to the retirement plans (City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21, 2012).

Opponents of the measure sued the city on behalf of current Fire employees and retirees, contending that Measure B violates their property rights and fails to provide compensation for the taking of said property rights (Robert Sapien, Mary Kathleen McCarthy, Thanh Ho, Randy Sekany and Ken Heredia v City of San Jose, Debra Figone, Does 1-15, the Board of Administration for the 1961 San Jose Police and Fire Department Retirement Plan, 2012). The San Jose Police Officers' Association (SJPOA), in a separate suit, argues that Measure B abridges their contract and property rights, violates the Meyers-Milias-Brown Act (MMBA), and

contains provisions that discourage employees from exercising their free speech rights and circumvents the Court's authority to address and remedy illegal provisions of the measure (San Jose Police Officers' Association v City of San Jose, Board of Administration for Police and Fire Department Retirement Plan of City of San Jose and Does 1-10, 2012).

Another obstacle is that the opt-in provision for the current employees requires review and approval by the Internal Revenue Service (IRS) (City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21, 2012), due to a 2006 IRS ruling that has tax implication for lower tier plans (Steyer, 2011). There is no time frame for when such approval, if any, would be provided. Orange County created a hybrid pension plan in 2009, part dc, and part db for new employees, and negotiated with their unions to allow current employees to opt-in to the new plans, subject to IRS approval. To date, Orange County has not received IRS approval for current employees to move into the less expensive pension plan (San Diego Union Tribune Editorial Board, 2012).

Unlike the Orange County plan, the City of San Jose pension reform plan has built in a fail-safe measure. If IRS approval is not achieved, employees will be required to contribute up to 16% of pay towards the unfunded liabilities in addition to normal employee contribution to the pension plan. If the Court deems the pension measure to be illegal, then employees' salaries will be reduced up to 16% (City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21, 2012).

City of Sacramento

The City of Sacramento, located in the heart of California, is the seat of government for the state. The City has a land area over 97 square miles, and the demographics are over 34% White, 26% Hispanic, 18% Asian and over 14% Black (US Census Bureau, 2012a). Similar to San Jose, over 80% of Sacramento's residents have a high school diploma (US Census Bureau, 2012a). The median income in the City of Sacramento is $50,267 annually, with 17% below the poverty level (US Census Bureau, 2012a).

For fiscal year 2012-2013 the City has a proposed budget of $1.6 billion dollars (City of Sacramento, Finance Department, n.d.). The general fund is $365 million dollars, while the rest of the budget is comprised of various enterprise funds, including "Parking Fund, Water Fund, Wastewater Fund, Solid Waste Fund, Marina Fund, Community Center Fund and Storm Drainage Fund" (City of Sacramento, Finance Department, n.d.). Almost 60% of the budgeted revenues come from taxes (27.1%) and charges, fees and services (30.4%) (City of Sacramento, Finance Department, Budget, Policy and Stategic Planning Division, 2012a). Over 80% of the general fund expenses are dedicated to personnel costs (City of Sacramento, Finance Department, Budget, Policy and Stategic Planning Division, 2012a).

The budget supports 3,791 FTE positions (City of Sacramento, Finance Department, Budget, Policy and Stategic Planning Division, 2012a), of which 1,367.46 FTEs are allocated to the Police (841.96 FTE) and Fire Departments (525.5), and 2,424.08 FTEs are allocated to the other City Departments (City of Sacramento, Finance Department, Budget, Policy and Strategic Planning Division, 2012b). The City of Sacramento has 17 labor unions and unrepresented units (City of Sacramento, Human Resources Department, n.d.).

The City of Sacramento participates in the Sacramento City Employee Retirement System (SCERS) and CalPERS (Denise Deprato, personal communication, March 12, 2012). As of 1978, the SCERS plan was closed to new members from the City of Sacramento (City of Sacramento, Office of the City Treasurer, 2008). There are 75 employees in the SCERS plan, of which 53 are active and 22 are as a result of reciprocity and vesting options (Denise Deprato, personal communication, March 12, 2012). In the PERS plan there are 2,396 active miscellaneous employees and 1,238 active safety employees (Denise Deprato, personal communication, March 12, 2012). According to the "PERS Annual Valuation Report as of June 30, 2010", there are 1,302 retirees and beneficiaries in the miscellaneous plan and 926 in the safety plan, for a total of 2,228 retired members and beneficiaries (Press Room, CalPERS Office of Public Affairs, personal communication, July 11, 2012). There are 997 miscellaneous retirees and 262 safety employees in the SCERS plan (Denise Deprato, personal communication, March 12, 2012).

Employee contribution for the SCERS plan is between .68% and 9.51% (Denise Deprato, personal communication, March 12, 2012), depending on the employee's age at the time of joining SCERS (Denise Deprato, personal communication, April 5, 2012). The employee contribution for miscellaneous employees in the PERS plan is 7% and for safety employees it is 9% (Denise Deprato, personal communication, March 12, 2012).

The employer contribution rate for SCERS is 3.7%, for PERS miscellaneous employees the City's contribution is 12.659% and the contribution for safety employee is 27.53% (Denise Deprato, personal communication, March 12, 2012). For historic context, in 2009 the PERS employer contribution was 11.22% for miscellaneous employees and 22.58% for safety

employees (CalPERS, 2009). The employee contributions, at that time, are the same as current contributions.

Over the last thirty years, the City of Sacramento has made various changes and enhancements to the retirement benefits available to employees. Table 4 provides a breakdown of the benefit formulas available for current employees.

Table 4: City of Sacramento PERS Retirement Contract Summary

PERS Retirement Contracts Summary All Member Categories 02/15/2012						
Member Category	**Member Category Effective Date**	**Benefit Formula**	**Risk Pool**	**Final Compensation**	**COLA**	**Status**
Safety - Fire	09/01/1974	3% @ 55 Formula for State Peace Officer/Firefighter or Local Safety Member	Yes	Final Compensation 1 Year	2% Annual Cost-of-Living Allowance Increase	Active
Miscellaneous	01/29/1977	2% @ 55 Formula for Local Miscellaneous Members	Yes	Final Compensation 1 Year	2% Annual Cost-of-Living Allowance Increase	Active
Safety - Police	01/29/1977	3% @ 50 Patrol or Local Safety Member	Yes	Final Compensation 1 Year	2% Annual Cost-of-Living Allowance Increase	Active
Safety - Police	12/30/1989	3% @ 50 Patrol or Local Safety Member	Yes	Final Compensation 1 Year	3% Annual Cost-of-Living Allowance Increase	Active
Safety - Fire	12/30/1989	3% @ 55 Formula for State Peace Officer/Firefighter or Local Safety Member	Yes	Final Compensation 1 Year	3% Annual Cost-of-Living Allowance Increase	Active
Safety - Police	01/01/1990	3% @ 50 Patrol or Local Safety Member	Yes	Final Compensation 1 Year	2% Annual Cost-of-Living Allowance Increase	Active
Safety - Fire	01/01/1990	3% @ 55 Formula for State Peace Officer/Firefighter or Local Safety Member	Yes	Final Compensation 1 Year	2% Annual Cost-of-Living Allowance Increase	Active
Miscellaneous	12/19/1997	2% @ 55 Formula for Local Miscellaneous Members	Yes	Final Compensation 1 Year	2% Annual Cost-of-Living Allowance Increase	Active
Prepared by: Genna Tanner, Labor Relations Analyst						

(Denise Deprato, personal communication, March 12, 2012)

The benefit formula for employees in the SCERS retirement plan is dependent on their age at retirement. The formulas range from a benefit of 1.1% @ 50 to 2.4% @ 60. Table 5 shows the complete breakdown for employees aged 50 through age 60.

Table 5: Benefit formula for SCERS Employees

MISCELLANEOUS MEMBERS PERCENTAGE OF FINAL COMPENSATION				
Age of Retirement	Exact	1/4	1/2	¾
50	1.1000	1.1325	1.1650	1.1975
51	1.2300	1.2625	1.2950	1.3275
52	1.3600	1.3925	1.4250	1.4575
53	1.4900	1.5225	1.5550	1.5875
54	1.6200	1.6525	1.6850	1.7175
55	1.7500	1.7825	1.8150	1.8475
56	1.8800	1.9125	1.9450	1.9775
57	2.0100	2.0425	2.0750	2.1075
58	2.1400	2.1725	2.2050	2.2375
59	2.2700	2.3025	2.3350	2.3675
60+	2.4000			

(Denise Deprato, personal communication, March 12, 2012)

The City also offers a 401a type plan for exempt employees. The City and employee contribute to the plan (City of Sacramento, Human Resources Department, n.d.).

There are no rate plan projections available for SCERS (Denise Deprato, personal communication, March 12, 2012). The current investment rate of return for the SCERS plan is 6.5% (Denise Deprato, personal communication, March 12, 2012).

The City of Sacramento anticipates its contribution to the PERS plan will increase as follows:

Year	Misc	Safety
2013	12.844%	27.781%
2014	13.0%	28.2%
2015	13.1%	28.6%

(Denise Deprato, personal communication, March 12, 2012)

These projections do not take into account changes adopted by the PERS board to lower the discount rate on investment returns from 7.75% to 7.5% (CalPERS, External Affairs Branch, 2012). This change will "increase by 1 to 2 percent for Miscellaneous plans and 2 to 3 percent for Safety plans beginning Fiscal year 2013-14" (CalPERS, External Affairs Branch, 2012). To soften the impact on employers, the reduction in investment rate return may be smoothed over two years (CalPERS, External Affairs Branch, 2012).

The total assets under management for the SCERS plan are $301 million (Denise Deprato, personal communication, March 12, 2012). The PERS "Annual Valuation Report as of June 30, 2010" shows that the market value of assets is $770,296,873 for the safety plan and $477,184,231 for the miscellaneous plan, a total value of over $1.2 billion dollars (Press Room, CalPERS Office of Public Affairs, personal communication, July 11, 2012).

No additional information is available on other plan models for the City of Sacramento (Denise Deprato, personal communication, March 12, 2012) and only the PERS plan is available to employees (Denise Deprato, personal communication, March 12, 2012). The City of Sacramento participates in Social Security (Denise Deprato, personal communication, March 12, 2012).

Compared to the political climate in the City of San Jose and the City of San Diego, the City of Sacramento is relatively calm. There is no daily mention in the press of the city's dealings with employee relations and other city matters. The proximity to the state legislature may apply additional scrutiny to city functions, but the city appears poised to conduct reform efforts outside of the ballot box.

In 2011, the City of Sacramento set the groundwork for their pension reform efforts by reviewing an audit report that recommended employees begin making contributions to the

retirement plan (Hurt, 2011). In a recent budget study session, the Sacramento City Council approved the budget plan that closed the $15.7 million dollar deficit, mainly through increases in employee contributions to the pension plans (Lillis, 2012b). While no documents about the City of Sacramento's pension reform efforts are available (Denise Deprato, personal communication, March 12, 2012), the City Council and the City Manager's office have discussed pension reform efforts and other options for reducing pension obligations through annual budget discussions (Lillis, 2011).

Most of the pension discussions in Sacramento revolve around the employee's required contributions to pension plans. As a member of PERS, by law the employee is required to contribute a fixed amount to the specific pension plan (City of Sacramento, Office of the City Auditor, 2011). Based on Sacramento's plan selection, a miscellaneous employee's contribution is 7% and a safety employee's contribution is fixed at 9%. The City may negotiate with labor unions and pay some or all of the employee potion of the pension contribution (City of Sacramento, Office of the City Auditor, 2011). This pickup is typically referred to as "Employee Paid Member Contribution" or "EPMC" (Gould, 2011).

In fiscal year 2009-2010, the EPMC for police and fire employees was 9%, EPMC for miscellaneous employees ranged from 3%-7% (City of Sacramento, Office of the City Auditor, 2011). These contribution rates, in addition to the required employer contribution, resulted in the City paying over $44 million dollars for employer contributions and nearly $17 million dollars in employee contributions (City of Sacramento, Office of the City Auditor, 2011, p. 33). The auditor estimated that if employees paid 4% towards the pensions, the City could save over $86 million dollars in a decade. An increase in the employee contribution to 5% results in savings of

nearly $123 million dollars in the same time span (City of Sacramento, Office of the City Auditor, 2011).

To address this audit recommendation and reduce budget expenditures, over the last two years the City has negotiated with the various bargaining units to decrease EPMC. Now the executive managers, department heads and unrepresented employees contribute their full 7% towards their respective pension plans (Lillis, 2012b). In 2011, Fire employees agreed to continue to defer a 5% raise, originally scheduled to take effect in 2008 and then 2012, to 2013 and contribute 6% towards their share of pension contributions (Kalb, 2011). These actions saved the city $3.5 million dollars in salary savings and $3 million dollars in pension related costs (Kalb, 2011). This decrease in EPMC is being used to save Fire department jobs (Lillis, 2012b). Discussions with the police department did not result in any changes to the EPMC, thus the City continues to contribute the full 9% towards the employees' share (Lillis, 2012b).

City of San Diego

The City of San Diego, located in Southern California, has a population of over 1.3 million and is the second largest city in California (California Department of Finance, Demographic Research Unit, 2012). Over 45% of the population is White, with almost 29% of Hispanic origin and approximately 16% Asian (US Census Bureau, 2012a). The City covers over 325 square miles of area and residents have a median income of $62,480 dollars annually (US Census Bureau, 2012a).

The City of San Diego is a Charter City (City of San Diego, Office of the City Clerk, n.d.). The proposed fiscal year 2012-2013 budget is over $2.7 billon dollars, of which nearly $1.2 billion dollars is in the general fund, with just over $900 million in the Enterprise Funds (City of San Diego, Financial Management Department, 2012). Similar to the City of San Jose

and the City of Sacramento, over 53% of the general fund revenue is generated from taxes, specifically property tax (33.9%) and sales tax (20.4%). The rest of the general fund comes from various other revenue sources such as licenses and permits, fines, and other fees and charges (City of San Diego, Financial Management Department, 2012). The proposed budget for the general fund includes 7,105.42 FTEs (City of San Diego, Financial Management Department, 2012), of which 3663.74 FTEs are in the Fire-Rescue Department (1,148.89) and Police Department (2,514.85) (City of San Diego, Financial Management Department, 2012). Including the enterprise funds, the City of San Diego's proposed budget includes funding for 10,059.44 FTEs (City of San Diego, Financial Management Department, 2012). These employees are situated is six different bargaining units (City of San Diego, Financial Management Department, 2012).

The City of San Diego participates in the San Diego City Employees' Retirement System (SDCERS). SDCERS also administers the retirement plans for the San Diego Port District and the San Diego Airport Authority (Johnny H. Tran, Esq., Personal Communication, January 30, 2012). As of June 30, 2011 there were a total of 7,792 active members in the SDCERS plan, of whom 5,498 are general members and 2,294 are safety employees (Cheiron, 2012, p. 31). Effective June 30, 2011, there are a total of 7,902 payees from the SDCERS system (Cheiron, 2012, p. 32). Payees include retired employees, disability retirement and beneficiaries. Of those nearly eight thousand retirees, 4,039 are general retirees (regular – 3,618 and disability retirement - 421) and 2,677 are safety retirees (regular – 1,862 and disability - 815) (Cheiron, 2012, p. 32).

These figures do not include the participants in the Deferred retirement Option Plan (DrOP) program, which provides some members with a different way to accrue benefits in the

SDCERS plan (San Diego City Employees' Retirement System, 2011b). The DrOP participants are retired from the SDCERS system, so the City and Employee no longer contribute to the plan, however the employee continues to work and instead, the employer and employee pay a fixed amount into an annual annuity. Once the DRoP participant leaves employment, he may draw on the defined pension benefit and the annuity (San Diego City Employees' Retirement System, 2011b, p. 108). As of 2005, the City no longer offers participation in the DRoP program (San Diego City Employees' Retirement System, 2011b). There are an additional 980 participants in the DrOP program, 554 general employees and 426 safety, as of June 30, 2011 (Cheiron, 2012, p. 32).

Employee contributions depend on the participant's age at the time he joins the SDCERS plan. Effective June 30, 2011, the contribution rate for a 20 year old general employee hired on or after July 1, 2009 is 3.37%, while for a general employee aged 57 it is 11.06% (Cheiron, 2012). For police employees hired on or after July 1, 2009, the contributions rates range from 9.97% (age 20) to 17.49% (age 49). The rate for fire employees is not dependent on date of hire and ranges from 12.54% (age 20) to 17.57% (age 49); similarly, the range for lifeguards is between 12.45% (age 20) to 16.28% (age 49) (Cheiron, 2012). Table 6 displays the current employee contribution rate matrix.

Table 6: SDCERS Employee Contribution Rates

Table C-6
SDCERS - City of San Diego
Employee Contribution Rates

	General		Police		Fire	Lifeguard
Entry Age	Hired Before 7/1/2009	Hired On or After 7/1/2009	Hired Before 7/1/2009	Hired On or After 7/1/2009	All Members	All Members
20	6.74%	3.37%	12.54%	9.97%	12.54%	12.45%
21	7.10	3.66	12.77	10.47	12.77	12.68
22	7.48	3.96	13.07	10.98	13.07	12.98
23	7.88	4.27	13.46	11.51	13.46	13.30
24	8.27	4.57	13.85	12.04	13.85	13.61
25	8.66	4.88	14.23	12.59	14.23	13.92
26	9.03	5.19	14.56	12.97	14.56	14.20
27	9.39	5.51	14.88	13.18	14.88	14.45
28	9.74	5.82	15.17	13.43	15.17	14.65
29	10.07	6.15	15.41	13.71	15.41	14.78
30	10.39	6.46	15.80	14.01	15.80	15.19
31	10.69	6.79	15.85	14.30	15.85	15.13
32	10.98	7.11	15.94	14.61	15.94	15.08
33	11.25	7.43	16.06	14.92	16.06	15.02
34	11.49	7.76	16.13	15.23	16.13	14.97
35	11.77	8.07	16.10	15.45	16.10	14.91
36	11.72	8.35	16.56	15.82	16.56	15.34
37	11.67	8.59	16.99	16.17	16.99	15.74
38	11.64	8.79	17.39	16.52	17.39	16.11
39	11.65	9.00	17.76	16.84	17.76	16.46
40	11.68	9.21	18.10	17.15	18.10	16.77
41	11.69	9.40	18.41	17.43	18.41	17.06
42	11.69	9.60	18.68	17.69	18.68	17.31
43	11.91	9.83	18.91	17.90	18.91	17.52
44	12.14	10.07	19.09	18.07	19.09	17.68
45	12.36	10.30	19.19	18.17	19.19	17.77
46	12.58	10.54	18.57	17.71	18.57	17.21
47	12.78	10.76	18.27	17.60	18.27	16.92
48	12.98	10.98	17.93	17.55	17.93	16.61
49	13.16	11.19	17.57	17.49	17.57	16.28
50	13.31	11.38				
51	13.44	11.56				
52	13.53	11.72				
53	13.29	11.80				
54	13.02	11.81				
55	12.70	11.65				
56	12.43	11.35				
57	12.21	11.06				

(Cheiron, 2012, p. 61)

The employer contribution rate to the retirement plan is 46.64% effective June 30, 2011 (Cheiron, 2012).

The City of San Diego Employees' Retirement System Charters, policies, resolutions and rules of the board of administration (Charters) document provides employee contribution rates from 1989 to present. From 1989 to 2005, the City of San Diego employee contribution rate was lower for the first $400 per month and increased on the excess of $400 salary per month (San

Diego City Employees' Retirement System, 2011a). In addition the entry age to the system was lower, age sixteen (San Diego City Employees' Retirement System, 2011a). To provide a more accurate comparison to the current employee contribution rates, Table 7 summarizes the rates from 2007 to 2010, as reported in the Charters document appendix (San Diego City Employees' Retirement System, 2011a, pp. 313-365).

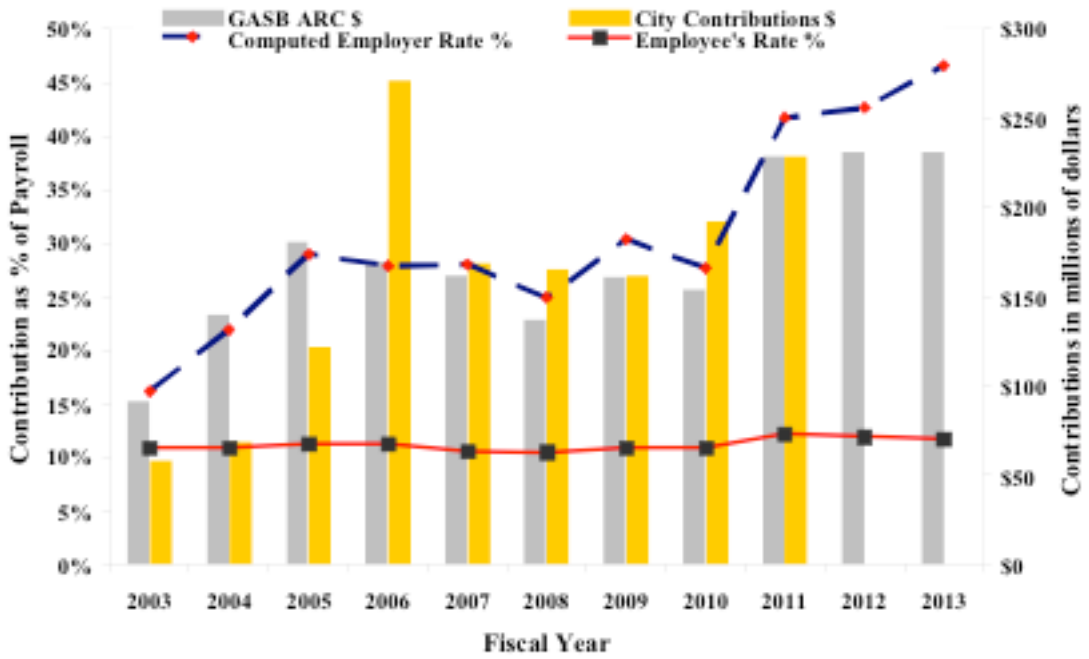
Table 7: SDCERS Employee Contribution Rates

	General	Police	Fire	Lifeguard
2007	9.18% - 14.21%	11.86% - 16.97%	11.55% - 16.66%	11.20% - 16.31%
2008	9.18% - 14.21%	11.86% - 16.97%	11.55% - 16.66%	11.20% - 16.31%
2009	3.37% - 11.06%*	9.97% - 17.49%*	12.54% - 17.57%	12.45% - 16.28%
2010	3.37% - 11.06%	9.97% - 17.57%	12.54% - 17.57%	12.45% - 16.28%

*implemented a new lower tier retirement plan for employees hired after July 25, 2009 (San Diego City Employees' Retirement System, 2011b)

Over this time period the employer contribution increased nearly 15%, Figure 1 shows the employer contribution from 2003 through 2013.

Figure 1: SDCERS City and Member Contribution Rates



(Cheiron, 2012, p. 8)

The retirement benefit formula for City of San Diego employees is calculated based on the age at retirement. A vested miscellaneous employee hired after July 1, 2009, aged 55, is eligible for 1% times their creditable years of service times their final compensation (San Diego Municipal Code Section 24.0401-24.0405, 2011). The same member who retires at age 65 is eligible for 2.6% times their creditable years of services times their final compensation (San Diego Municipal Code Section 24.0401-24.0405, 2011). Police and fire retirement benefit formula are also based on age at retirement. A police employee hired after July 1, 2009 is eligible for 2.5% at 50 up to 3% at 55 (San Diego Municipal Code Section 24.0401-24.0405, 2011). A fire employee hired after January 1, 2012 is eligible for 2.5% at 50 up to 3% at 55 (San Diego Municipal Code Section 24.0401-24.0405, 2011).

The City of San Diego investment rate return assumption for the current plan is 7.5% (Cheiron, 2012). Based on the City's 2011 CAFR, the SDCERS plan had approximately $5.3 billion dollars in net assets (San Diego City Employees' Retirement System, 2011b, p. 22).

In addition to the pension plan, the City of San Diego offers a deferred compensation plan to its employees (Johnny H. Tran, Esq., Personal Communication, January 30, 2012), a 457 plan (Valerie VanDeweghe, personal communication, June 8, 2012) and at one time a Supplemental Pension Savings Plan (City of San Diego Pension Reform Committee, 2004). The Supplemental Pension Savings Plan was for general employees (City of San Diego Pension Reform Committee, 2004) and required to participants to contribute at least 3.5% of their salary after-tax, which was matched by the City. The SPSP plan was eliminated in 2009 for new employees (City of San Diego, 2010).

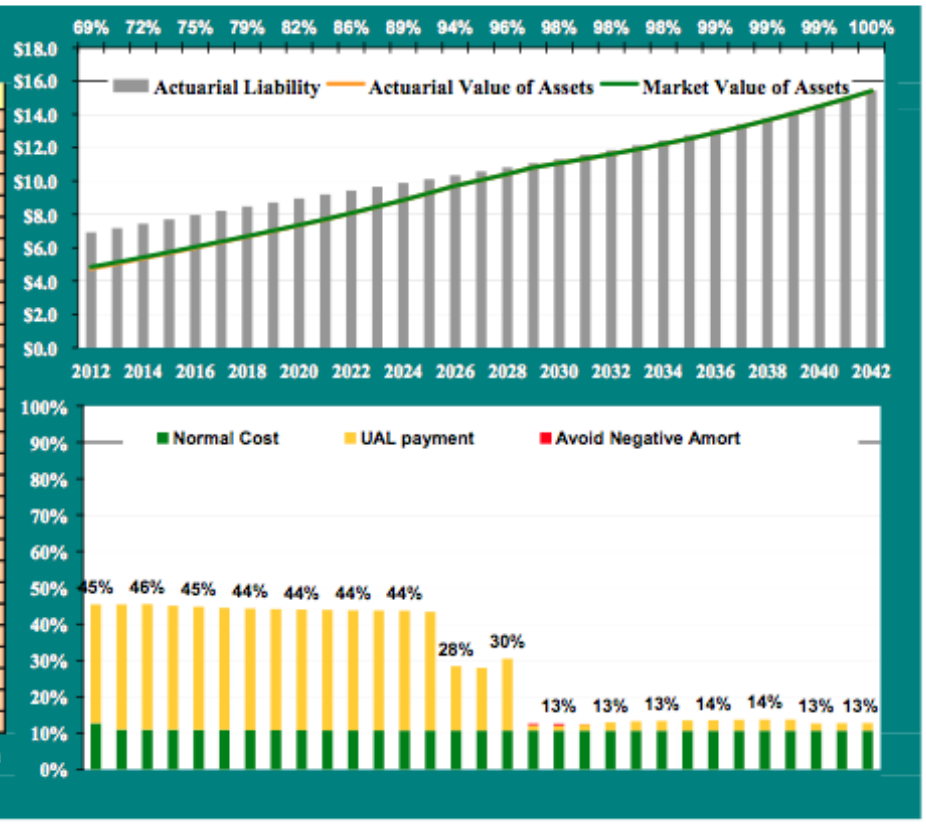
City of San Diego employees do not participate in Social Security, retirees with prior service in Social Security are subject to Social Security Windfall provisions (Valerie VanDeweghe, personal communication, June 8, 2012).

The City implemented a new lower retirement tier for miscellaneous and police employees hired after July 25, 2009 (San Diego City Employees' Retirement System, 2011b) but the City's projections still indicate that the City's contribution to pensions will increase over the next three years to nearly 47% of payroll (Cheiron, 2012). Following the high of 47%, the actuarial audit suggests a gradual decrease to approximately 11% of payroll, until the rates again increase to levels similar to today. Table 8 shows the potential pension obligations for the next three decades, but the auditors caution that these projections are based on current assumptions and rates of earnings that may not be sustainable (Cheiron, 2012). In essence, what the chart shows is that the pension contribution rates are highly variable.

Table 8: City of San Diego Retirement Plan Projections

SDCERS-City of San Diego Projections FY 2012-2041 (earnings as assumed)

FYE		(mill) ARC	(bill) UAL
2012	7.50%	$ 231.2	$ 2.15
2013	7.50%	$ 231.3	$ 2.18
2014	7.50%	$ 236.4	$ 2.13
2015	7.50%	$ 243.0	$ 2.08
2016	7.50%	$ 250.2	$ 2.02
2017	7.50%	$ 258.1	$ 1.96
2018	7.50%	$ 266.5	$ 1.89
2019	7.50%	$ 275.5	$ 1.81
2020	7.50%	$ 285.0	$ 1.71
2021	7.50%	$ 295.0	$ 1.61
2022	7.50%	$ 305.5	$ 1.49
2023	7.50%	$ 316.5	$ 1.36
2024	7.50%	$ 327.9	$ 1.21
2025	7.50%	$ 337.7	$ 1.04
2026	7.50%	$ 229.0	$ 0.85
2027	7.50%	$ 233.3	$ 0.63
2028	7.50%	$ 264.0	$ 0.52
2029	7.50%	$ 111.5	$ 0.41
2030	7.50%	$ 115.2	$ 0.25
2031	7.50%	$ 118.7	$ 0.25
2032	7.50%	$ 128.0	$ 0.25
2033	7.50%	$ 135.9	$ 0.25
2034	7.50%	$ 142.5	$ 0.24
2035	7.50%	$ 149.0	$ 0.23
2036	7.50%	$ 155.6	$ 0.21
2037	7.50%	$ 162.2	$ 0.19
2038	7.50%	$ 168.9	$ 0.17
2039	7.50%	$ 175.7	$ 0.15
2040	7.50%	$ 168.1	$ 0.11
2041	7.50%	$ 174.7	$ 0.08
	7.50%	= average return	



(Cheiron, 2012)

One indication of the difference in political climate in the City of San Diego and the City of San Jose is in the language of their ballot measures. The City of San Jose was required by a Superior Court decision to change the ballot language from "Pension Reform" to more neutral language (McDonough, et al. vs City of San Jose, et al., 2012). In the City of San Diego the pension proposition survived initial lawsuits, which could have stricken the item from the ballot (Gustafson, 2012d). The initial ruling was later overturned, and the City was forced to return the matter to the administrative process.

Also, processes between the City of San Diego and SDCERS are subject to additional scrutiny. The 2011 SDCERS administrative audit report found that, generally, the administrative expenses for the agency were on par with other similarly situated pension plan organizations; "[h]owever, the contentious history between SDCERS and the City has uniquely impacted its current operating environment. Expenses are higher than peers largely due to litigation and efforts to correct prior, well-publicized problems that enabled the City to underfund the pension for years" (City of San Diego, Office of the City Auditor, 2011, p. 3). The SDCERS plan also spends a significant amount of money on indemnifying individual board members against personal lawsuits filed against them in their official capacity (City of San Diego, Office of the City Auditor, 2011). These examples typify the political atmosphere of the City of San Diego as it works to make changes to its pension plans.

As previously mentioned, the City of San Diego created a pension plan reform committee to address the pension short fall and to make recommendations on potential changes to the retirement system. The pension plan reform committee released a final report, and other supplemental documents, during their study of City of San Diego pension plan and options for changing the plan. Also, with a pension reform ballot measure on the June 2012 primary ballot, there have been numerous documents in support of and opposition to the measure. The San Diego Proposition B ballot initiative eliminates the db plan for all future city employees, except police officers, and implements a dc plan instead (Gustafson, 2012b). The city council has the option of allowing police officers to enroll in the db plan or the dc plan (San Diego County Registrar of Voters, 2012). In addition, the employer and employee will share equally in the costs for the db plan, and the city's contribution to the new dc plan is capped at 9.2% for miscellaneous employees and 11% for sworn employees (San Diego County Registrar of Voters,

2012). For current employees, the ballot measure limits the pensionable salaries used in retirement calculations for five or six years (Gustafson, 2012a). The limit on pensionable salaries generates most of the retirement plan savings (Gustafson, 2012c). The salary freeze could be lifted by a two-thirds majority of the city council (San Diego County Registrar of Voters, 2012). Subject to meet and confer with unions, the ballot proposition prohibits felons from collecting pension benefits and requires the City to publish retirement payments annually (San Diego County Registrar of Voters, 2012).

Initial reports indicated the pension ballot measure would save nearly $950 million dollars in the next three decades (Gustafson, 2012b), however, according to the analysis done by the City's Independent Auditor, this savings figure depends almost entirely on salary freezes included in the measure and not the change to the 401a style program (Gustafson, 2012c). Based on these findings the City Independent Auditor refused to endorse the fiscal impact statement provided to voters because the, "savings estimate relies on the unpredictable actions of future city councils and ignores the high likelihood of a legal challenge by labor that could block or delay implementation of a freeze" (Gustafson, 2012c). If the city were to rely solely on the cost of implementing the new pension plan it appears the change from a db plan to the dc plan for new employees would actually cost the city $13 million dollars over 30 years (Luna, 2012). Additionally, the city's labor unions argue that provisions of the measure circumvented the required negotiation process and filed an unfair labor practice charge against the city.

The Public Employment Relations Board (PERB), which hears these types of cases, initially found that the city potentially broke the law, scheduled an administrative hearing and sued to keep the measure from the June ballot. PERB lost the case in the lower court and the measure went on the ballot. Despite these potential difficulties with the ballot initiative, it

passed with 66% of the vote (Gustafson, 2012d). PERB pursued an appeal, and on June 19th, 2012 the appeals court ruled that PERB has the proper jurisdiction to determine if there is an unfair labor practice and to decide the legality of the City of San Diego's Proposition B (Gustafson, 2012d). Now that the matter is back with PERB, the administrative hearing and decision could be completed in a matter of months, but the decision can be appealed "all the way up to the state Supreme Court" (Gustafson, 2012d). Given the back and forth nature already displayed in the last few months, it is very likely the final decision could take place years in the future (Gustafson, 2012d). Regardless of the potential to overturn the ballot measure, the ruling that PERB had jurisdiction does not preclude the city from implementing the provisions of Proposition B (Gustafson, 2012d), unless a judge orders a stay.

On July 11, 2012, a Superior Court judge issued a temporary restraining order (TRO) and ordered the City of San Diego not to implement provisions of Proposition B until after July 27, 2012 (Orr, 2012b). On July 13, 2012, the TRO was amended to exclude non-union employees (City News Service, 2012). The legal landscape is constantly changing and the California Supreme Court has indicated an interest in the San Diego ballot measure, requesting information from both parties (Orr, 2012a). According to Orr, this interest could mean that the California Supreme Court may weigh in on the matter prior to the PERB hearing, decide to send the matter back to appeals court or hear it (Orr, 2012a). The uncertainty in implementing the voter approved plan caused Moody, a credit rating company, to issue a "credit negative" report for San Diego, which could impact the city's credit rating in the future (Gustafson, 2012e).

ANALYSIS

Based on these findings, clearly there is a problem with public sector pension plans. The underlying reasons for the pension plan shortfalls in San Jose and San Diego are similar: pension

enhancements given during labor negotiations without thorough analysis of the long-term costs, and investment portfolios that underperformed relative to the accepted industry estimates of the time of 7.75% increase in value per year. However, each city for which findings were collected has its unique challenges.

The City of Sacramento's pension reform discussion revolves around their current budget deficits. Of the three agencies in the benchmarking study, the City of Sacramento is the only one that pays the employer contribution to the retirement plan and some or all of the employee contribution to the retirement plan. In the short term, the focus on negotiating with employees regarding the employee portion of pension contribution will save the City of Sacramento money.

In some ways, Sacramento's pension discussions are many years behind the reform efforts in the City of San Diego and the City of San Jose. This is probably because, as a participant in the PERS system, the City of Sacramento is constrained by the regulations surrounding PERS membership. Ultimately, it is the State of California that can make changes to the entire PERS system (Liebert, Cassidy, Whitmore, 2012). The City can institute a second tier with a lower benefit for new employees, which would reduce employer and employee costs. Some jurisdictions have explored options to leave PERS membership, but this can be costly. The City of Lincoln, another PERS member, discovered it would cost the City between $60 to $80 million dollars to leave the PERS system (Dumm, 2012). In contrast, their annual contribution to PERS is less than $2 million (Dumm, 2012).

Two of the main culprits in the pension plan problem for the City of San Jose are the retroactive pension plan increases given since 1965 (City of San Jose, Office of the Independent Auditor, 2010) and the annual cost of living adjustments (COLA) (City of San Jose, Office of the Independent Auditor, 2010). According to the audit report, 26% to 28% of the cost of the

pension plans can be attributed to the guaranteed COLAs (City of San Jose, Office of the Independent Auditor, 2010, p. 46). These changes, and actuarial assumptions that underestimated longevity after retirement, contribute to the pension problems for the City. The City of San Jose's shortfall demonstrated that inaccurate actuarial projections can have a significant impact on pension costs. Over the course of one budget cycle, the City of San Jose pension contribution in FY12-13 for the Police and Fire plan decreased from a projection of $160 million to $105 million, a difference of $55 million dollars (Figone, 2011c), driven partially by the rebound in the stock portion of the pension fund's portfolio. Most of the cost difference is attributed to the reduction in force and the10% reduction in current compensation (Figone, 2011c). This did not stop the pension reform efforts; it just added another layer of difficulty in demonstrating that the reform efforts were necessary.

In the City of San Diego, most of the unfunded pension liability was due primarily to enhancements of benefits provided between 1996 and 2003 and investment losses during that same time period (City of San Diego Pension Reform Committee, 2004). Those pension enhancements were directly related to City of San Diego's decision to systematically and deliberately underfund the pension plan in order to avoid raising taxes or decreasing city services (Lowenstein, 2008). In order to avoid making payments to the pension plan, and use the money for city services instead as a kind of internal loan, the city had to have approval from the SDCERS board and the labor unions.

Initially, the SDCERS board resisted the underfunding scheme but was convinced to approve a plan to defer payments to a later date. At that later date, the city would be required to make a balloon payment if the plan assets fell below a certain point, a so-called "trigger" (Lowenstein, 2008, p. 170). With this payment, the city would effectively be caught up with

funding (Lowenstein, 2008). The city provided the unions with enhanced benefits packages in order to get approval of the change in funding (Lowenstein, 2008).

The plan worked, benefits were increased and funding to the plan decreased. Then came the trigger, and questions about the legality of the moves were asked by some council members, city staff and pension board members. Through a series of lawsuits and settlement agreements, the city was required to make payments to the plan, but by that point, the unfunded liabilities were already at $1.4 billion dollars (Lowenstein, 2008). The political fallout led to the mayor's resignation, and conflict-of-interest filings against six former pension board members and three city officials (Lowenstein, 2008, p. 214).

The reform efforts in the City of San Jose and the City of San Diego are under legal challenge. Taking into account the millions of dollars required for both sides to litigate the ballot measure, it will be months or even years before either city realizes any savings. During that time, if the trends for the last decade are any indication, the employer contributions will continue to increase. San Jose and San Diego are gambling that the changes put into place will stand, and that they will realize millions of dollars in savings necessary to balance the cities' budgets. Sacramento's pension plan changes are not under legal scrutiny, so they will achieve the projected savings as anticipated. However, the changes in Sacramento do not address the underlying premise that employer contributions to pension plans are increasing.

To compare the reform efforts, it may be useful to focus on the employer and employee (if applicable) contribution to the pension plans, before and after the proposed changes. Table 9, 10 and 11 provide a matrix of current and proposed employer and employee contribution rates, for miscellaneous, police and fire employees, expressed as a percentage of payroll.

Table 9: Current and proposed employer and miscellaneous employee pension contribution rates

	Current Employer	Proposed / Potential Employer **	Current Employee	Proposed / Potential Employee
San Jose	35.50%	6.9% to 7.95%	11.20%	6.9% to 7.95%
San Diego	46.64%	9.2%	3.37%-11.06%	Unknown
Sacramento	12.56% - 15.56%*	12.56%	4%-7%	7%
* 12.56% + 3% (Employer contribution plus EPMC)				
** Data for 2nd tier for new employees in San Jose and San Diego.				

Table 10: Current and proposed employer and police employee pension contribution rates

	Current Employer	Proposed / Potential Employer	Current Employee	Proposed / Potential Employee
San Jose	56.90%	n/a – pending arbitration for 2nd tier	17.47%	n/a – pending arbitration for 2nd tier
San Diego	46.64%	n/a – new plan does not apply to police employees**	9.97%-17.49%	n/a – new plan does not apply to police employees**
Sacramento	36.53%*	27.53%	0%	9%
* 27.53%+9% (Employer Contribution + EPMC)				
** City Council has option to enroll police employees in the defined benefit plan or the defined contribution plan.				

Table 11: Current and proposed employer and fire employee pension contribution rates

	Current Employer	Proposed / Potential Employer	Current Employee	Proposed / Potential Employee
San Jose	56.32%	n/a – pending arbitration for 2nd tier	15.62%	n/a – pending arbitration for 2nd tier
San Diego	46.64%	11%	12.54%-17.57%	Unknown
Sacramento	30.53%*	27.53%	6%	9%
*27.53%+3% (Employer Contribution + EPMC)				

Some of these rates are subject to changes as actuarial assumptions for db plans are refined, but clearly the new tiers will save the cities money. However, these new tiers do not address the amount that the pension contributions will increase once the existing db plans are closed to new employees.

Social Security in Retirement

One factor that does not receive much mention in the pension reform efforts is the impact on Social Security earnings for employees who earn a public sector pension. Government employees who will collect a pension from public agencies that do not pay into Social Security, and have worked at private sector or other jobs that pay into Social Security long enough to earn Social Security benefits, are subject to the Social Security Windfall Elimination Provision (Social Security Administration, 2012a). In order to be eligible for Social Security benefits in retirement, employees must earn "social security credits". The total number of credits required is dependent on the employee's birth year. Currently, employees born after 1929 must earn 40 credits, which is equivalent to 10 years of work for an employer contributing to Social Security (Social Secuirty Administration, 2012b).

For those employees who have paid into Social Security long enough to be eligible for benefits, Social Security income is calculated through a three part formula against the employee's average monthly income. The average monthly income is based on the employee's lifetime earnings (for social security covered employers) and various factors and index multipliers based on their year of birth, age at retirement and retirement year (Social Security Administration, Office of Retirement and Disability Policy, 2012).

To determine the Social Security retirement benefit, "the first $767 of average monthly earnings is multiplied by 90 percent; the next $3,857 by 32 percent; and the remainder by 15

percent. The sum of the three amounts equals the total monthly payment amount" (Social Security Administration, 2012a) up to a maximum amount of $2,513 for a worker retiring at age 66 in 2012. (Social Security On-Line, 2012) After 1990, for those employees drawing a public sector pension who reach Social Security retirement age (62), the 90% in the first part of the formula is adjusted down to 40%, unless the employee has 30 or more years of substantial earnings covered by Social Security payments (Social Security Administration, 2012a).

In order to earn substantial income, employees must pay into Social Security; this is not possible for those public sector employees not participating in Social Security. An example provided by the City of San Jose FCERS website shows that an employee subject to the Windfall Provision could see a reduction of Social Security income between 15.85%-35.54% (age 65 in 1995) to 16.6%-37.56% (age 62 in 1995) (City of San Jose, Department of Retirement Services, 2007). The Social Security Administration offers a caveat: that Social Security benefit cannot be reduced by "more than one-half of the amount of your pension that is based on earnings after 1956 on which you did not pay Social Security taxes" (Social Security Administration, 2012a).

Legality of Pension Reform

The ballot measures in San Jose and San Diego are going to be the testing ground for pension reform efforts in the State. Court rulings in California paved the way for the protection of pension benefits. In the so-called " 'California rule', pension benefits are treated as contractual in nature, and can't be reduced once the employee has begun working for the state" (Monahan, 2012). However, Monahan argues that the courts should revisit the precedent, and closely review the legislative intent to determine if the cities intended to make the provisions of the pension benefit binding for all future situations (Monahan, 2012).

Already, there have been four lawsuits filed in the City of San Jose on the pension reform ballot measure, one that challenged the actual language of the measure, one filed by the city and two suits by the police and fire unions. There are two ongoing legal matters in the City of San Diego.

The City of San Jose's outside counsel, Mayers, Nave, provided an opinion that the City's charter amendment, through Measure B – the Sustainable Retirement and Compensation Act, is "defensible against potential legal challenges" (Doyle R., 2012). They advise that the San Jose City Charter reserves the right for the city council to change the retirement plan at any time and that the Charter is silent on payment of the unfunded liability (Doyle R., 2012). The city council also added provisions to the Charter that permit employees to make greater contributions to the pension plan (Doyle R., 2012). This silence and the Charter provisions may allow the city to prevail in the court cases against the measure.

The legal opinion further indicates that the city has full control over setting compensation rates for employees, and the council is within its authority to increase or, in the case of the pension measure, decrease employee compensation without impacting vested rights (Doyle R. 2012). However, the legal opinion cautions that the city may have "created the expectation, through its historical practices, that it will pay for all unfunded liabilities, despite the contrary provisions of the City Code and the union agreements" (Doyle R., 2012). For this reason, the ballot measure has a provision that allows the city to implement portions of the act that are not challenged or struck down by the courts (Doyle R., 2012).

In her article "Statues as Contracts? The 'California Rule' and its Impact on Public Pension Reform" (2011) Monahan argues that disallowing public entities to change pension plans on a prospective basis is contrary to contract law that requires "clear and unambiguous

evidence that the legislature intended to bind itself" (Monahan, 2011). One key to determine if the measures will stand in San Jose and San Diego, is the three part contract test Monahan (2012) alludes to, 1) the test helps determines if a contract exists, 2) if the action taken by the legislative body impaired the contract, and finally, 3) if the impairment was required for some other valid and important public purpose (Monahan, 2011). If the jurisdictions can prove that the contract intent is non-binding, and the changes are required for the public good, they may be able to implement all the provision of the measures.

Some jurisdictions have successfully defended pension plan change ballot measures through the courts. Recently, the City of Menlo Park's ballot measure was upheld under judicial review (Brundage, 2012). The Menlo Park measure is significantly different from the measures contemplated by the City of San Jose and the City of San Diego. The Menlo Park ballot measure introduced a second retirement tier with a higher retirement age, lower benefit formula and required any future benefit enhancements to be approved by a simple majority of voters (Brundage, 2012). The unions had argued the limit on benefit enhancement would prevent Menlo Park from bargaining in good faith, but the courts disagreed and allowed the measure to stand (Brundage, 2012).

The City of Pacific Grove's 2010 ballot measure caps the city's contribution to pension plans at 10%, and prohibits the city council from enhancing benefits which create a long-term debt or financial liability without voter approval (Miller & Cuneo, 2012). It is currently under administrative and judicial review (Urevich, 2010) (Howe, 2010). A sub-committee of the Pacific Grove City Council is also reviewing the approved ballot measure (Parsons, 2012). Despite these legal challenges and favorable rulings, there are other ways local public entities may change pension obligations.

Collective Bargaining and Pensions

It appears a more effective method to make changes to current employee pensions is at the bargaining table. Management and union already bargain on the terms and conditions of employment, and jurisdictions such as the City of San Carlos and Sacramento County have multiple tiered retirement systems, which have gradually decreased the jurisdictions' pension liabilities (Bay Area Employee Relations Servies, n.d.). Changing the employee pension plans prospectively could be a legal grey area, (Monahan, 2011) but this change maybe easier to negotiate and communicate than legislation that is imposed through ballot measures or State mandates.

Other options such as Governor Brown's twelve point pension proposal, which appeared to be losing ground in legislative circles, may come to fruition based on negotiations in the legislative cycle (Seipel & Harmon, 2012). The Governor's original plan provided a comprehensive way to create sustainable pension and health plans (Brown, 2011). Specifically, it called for the employee and the employer to share equally in pension costs, creating a hybrid plan for new employees which would blend db and dc plans, increasing the retirement age for new employees, reducing the opportunity for pension spiking by requiring final compensation in the benefit formula to be the average annual compensation over a three year period, and disallowing special pays to be included in pensionable income. Additionally, the plan would impact current employees by limiting their option to return to the same job after retirement, prohibiting felons from collecting pension benefits, and employees would not be able to purchase service credit to artificially enhance their pension benefits. The Governor's plan eliminates provisions for jurisdictions to provide retroactive pension increases and would not allow public agencies to suspend annual pension contributions. Finally, the plan would increase the fiduciary

oversight of the pension board and increase the years of service required for employees to obtain retiree medical benefits (Brown, 2011). These changes would be implemented at the State level, with the Governor encouraging local jurisdictions to enact these same changes. Business leaders have also expressed support of the Governor's plan and urge passage of comprehensive pension plan reform to control pension costs (Guardino & Wundeman, 2012).

The Legislative Analyst's Office reviewed the Governor's plan, and believes it is an "excellent starting point" (Taylor, 2011, p. 2) but that "it leaves many questions unanswered" (Taylor, 2011, p. 2). The LAO's analysis pointed out several areas of the plan that may require additional legal scrutiny (Taylor, 2011), similar to the measures in San Jose and San Diego. The LAO report asks, was the legislative intent clear and is a contract provision being abridged (Taylor, 2011) with the proposed changes. The analysis indicates that the proposal "probably would not produce much short-term budgetary savings for state government and many local governments, but they would produce substantial long-term savings" (Taylor, 2011, pp. 27-28), if the details of the plan are right (Taylor, 2011).

The LAO analysis cautioned the legislature to take time to create a workable pension plan. This analysis was issued in October 2011 and now, ten months later, the legislature is working out the details of the plan (Seipel & Harmon, 2012). There is concern from the Charter Cities, such as San Jose and San Diego, that their approved ballot measures will be negatively impacted by the State's pension reform legislation. Mayor Reed of San Jose and Mayor Sanders of San Diego both sent letters to the legislature expressing their concerns and seeking assurance that their pension measures would stand without interference (Seipel & Harmon, 2012).

Legislators responded and are quoted as saying that the legislative intent is not to impact the Charter Cities with their own pension plans (Seipel & Harmon, 2012). However, Charter

Cites which participate in the PERS plan, such as Sacramento, will be bound by the changes to the pension plan (Seipel & Harmon, 2012). Early reports indicate that the revised state plan would include raising the retirement age, capping the maximum allowable pension, eliminating air time provisions and opportunities for spiking pensions, but the revisions did not include language about a hybrid plan or how specifically to increase the retirement age and employee contribution (Yamamura, 2012). The final details and impact will not be known until voted on in legislative session. As of July 10, 2012, it appears statewide pension reform efforts will not appear on the November 2012 ballot (Ortiz, 2012).

Pension Plan Success

The difficulties faced by the cities of San Jose and San Diego with their pension plans are not necessarily because they run their own retirement plans. The County of Sacramento has its own plan, the Sacramento County Employees' Retirement System. The Sacramento County Employees' Retirement System plan has over $6 billion dollars in assets and over 24,000 members (Sacramento County Employees' Retirement System News and Developments, n.d.). The plan is 87% funded and saw double-digit investment returns in the last two fiscal years (Sacramento County Employees' Retirement System News and Developments, n.d.). Another plan that is doing well financially is the County of San Mateo's plan, the San Mateo County Employees' Retirement Association (SamCERA). SamCERA has $2.3 billion dollars in assets (San Mateo County Employees' Retirement Association, 2011, p. 21) and earned 23.92% on investments in the last fiscal year (San Mateo County Employees' Retirement Association, 2011, p. 11). The annual assumed investment rate of 7.75% is somewhat higher than the other retirement systems discussed (San Mateo County Employees' Retirement Association, 2011, p.

12). The system has a funded ratio of 74.1% (San Mateo County Employees' Retirement Association, 2011, p. 24)

The San Mateo County retirement plan has five retirement tiers for miscellaneous employees (Penny Calinawan, personal communication, July 2, 2012). The tier an employee is eligible for is dependent on when the employee entered the system. Tier 1 applies to employees hired before 1980 and offers a retirement benefit of 2% at 61.25, and is not integrated with Social Security. The employer contribution to this tier is 29.44% (Penny Calinawan, personal communication, July 2, 2012). There are two parts to the employee contribution: part one is dependent on the employee's age and ranges between 4.22% and 8.92% (San Mateo County Employees' Retirement Association, 2011a). The system requires the employee to pay half the amount of COLA. The contribution for the COLA is .91% to 1.93% (San Mateo County Employees' Retirement Association, 2011a). The total employee contribution ranges from 5.13% to 10.85%. These contribution amounts apply to tiers 1, 3, 4 and 5 (San Mateo County Employees' Retirement Association, 2011a).

Tier 2 is for employees hired between July 7, 1980 and July 12, 1997. It offers a benefit formula of 2% at 55, which is not integrated with Social Security. The employer contribution is 29.34% (Penny Calinawan, personal communication, July 2, 2012).

The third tier, introduced in 1993, is integrated with Social Security. Because the plan option is integrated with Social Security, the benefit formula is dependent on the employees' income with the County and their earned Social Security benefit (San Mateo County Employees' Retirement Association, 2011a). This plan option is for employees who did not want to contribute to the pension plan; the employer contribution is 26.20%. After a certain time employees may transfer to a higher benefit plan. The plans open to the transferring employee is

dependent on their date of hire and years of service (Penny Calinawan, personal communication, July 2, 2012). Only 4% of eligible employees elect the third tier plan (San Mateo County Employees' Retirement Association, 2011a).

The fourth tier, a 2% at 55.5 benefit formula was implemented in 2005, and applies to employees hired on or after July 13, 1997. This tier is not integrated with Social Security and carries an employer contribution rate of 28.21% (Penny Calinawan, personal communication, July 2, 2012). The final tier for miscellaneous employees has a benefit formula of 1.725% at 58, and is for employees hired on or after July 10, 2011. Employees may transfer to Plan 4 after 10 years of service. The employer contribution to this plan is 27.38% (Penny Calinawan, personal communication, July 2, 2012).

For safety employees, SamCERA has four retirement tiers, and similar to the miscellaneous plans, the employee contributions vary by age of entry in the plan. Depending on the plan selected, the employee may pay the employee contribution, plus a COLA rate and a cost share. The employee contribution ranges from 5.50% to 9.34%, the COLA rate ranges from 2.07% to 3.52%, plus a cost share contribution of 3.50% (San Mateo County Employees' Retirement Association, 2011b). The total contribution for employee then ranges from 7.32% to 16.36% (San Mateo County Employees' Retirement Association, 2011b)

Tier 1 is for safety employees hired on or before 1980, provides a 2% at 50 benefit formula, the employee rate is 76.20% and the employer paid member contribution is an additional 6.12% (Penny Calinawan, personal communication, July 2, 2012). Tier 2 provides a 3% at 55 benefit formula and is for employees hired between July 7, 1980 and July 12, 1997 (Penny Calinawan, personal communication, July 2, 2012). The employer contribution is a slightly lower rate of 72.25% and EPMC of 6.12% (Penny Calinawan, personal communication,

July 2, 2012). Tier 3 only applies to miscellaneous employees. Tier 4 provides 3% at 50, was implemented on January 2, 2005, and may be used by employees hired on or after July 13, 1997 (Penny Calinawan, personal communication, July 2, 2012). This tier has an employer contribution of 70.09% and EPMC of 5.86% (Penny Calinawan, personal communication, July 2, 2012). Tier five is a two part tier, implemented just six months ago, and allows safety management employees hired on or after January, 8, 2012 to select one of two retirement tier options: 1) 3% at 55 with a 5% cost share or 2) 2% at 50 with no cost share (Penny Calinawan, personal communication, July 2, 2012). The employer contribution rates for this newly implemented plan are not available.

Many jurisdictions in the Bay Area have implemented multiple retirement tiers. Of the 64 agencies reported by the Bay Area Employee Relations Service, as of May 2012, almost half of the agencies have multiple retirement tiers (Bay Area Employee Relations Servies, n.d.). The three jurisdictions studied in this research have not fully implemented multiple retirement tiers in an effort to reduce pension costs or manage unfunded liabilities. Technically, the City of Sacramento has two retirement tiers because there are still 75 employees in the SCERS plan (Denise Deprato, personal communication, March 12, 2012). However that plan has been closed to new members since 1978 (City of Sacramento, Office of the City Treasurer, 2008), well before the pension enhancements and market downturns discussed in this paper. The City of San Diego also has two tiered retirement plans, but considering the extreme difficulty the city faced with the pension scandal, the second tiers implemented in 2009 and 2012 have not greatly impacted the state of unfunded liability or employer contributions. The City of San Jose also has two tiers of retirement for safety employees, but the benefit for employees who retire after 2008 is greater than the benefit for employees who retired before 2008. The employer contribution to

the pre 2008 plan is 25.220% compared to the contribution rate of 56.320% (Penny Calinawan, personal communication, July 2, 2012). The recently approved second tier for miscellaneous employees is pending implementation.

Another option to reduce unfunded liability is to institute a reduction in salary. According to San Diego Council Member Sherri Lightner, a 6% decrease in salary at the City of San Diego lead to a $100 million dollar decrease in unfunded liability (City of San Diego, Councilmember Sherri Lightner, Council District 1, n.d.). This is what happened in the City of San Jose. In fiscal year 2010-2011, the City implemented or imposed, across the board, salary reductions for nearly all employees (City of San Jose, Office of Employee Relations, 2012). The City saw the projected FY 2012-2013 budget deficit of $80.5 million dollars (Figone, 2011c) turn into a $9 million dollar budget surplus (City of San Jose, Office of the City Manager, n.d.), and the required pension contributions for police and fire employees drop from $160 million dollars to $105 million dollars (Figone, 2011c).

Liabilities of Pension Reform

The City of San Jose's pension measure fail-safe mechanism of requiring current employees to contribute more towards unfunded liabilities or see a reduction in salary will save the City money, but there will be a cost. Employees may elect to leave City employment rather than sustain nearly 30% in pay cuts. That is one of the dangers in reducing salaries to a point that the jurisdiction is no longer competitive with surrounding employers. This need to be comparable with surrounding jurisdictions is one of the factors that led many jurisdictions to enhance their pension plans (Lowenstein, 2005). It would be unfortunate if the pension fix leads to another situation that needs to be "fixed".

Another option for jurisdictions is to do nothing. It is possible that public pension systems' unfunded liabilities will decrease if the stock market continues to gain. According to a recent report by the US Census Bureau, pension holdings increased 5.6% in the first quarter of 2012. This increase resulted in $179.2 billion dollars added to pension funds in the United States (Lambert, 2012). Information about these gains is offset by the news that Moody estimates pension debt to be over $2 trillion dollars, triple the amount estimated in 2010 (Gralla, 2012). This debt amount is based on using a lower investment earnings rate (5.5%) than generally used by public sector agencies (Gralla, 2012). Every percentage point difference between the reduced discount rate of 5.5%, and the assumptions for the plan equals approximately a thirteen percent increase in the plan liability (Gralla, 2012). "For example, a plan with a $10 billion liability based on an 8 percent discount rate would see that amount leap to $13.56 billion if a 5.5 percent rate were used" (Gralla, 2012). Another factor that can impact reporting of unfunded liability are GASB reporting requirements.

In June 2012, GASB released two new accounting standards for pension boards. The first "requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits" (Oney, 2012). The financial reports will have to include detailed information about the plan, such as benefits provided, assumptions used to calculate liabilities, any changes to the benefits and how changes (up or down) in the discount rate will impact the total liability of the system (Governmental Accounting Standards Board of the Financial Accounting Foundation, 2012). These changes are intended to make it easier for interested parties to compare pension plans and more fully inform the public of the financial obligations of each jurisdiction (Governmental Accounting Standards Board of the

Financial Accounting Foundation, 2012). So even by doing nothing, jurisdictions still can see their unfunded liabilities change dramatically.

CONCLUSION

Two years ago, a challenge in jurisdictions advocating pension reform was getting employees and their unions to acknowledge that there was a problem that needed to be solved. Acknowledgement of the problem requires trust and communication between the employees, unions and employers, and everyone must trust the actuarial presentation and administrative oversight.

The stock market losses of the 2008 Recession led to increased payments by cities' General Funds to maintain the stability of the pension fund, which led to a dramatic loss of public services like library hours and police patrol positions. The residents of cities reacted negatively to the loss of services required to maintain public pensions, which they perceived as too generous. As unemployment rose and foreclosures increased, resentment over public employee salary and benefit packages and stable employment was expressed by residents and tax payers. They demanded reform.

Now, regardless of the amount of trust and communication, voters have clearly spoken and helped to move the matter to the public forefront. By overwhelmingly approving ballot measures that modify pension plans for public employees, employees can no longer avoid changes to the pension plan, but perhaps they can take an active role in shaping the changes.

It appears the City of Sacramento's approach as a member of PERS is the best. The approach provides for actual savings now and will not require extensive legal wrangling. Once the package has been negotiated between the city and the unions, it can be implemented. However, this approach does not address the current unfunded liability. Presumably, the

unfunded liability will continue to grow, unless the plans' economic gains are significant, and the usage is significantly lower.

The City of San Jose and City of San Diego, as Charter Cities with their own pension systems, have considerably more flexibility in the options the jurisdictions can adopt. But until the legal issues are resolved the cities will not realize real savings. If these cities are able to win their legal arguments, not only will it fundamentally change the way retirement benefits are provided to public employees, but more importantly it will be decades before the public knows if these changes actually resulted in measureable cost savings. By that time, it is possible that another matter will occupy the minds of the public.

Lowenstein said it best: "pensions are a test of political character. They are a bargain with the future; a statement about the value that a city places on its workers. When the bargain is corrupted, the whole of society is affected. Its sense of equity is destroyed, and with it the people's faith in their leaders and their institutions" (Lowenstein, 2008, pp. 195-196). This statement is particularly true today, where pension reform ballot efforts in San Jose and San Diego passed easily, but leave behind greater uncertainty and fractured relationships between the cities, their employees and the public they serve. The pension landscape is changing every day, it is clear that something must be done, but the specific course of action is highly dependent on the political will of the electorate, the legislative body and rulings of the judiciary.

Sources Consulted

10News.com. (2011, September 30). Pension reform supporters submit petitions, Carl DeMaio among supporters of comprehensive pension reform initiative. Retrieved from: http://www.10news.com/news/29355642/detail.html

Baker, D. (2011). The origins and severity of the public pension crisis. Center for Economic and Policy Research. Retrieved from: http://www.globalaging.org/pension/us/2011/pensioncrisis.pdf

Bardach, E. (2009). *A practical guide for policy analysis: the eighth fold path to more effective problem solving.* Washington, D.C.: CQ Press.

Barnett, J.L. (2011, October). *State and local government finances summary: 2009, Government Divisions Brief*. U.S. Department of Commerce, Economics and Statistics Administration, US Census Bureau. Retrieved from: http://www2.census.gov/govs/estimate/09_summary_report.pdf

Bartel and Associates. (2010). Making the numbers work: model policies for public retirement funding. Retrieved from: http://www.lhc.ca.gov/studies/activestudies/pension/BartelSep10.pdf

Borenstein, D. (2011, November 28). A bad market is just part of San Jose's pension problems. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/opinion/ci_19413503

Boyken, G. (2008). Actuarially speaking: a plain language summary of actuarial methods and practices for public employee pension and other post-employment benefits. California Research Bureau. Retrieved from: http://www.sanjoseca.gov/employeeRelations/docs/CRBActuariallySpeaking.pdf

Broder. J. M. (2004, September 7). San Diego finds itself being viewed as a kind of Enron-by-the-sea. *New York Times.* Retrieved from: http://www.nytimes.com/2004/09/07/national/07diego.htaml

Brown, E. G. (2011, October 27). Twelve point pension reform plan. Retrieved from: http://gov.ca.gov/docs/Twelve_Point_Pension_Reform_10.27.11.pdf

Brown, J. R. (2008, Winter). Guaranteed trouble: the economic effects of the pension benefit guaranty corporation. *The Journal of Economic Perspectives*. Vol. 22, No. 1. pp. 177-198. Stable URL: http://www.jstor.org.libaccess.sjlibrary.org/stable/27648229

Brundage, S. (2012, May 8). Court upholds Menlo Park pension reform. Measure L allows good faith negotiation, court rules. Almanac News. Retrieved from: http://www.almanacnews.com/news/show_story.php?id=11185&e=y

California Department of Finance, Demographic Research Unit. (2012, May 1). New report: California added more than a quarter-million in 2011; total state population nearly 37.7 million. Retrieved from: http://www.dof.ca.gov/research/demographic/reports/estimates/e-1/documents/E-1_2012_Press_Release.pdf

California Public Employees' Retirement System. (2005, January). Research Brief: Pension debate: the myths and realities of defined benefit and defined contribution plans. Retrieved from: http://www.calpers.ca.gov/eip-docs/member/retirement/info-sources/defined-bene-facts.pdf

CalPERS. (2009, June 30). Public agency employer contribution rate search website. Retrieved from: http://www.calpers.ca.gov/index.jsp?bc=/employer/actuarial-gasb/contrib-rates/rates/employer-results.xml&employer_code=1121

CalPERS. (2011). Vested rights of CalPERS members: protecting the pension promises made to public employees, member communication. Retrieved from: http://www.calpers.ca.gov/eip-docs/about/press/news/vested-rights.pdf

CalPERS, External Affairs Branch. (2012, March 14). CalPERS board sets discount rate at 7.5 percent. Retrieved from: http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml

Cavanaugh, M., Faryon, J., Lane, P. & Trageser, C. (2012, May 8). Does Prop B's pension reform save San Diego money? Retrieved from: http://www.kpbs.org/news/2012/may/08/election-coverage-prop-b-city-pension-reform/

Cheiron. (2012, January). San Diego City Employees' Retirement System June 30, 2011 actuarial valuation for the City of San Diego. Retrieved from: https://www.sdcers.org/actuarialvaluation/City_AV_6_30_2011.pdf

City News Service. (2012, July 13). Prop B restraining order does not apply to nonunion municipal employees, judge rules. KPBS. Retrieved from: http://www.kpbs.org/news/2012/jul/13/prop-b-restraining-order-does-not-apply-nonunion-m/

City of Sacramento, Finance Department. (n.d.). Budget FAQs Website. Retrieved from: http://www.cityofsacramento.org/finance/budget/faq.cfm#total

City of Sacramento, Finance Department, Budget, Policy and Strategic Planning Division. (2012a, May 1). City of Sacramento, FY2012/13 proposed budget: section 2 - budget overview. Retrieved from: http://www.cityofsacramento.org/finance/budget/proposed-budget-2012-13/02_Budget_Overview.pdf

City of Sacramento, Finance Department, Budget, Policy and Strategic Planning Division. (2012b, May 1). City of Sacramento, FY2012/13 proposed budget: section 23 - staffing. Retrieved from: http://www.cityofsacramento.org/finance/budget/proposed-budget-2012-13/23_Staffing.pdf

City of Sacramento, Human Resources Department. (n.d.). Benefits and retirement webpage. Retrieved from: http://www.cityofsacramento.org/hr/benefits/#retirement

City of Sacramento, Human Resources Department. (n.d.). City of Sacramento Human Resources website. Retrieved from: http://www.cityofsacramento.org/hr/benefits/index.cfm#retirement

City of Sacramento, Human Resources Department. (n.d.). Labor agreements webpage. Retrieved from: http://www.cityofsacramento.org/hr/laborRelations/Labor_Agreements/

City of Sacramento, Office of the City Auditor. (2011 April). Audit of employee health and pension benefits. Retrieved from: http://www.cityofsacramento.org/auditor/documents/audit_reports/Audit_of_Employee_Health_and_Pension_Benefits.pdf

City of Sacramento, Office of the City Treasurer. (September 30, 2008). Sacramento City Employees' Retirement System quarterly investment report. Retrieved from: http://www.cityofsacramento.org/treasurer/Investment/Quarterly/SCERS0908Qtr.pdf

City of San Diego. (n.d.) City of San Diego Pension Reform Committee website. Retrieved from: http://www.sandiego.gov/pensionreform/

City of Sacramento v. Public Employees' Retirement System (1994) 22 Cal. App. 4th 786 [27 Cal.Rptr.2d 545] Retrieved from: http://law.justia.com/cases/california/caapp4th/22/786.html

City of San Diego. (2010, May 6). City of San Diego Resolution R-305811. Retrieved from: http://docs.sandiego.gov/council_reso_ordinance/rao2010/R-305811.pdf

City of San Diego, Councilmember Sherri Lightner, Council District 1. (n.d). Councilmember Sherri Lightner, Council District 1, issues pension reform webpage. Retrieve from: http://www.sandiego.gov/citycouncil/cd1/newsevents/issues/pensionreform2.shtml.

City of San Diego, Financial Management Department. (2012). City of San Diego, proposed budget fiscal year 2013. Financial summary and schedules. Retrieved from: http://www.sandiego.gov/fm/proposed/pdf/2013/vol1/v1financialsummary.pdf

City of San Diego, Financial Management Department. (2012). City of San Diego, proposed budget fiscal year 2013, volume II, department detail: Human Resources. Retrieved from: http://www.sandiego.gov/fm/proposed/pdf/2013/vol2/v2humanresources.pdf

City of San Diego, Financial Management Department. (2012, April 11). Fiscal year 2013 proposed budget presentation. Retrieved from: http://www.sandiego.gov/fm/pdf/fy13_proposed_budget_pc.pdf

City of San Diego, Office of the City Auditor. (2011, September). Performance audit of the San Diego City Employees' Retirement System. SDCERS' unique environment increases operating expenses, but cost-cutting opportunities exist. Retrieved from: http://www.sandiego.gov/auditor/reports/fy12_pdf/audit/110930sdcersaudit.pdf

City of San Diego, Office of the City Clerk. (n.d.). City clerk legislative documents: city charter. Retrieved from: http://www.sandiego.gov/city-clerk/officialdocs/legisdocs/charter.shtml

City of San Diego, Office of the Independent Budget Analyst. (2010, October 20). Response to Grand Jury report titled "San Diego City's financial crisis – the past, present, and future" Rules, Open Government, and Intergovernmental Relations Committee, October 20, 2010 Item 2. Retrieved from: http://docs.sandiego.gov/councilcomm_agendas_attach/2010/Rules_101020_2ppt.pdf

City of San Diego Pension Reform Committee. (2004, September 14). City of San Diego Pension Reform Committee final report. Retrieved from: http://www.sandiego.gov/pensionreform/pdf/finalreport.pdf

City of San Jose. (n.d.). Council/Manager Form of Government Webpage. Retrieved from: http://www.sanjoseca.gov/govern.asp

City of San Jose. (2010a). Santa Clara County Civil Grand Jury report – Cities must rein in unsustainable employee cost (City of San Jose Council Agenda, October 5, 2010, Item 3.3). Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20101005/20101005_0303.pdf

City of San Jose. (2010b). 2010-2011 Adopted operating budget. Retrieved from: http://www.sanjoseca.gov/budget/FY1011/AdoptedOperating2010.asp

City of San Jose, City Council agenda May 1, 2012 synopsis. (n.d.). Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20120501/20120501syn.pdf

City of San Jose Council Meeting, June 12, 2012. Council discussion, staff presentation and public comments for items 3.7 to 3.16. Retrieved from: http://sanjose.granicus.com/ViewPublisher.php?view_id=22

City of San Jose, Department of Retirement Services. (2007). Federated City Employees' Retirement System benefits summary website. Retrieved from: http://www.sjretirement.com/Fed/Plan/Benefits.asp

City of San Jose, Department of Retirement Services. (2011a, December 16). City of San Jose Federated City Employees' Retirement System comprehensive annual financial report for the fiscal year ended June 30, 2011. Retrieved from: http://www.sjretirement.com/Uploads/Fed/Federated%20CAFR.pdf

City of San Jose, Department of Retirement Services. (2011b, December 16). City of San Jose Police and Fire Department Retirement Plan comprehensive annual financial report for the fiscal year ended June 30, 2011. Retrieved from: http://www.sjretirement.com/Uploads/PF/City%20of%20San%20Jose%20Police%20&%20Fire%20Department%20Retirement%20Plan%20CAFR%202010-2011%20Final.pdf

City of San Jose Federated City Employees' Retirement System, benefits summary website. (2011, July 8). Federated city employees retirement system (FCERS) benefits fact sheet. Retrieved from: http://sjretirement.com/Uploads/Fed/FEDFACTS%20062611.pdf

City of San Jose, Human Resources Department. (n.d.) 457 deferred compensation plan summary. Retrieved from: http://www.sanjoseca.gov/humanResources/DefComp/DCPlanSummary/DEFERREDCOMPENSATIONPLANSUMMARY.pdf

City of San Jose, Human Resources Department. (n.d.) Deferred compensation PTC plan summary. Retrieved from: http://www.sanjoseca.gov/HumanResources/survey/documents/DEFERREDCOMPENSATIONPTCPLANSUMMARY.pdf

City of San Jose, Human Resources Department. (2012, March 6). 457 deferred compensation program website. Retrieved from: http://www.sanjoseca.gov/HumanResources/survey/ee_savings.asp

City of San Jose, Office of the City Clerk. (2010, May 25). City charter. Retrieved from: http://www.sanjoseca.gov/clerk/charter.asp

City of San Jose, Office of the City Clerk. (2012, June 12). City of San Jose amended council agenda. Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20120612/20120612a.pdf

City of San Jose, Office of the City Manager. (n.d.). 2012-2013 Proposed budget in brief. Retrieved from: http://www.sanjoseca.gov/budget/FY1213/2012-2013BudgetinBrief.pdf

City of San Jose, Office of the City Manager. (2011, November 22). Fiscal and service level emergency report: an evaluation of conditions in the City of San Jose. Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20111206/20111206_0303.pdf

City of San Jose, Office of Employee Relations. (2010a, August 4). Federated City Employees' Retirement System contribution rates. Retrieved from http://www.sanjoseca.gov/employeerelations/retirementbenefits/rates/historical/FederatedContributionRates.pdf

City of San Jose, Office of Employee Relations. (2010b, August 4). Police & Fire Department Retirement Plan (fire contribution rates). Retrieved from http://www.sanjoseca.gov/employeerelations/retirementbenefits/rates/historical/FireContributionRates.pdf

City of San Jose, Office of Employee Relations. (2010c, August 16). Police & Fire Department Retirement Plan (police contribution rates). Retrieved from http://www.sanjoseca.gov/employeerelations/retirementbenefits/rates/historical/PoliceContributionRates.pdf

City of San Jose, Office of Employee Relations. (2012, April 16). Labor relations information website. Retrieved from: http://www.sanjoseca.gov/employeerelations/labor.asp

City of San Jose, Office of the Independent Auditor. (2010). Pension sustainability: rising pension costs threaten the city's ability to maintain service levels - alternatives for a sustainable future. Retrieved from: http://www.sanjoseca.gov/auditor/AuditReports/1010/1010.pdf

City of San Jose, Office of Mayor Chuck Reed. (n.d.) Fiscal reform website. Retrieved from: http://www.sanjoseca.gov/mayor/goals/budget/FiscalReform.asp

City of San Jose, Office of Mayor Chuck Reed. (n.d.) Retirement reform website. Retrieved from: http://www.sanjoseca.gov/mayor/goals/budget/RetirementReform.asp

City of San Jose, Office of Mayor Chuck Reed. (2012, March 5). Statement from Mayor Reed regarding local Legislators' request for a state audit of San Jose's pension funds. Retrieved from: http://www.sanjoseca.gov/mayor/news/releases/12Mar/LegislaturePensionAuditRequest.pdf

City of San Jose Police and Fire Department Retirement Plan, benefits summary. (2011a, July 8). Police & fire department retirement plan police benefits fact sheet Police benefits fact sheet. Retrieved from: http://sjretirement.com/Uploads/PF/P&FFACTSTAFF%20police%20062611.pdf

City of San Jose Police and Fire Department Retirement Plan, benefits summary. (2011b, July 8). Police & fire department retirement plan Fire benefits fact sheet. Retrieved from: http://sjretirement.com/Uploads/PF/PFFACTSTAFF%20fire%20062611.pdf

City of San Jose v San Jose Police Officers' Association; San Jose Firefighters IAFF Local 230; Municipal Employees' Federation, AFSCME, Local 101; City Association of Management Personnel, IFPTE, Local 21. C12-02904. United States District Court. 2012. Retrieved from: http://www.sanjoseca.gov/employeerelations/retirementreform/CityComplaintForDeclaratoryRelief(MeasureB)Dated06.05.12.pdf

Clancy, R. (2010). Currency war, myth or reality? Currency War Guide. Published by: Investment International.com. Retrieved from: http://www.investmentinternational.com/currency-war-report.html?sitename=iiMPU

CNN Money.com. (n.d.). Ultimate guide to retirement: 401(k)s & company plans, how does the money get invested? Retrieved from: http://money.cnn.com/retirement/guide/401k_basics.moneymag/index3.htm

Comprehensive Pension Reform for San Diego. (n.d.). Comprehensive Pension Reform for San Diego website. Retrieved from: http://www.realpensionreform.com/home/

Comprehensive Pension Reform for San Diego. (2012). Prop B fiscal analysis fact sheet. Retrieved from: http://www.realpensionreform.com/home/Pension_PDFs/Prop%20B%20Fiscal%20Analysis%20Fact%20Sheet.pdf

Costrell, R. M. (2012). "GASB Won't Let Me" – A False Objection to Public Pension Reform. LJAF Policy Perspective. Retrieved from: http://www.arnoldfoundation.org/img/LJAF-Policy-Perspective-GASB-Wont-Let-Me.pdf

Dates, A. (2012, June 13). Civil grand jury issues report on pensions. ABC7news.com. Retrieved from: http://abclocal.go.com/kgo/story?section=news/local/south_bay&id=8700694

Department of Labor. (n.d.). Retirement plans, benefits & savings page. Retrieved from: http://www.dol.gov/dol/topic/retirement/typesofplans.htm

Dolan, M. (2011, November 21). Retired public workers can count on promised benefits, court says. California Supreme Court rules in an Orange County case that implied contracts covering retirees' healthcare are valid. *Los Angeles Times*. Retrieved from: http://articles.latimes.com/2011/nov/21/local/la-me-1122-health-benefits-20111122

Doyle, B. (2011, November 22). San Jose's assault on vested rights is patently illegal. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/opinion/ci_19393376?source=pkg

Doyle, R. (2012, March 5). Legal opinion related to the revised ballot measure council memo. San Jose City Council Meeting 3-6-12, Item 3.5. Retrieved from: http://www.sanjoseca.gov/mayor/goals/budget/PDF/MeyersNavePublicLegalOpinion.pdf

Dumm, S. (2012, June 26). Cost to leave CalPERS 'astounding,' city manager says. *Lincoln News Messenger*. Retrieved from: http://lincolnnewsmessenger.com/detail/211808.html

Figone, D. (2011a, May 1). Fiscal reform plan, manager's budget addendum #1. Retrieved from: http://www.sanjoseca.gov/budget/FY1112/05MBA/MBA01-FiscalReformPlan.PDF

Figone, D. (2011b, November 22). Declaration of fiscal and service level emergency council memo. City of San Jose 12-06-11 Council Agenda, Item 3.3. Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20111206/20111206_0303.pdf

Figone, D. (2011c, December 1). Declaration of fiscal and service level emergency supplemental council memo. City of San Jose 12-06-11 Council Agenda, Item 3.3. Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20111206/20111206_0303sup.pdf

Figone, D. (2012a, February 9). Retirement projections fact sheet, memorandum to City Council. Retrieved from: https://www.piersystem.com/external/content/document/1914/1306487/1/02-09-12%20CMO.PDF

Figone, D. (2012b, April 27). Supplemental Information for items 3.3-3.12 on April 27, 2012 City Council Meeting. Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20120501/20120501_0303012.pdf

Figone, D. (2012c, May 1). Approval of implementation of terms contained in the City's last, best and final offer to Association of Building, Mechanical and Electrical Inspectors (ABMEI) Council memo, City of San Jose 5-1-12 council agenda, Item 3.3. Retrieved from: http://www.sanjoseca.gov/clerk/Agenda/20120501/20120501_0303.pdf

Forman, J. B. (2009, June 14). Funding public pension plans. *John Marshall Law Review*, Vol. 42, No. 4, pp. 837-878, Summer 2009. Available at SSRN: http://ssrn.com/abstract=1388251

Gould, R. (2011, November). The League steps up on pension reform. *Western City.* Retrieved from: http://www.westerncity.com/Western-City/November-2011/The-League-Steps-Up-on-Pension-Reform/

Government Finance Officers Association (GFOA). (2010). Governance of public employee post-retirement benefits systems (2010) (CORBA). Retrieved from: http://www.lhc.ca.gov/studies/activestudies/pension/MillerAttach1Apr10.pdf

Governmental Accounting Standards Board of the Financial Accounting Foundation. (2012, June). New GASB pension statements to bring about major improvements in financial reporting. Retrieved from: http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175824124337&blobheader=application%2Fpdf

Gralla, J. (2012, July 2). U.S. Munis' $2 Trillion In Unfunded Pensions May Cause Some Public Workers To Lose Benefits. *Reuters*. Retrieved from: http://www.huffingtonpost.com/2012/07/02/pensions-us-munis-unfunded-lose-benefits_n_1644772.html

Greenhouse, S. (2007, October 1). Teamsters and U.P.S. reach deal on pensions. *New York Times*. Retrieved from: http://www.nytimes.com/2007/10/01/us/01labor.html

Guardino, C. & Wundeman, J. (2012, July 3). Viewpoints: State needs to enact meaningful public pension reform now. Sacramento Bee. Retrieved from: http://www.sacbee.com/2012/07/03/4606386/state-needs-to-enact-meaningful.html

Gustafson, C. (2012a, March 19). Pension measure saves $950M over 30 years. *San Diego Union Tribune*. Retrieved from: https://www.sdcers.org/news/Documents1/UT_3_20_12_Pension_measure_saves_$950M_over_30_years.pdf

Gustafson, C. (2012b, May 18). DeMaio inflated claim of pension savings. Campaign is correcting calculation after u-t campaign watch found flaws. *San Diego Union Tribune*. Retrieved from: http://www.10news.com/news/31082662/detail.html

Gustafson, C. (2012c, May 24). Pension initiative savings depend on uncertain salary provision. City auditor refused to back claim Proposition B would save $950 million over 30 years. *San Diego Union Tribune*. Retrieved from: http://www.utsandiego.com/news/2012/may/24/pension-initiative-savings-hinge-on-uncertain/

Gustafson, C. (2012d, June 19). Challenge to pension reform moves forward. Labor scores two legal victories in Prop. B battle. *San Diego Union Tribune*. Retrieved from: http://www.utsandiego.com/news/2012/jun/19/challenge-pension-reform-moves-forward/

Gustafson, Craig. (2012e, July 13). Moody's is concerned over S.D. pension case. *San Diego Union Tribune*. Retrieved from: http://www.utsandiego.com/news/2012/jul/13/moodys-keeps-eye-sd-pension-dispute/

Hamm, J. (2010). Realigning costs and expectations: union efforts at the bargaining table. (Presentation at Little Hoover Commission Meeting 9-23-10). Retrieved from: http://www.lhc.ca.gov/studies/activestudies/pension/HammSep10.pdf

Hartinger, A. A. & Lewis, M. C. (2011). Fixing the pension problem: the latest public scrutiny of the public sector wage and benefits packages. *Public Law Journal*. Vol 34. No 1. Winter 2011. Retrieved from: http://publiclawnews.com/sites/default/files/Fixing-the-Pension-Problem.pdf

Hess, F. M. & Squire, J. P. (2009). The false promise of public pensions. *Policy Review*, (158), 75-85. Retrieved from EBSCOhost.

Howe, K. (2010, September 30). Pacific Grove pension law challenged. *Monterey County Herald*. Retrieved from: www.lexisnexis.com/hottopics/lnacademic

Howe, K. (2011, July 12). Pacific Grove employees' lawsuit dismissed. *Monterey County Herald*. Retrieved from: www.lexisnexis.com/hottopics/lnacademic

Hurt, S. (2011, April 12). City considers cost savings with pension plan changes. *Sacramento Press*. Retrieved from: http://www.sacramentopress.com/headline/49081/City_considers_cost_savings_with_pension_plan_changes

Hustead, E. C. & Mitchell, O. S. (2001). Public sector pension plans: lessons and challenges for the twenty-first century. In Mitchell, O. S. and Hustead, E.C. (Eds.), *Pensions in the Public Sector* (pp. 3-10). Philadelphia, PA: University of Pennsylvania Press.

Jametti, M. (2008 November). Underfunding of defined benefit pension plans and benefit guarantee insurance: an overview of theory and evidence. *Canadian Public Policy / Analyse de Politiques*. Vol. 34, Special Supplement on Private Pensions and Income Security in Old Age: An Uncertain Future (Nov., 2008), pp. 39-45. Published by: University of Toronto Press on behalf of Canadian Public Policy. Article Stable URL: http://www.jstor.org.libaccess.sjlibrary.org/stable/25463652

Jensen, R. (2012, March 12). San Jose Pension Reform. *The Bond Buyer*. Vol. 121 No. 33677. Retrieved from: http://www.lexisnexis.com.libaccess.sjlibrary.org/hottopics/lnacademic

Judge bars implementation of pension reform initiative temporarily. (2012, July 11). CBS8.com. Retrieved from: http://www.cbs8.com/story/19002445/judge-bars-implementation-of-pension-reform-initiative-temporarily

Kalb, L. (2011, August 8). Sacramento firefighters agree to pension contributions, union says. *Sacramento Bee.* Retrieved from: http://blogs.sacbee.com/crime/archives/2011/08/sacramento-fire-8.html#storylink=cpy

Keating, J. E. (2010, October 14). Why do currency wars start? Foreign Policy.com Website. Retrieved from: http://www.foreignpolicy.com/articles/2010/10/14/how_will_we_know_when_the_currency_war_starts

Kilgour, J. G. (2009). Public sector retiree benefits in California: problems and solutions. *Compensation and Benefits Review*. 41.2 27-32.

Lambert, L. (2012, June 28). U.S. public pension investment earnings at record high. *Reuters.* Retrieved from: http://www.reuters.com/article/2012/06/28/us-usa-states-pensions-idUSBRE85R1EA20120628

Liebert, Cassidy, Whitmore. (2012, July). Liebert, Cassidy, Whitmore July 2012 Client Update Retrieved from: http://lcwlegal.com/files/CU_2012_7.pdf

Lillis, R. (2011 June). Mayor Johnson: city cops must discuss pension reform. *Sacramento Bee*. Retrieved from: http://blogs.sacbee.com/city-beat/2011/06/mayor-johnson-city-cops-must-discuss-pension-reform.html#ixzz1Qc9kWiMq

Lillis, R. (2012a, May 16). Council favors pension changes for Sacramento's cops, firefighters. *Sacramento Bee*. Retrieved from: http://www.sacbee.com/2012/05/16/4493110/council-favors-pension-changes.html

Lillis, R. (2012b, June 13). Sacramento council approves city budget; pension talks continue with police union. *Sacramento Bee*. Retrieved from: http://www.sacbee.com/2012/06/13/4557868/sacramento-council-approves-city.html

Little Hoover Commission. (n.d.). Public pension study schedule website. Retrieved from: http://www.lhc.ca.gov/studies/activestudies/pension/pension.html

Lowenstein, R. (2005, October 30). The end of pensions. *New York Times*. Retrieved from: http://www.nytimes.com/2005/10/30/magazine/30pensions.html?pagewanted=all

Lowenstein, R. (2008). *While America aged: how pension debts ruined General Motors, stopped the NYC subways, bankrupted San Diego, and loom as the next financial crisis.* New York: The Penguin Press.

Luna, E. (2012, March 14). Special election – June 5, 2012 fiscal impact analysis. Retrieved from: http://bloximages.chicago2.vip.townnews.com/voiceofsandiego.org/content/tncms/assets/v3/editorial/6/76/676c054c-a03e-11e1-af17-0019bb2963f4/4fb52a1061254.pdf.pdf

McDonough, et al. v Superior Court (City of San Jose, et al.). H038126. State of California 6th Appellate District. 2012. Retrieved from: http://www.courts.ca.gov/opinions/documents/H038126.PDF

McMahon, E.J. (2004). San Diego needs fundamental pension reform. *San Diego Union Tribune*. Retrieved from: http://www.signonsandiego.com/uniontrib/20040423/news_lz1e23mcmahon.html

Miller, D. & Cuneo, K. (2012, April 4). Interpretation of the effect of Measure R, approved in 2010, on provision (c) of the Citizens Initiative Ordinance on Retirement Benefit Reform council memo. City of Pacific Grove 4-4-12 Agenda. Retrieved from: http://www.ci.pg.ca.us/age/CCO/A-CCO20120404/15e.pdf

Miller, G. & Link, J. (2010). "New normal" retirement plan designs - re-engineering and installing sustainable pension and OPEB plans. *Government Finance Review*. Retrieved from: http://www.lhc.ca.gov/studies/activestudies/pension/MillerAttach2Apr10.pdf

Mitchell, O. S., McCarthy, D., Wisniewski, S. C. & Zorn, P. (2001). Developments in state and local pension plans. In Mitchell, O. S. and Hustead, E.C. (Eds.), *Pensions in the Public Sector* (pp. 11-40). Philadelphia, PA: University of Pennsylvania Press.

Monahan, A. (2010, March 17). Public pension plan reform: the legal framework. *Education, Finance & Policy*, Vol. 5, 2010; Minnesota Legal Studies Research No. 10-13. Available at SSRN: http://ssrn.com/abstract=1573864

Monahan, A. (2011, September 26). Statutes as Contracts? The 'California Rule' and its Impact on Public Pension Reform. *Iowa Law Review*, Vol. 97, 2012; Minnesota Legal Studies Research Paper No. 11-40. Available at SSRN: http://ssrn.com/abstract=1933887 or http://dx.doi.org/10.2139/ssrn.1933887

Monahan, A. (2012, June 18). Pension reforms have their day in court. Bloomberg.com. Retrieved from: http://www.bloomberg.com/news/2012-06-18/pension-reforms-have-their-day-in-court.html

Munnell, A. H., Aubry, J., Hurwitz, J.-P. & Quinby,L. (2011 October). Comparing wealth in retirement: state-local versus private sector worker. Center for Retirement Research. Retrieved from: http://crr.bc.edu/images/stories/Briefs/slp_21_508.pdf

National Association of State Retirement Administrators. (2010). Selected approved changes to state public pensions to restore plan sustainability. Retrieved from: https://www.strsoh.org/pdfs/NASRA.pdf

Novy-Marx, R. & Rauh, J. D. (2010, October 8). Public pension promises: how big are they and what are they worth? *Journal of Finance*, Forthcoming. Available at SSRN: http://ssrn.com/abstract=1352608

Oney, D. (2011, November 14). Local elections reveal preference to reform pensions. PublicCEO.com. Retrieved from: http://www.publicceo.com/index.php?option=com_content&view=article&id=3525:local-elections-reveal-preference-to-reform-pensions&catid=151:local-governments-publicceo-exclusive&Itemid=20

Oney, D. (2012, June 26). GASB improves pension accounting and financial reporting standards. PublicCEO.com. Retrieved from: http://www.publicceo.com/2012/06/gasb-improves-pension-accounting-and-financial-reporting-standards/

Orr, K. (2012a, June 27). San Diego pension reform piques interest of state Supreme Court. KPBS. Retrieved from: http://www.kpbs.org/news/2012/jun/27/san-diego-pension-reform-piques-interest-calif-sup/

Orr, K. (2012b, July 11). Two courts rule against San Diego on Prop B. KPBS. Retrieved from: http://www.kpbs.org/news/2012/jul/11/judge-issues-restraining-order-delay-citys-pension/

Ortiz, J. (2012, July 10). Jerry Brown says California public pension reform won't be on November ballot. *The State Worker Blog, Sacramento Bee*. Retrieved from: http://blogs.sacbee.com/the_state_worker/2012/07/jerry-brown-says-california-public-pension-reform-wont-be-on-november-ballo.html

Parsons, L. (2012, May 18). Pacific Grove council clears the air on employee pensions. *Monterey Herald*. Retrieved from: http://www.insidebayarea.com/california/ci_20647073/pacific-grove-council-clears-air-employee-pensions

Pension Benefit Guarantee Corporation. (2011). Pension Benefit Guarantee Corporation: who we are website. Retrieved from: http://www.pbgc.gov/about/who-we-are.html

The Pew Center On The States. (2010 February). The trillion dollar gap: underfunded state retirement systems and the roads to reform. Retrieved from: http://downloads.pewcenteronthestates.org/The_Trillion_Dollar_Gap_final.pdf

Pollack, A. (2012, July 12). Superior Court used TRO to delay pension reform. Examinier.com. Retrieved from: http://www.examiner.com/article/superior-court-uses-tro-to-delay-pension-reform

Rauh, J. D. (2010, May 15). Are state public pensions sustainable? Why the Federal government should worry about state pension liabilities. Available at SSRN: http://ssrn.com/abstract=1596679

Reed, C. (2010). Addressing the issue for the future: one city's reform initiative. (Testimony at Little Hoover Commission). Retrieved from: http://www.lhc.ca.gov/studies/activestudies/pension/ReedSep10.pdf

Reed, C. (2011, March 11). March budget message for fiscal year 2011-2012 council memo. City of San Jose 3-22-11 Council Agenda. Retrieved from: http://www.sanjoseca.gov/mayor/news/memos/11March/MarchBudgetMessage_03112011.pdf

Reed, C. (2012, February 21). Revised retirement reform ballot measure fact sheet. Retrieved from: http://www.sanjoseca.gov/mayor/goals/budget/PDF/FiscalReformBallotMeasureFactSheet.pdf

Robert Sapien, Mary Kathleen McCarthy, Thanh Ho, Randy Sekany and Ken Heredia v City of San Jose, Debra Figone, Does 1-15, the Board of Administration for the 1961 San Jose Police and Fire Department Retirement Plan. Superior Court of California, County of Santa Clara. 112CV225928. Retrieved from: http://www.sanjoseca.gov/employeeRelations/retirementreform/SJFirefighters-Complaint(MeasureB)Dated06.06.12.pdf

Robinson, R. (2012, May 17). The Non-Campaign Against Measure B. Retrieved from: http://www.sanjoseinside.com/news/entries/5_17_12_measure_B_pension_ballot_election/

Sacramento City Code, Article XVII Sacramento City Employees' Retirement System. (n.d). Retrieved from: http://www.qcode.us/codes/sacramento/view.php?topic=city_of_sacramento_charter-xvii&showAll=1&frames=on

Sacramento County Employees' Retirement System. (n.d.) Sacramento County Employees' Retirement System News and Developments: Questions and Answers about SCERS Staff Compensation. Retrieved from: http://www.scers.org/coswcms/groups/public/@wcm/@pub/@scers/@inter/documents/webcontent/sac_031824.pdf

Saillant, C. & Perry, T. (2012, June 7). Elections 2012; 2 big cities OK cuts to worker pension costs; Reform advocates predict others will follow example of San Jose and San Diego. *Los Angeles Times*. Retrieved from www.lexisnexis.com/hottopics/lnacademic

San Diego City Employees' Retirement System. (2011a, August 19). Charters, policies, resolutions and rules of the board of administration. Retrieved from: https://www.sdcers.org/reports/Documents/Board_CPRR_final_w_App_A_12_11.pdf

San Diego City Employees' Retirement System. (2011b, December 6). Comprehensive annual financial report for the fiscal year ended June 30, 2011. Retrieved from: https://www.sdcers.org/annualreports/2011_SDCERS_CAFR.pdf

San Diego City Employees Retirement System. (2012, May 29). Frequently Asked Questions About The "Comprehensive Pension Reform" Initiative (Proposition B). Retrieved from: https://www.sdcers.org/news/Documents1/CPR_FAQs_REVISED_5_29_12.pdf

San Diego County Registrar of Voters. (2012). City of San Diego Proposition B Ballot Language. Retrieved from: http://www.sdcounty.ca.gov/voters/Eng/proptext/B.pdf

San Diego County Grand Jury (2010, June 8). San Diego City's financial crisis. The past, present, and future. Retrieved from: http://www.sdcounty.ca.gov/grandjury/reports/2009-2010/SDCityFinancialCrisisReport.pdf

San Diego Municipal Code Section 24.0401-24.0405. (2011, June). Retrieved from: http://docs.sandiego.gov/municode/MuniCodeChapter02/Ch02Art04Division04.pdf

San Diego Union Tribune Editorial Board. (2012, April 9.) IRS pension stall: Why, Mr. President? *San Diego Union Tribune*. Retrieved from: http://www.utsandiego.com/news/2012/apr/09/irs-pension-stall-why-mr-president/

San Mateo County Employees' Retirement Association. (n.d.) FY 2012-2013 entry age member contribution rates. Retrieved from: http://www.samcera.org/pdf/ContribRates.pdf

San Mateo County Employees' Retirement Association. (2011a, September 15). First things first: your guide to SamCERA retirement benefits for new General employees hired on or after August 7, 2011. Retrieved from: http://www.samcera.org/pdf/First_Things_FirstG.pdf

San Mateo County Employees' Retirement Association. (2011b, September 15). First things first: your guide to SamCERA retirement benefits for new Probation employees hired on or after July 10, 2011. Retrieved from: http://www.samcera.org/pdf/First_Things_FirstS.pdf

San Mateo County Employees' Retirement Association. (2011c, October 19). Comprehensive Annual Financial Report for the fiscal year ending June 30, 2011. Retrieved from: http://www.samcera.org/pdf/2011CAFR.pdf

San Jose Mercury News Editorial Board. (2011, November 28). Pension reform in San Jose requires IRS help. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/opinion/ci_19414247

San Jose Mercury News Editorial Board. (2012, March 8). San Jose pension facts: Let the debate begin. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/opinion/ci_20125154

San Jose Police Officers' Association v City of San Jose, Board of Administration for Police and Fire Department Retirement Plan of City of San Jose and Does 1-10. Superior Court of California, County of Santa Clara. 112CV225926. 2012. Retrieved from: http://www.sanjoseca.gov/employeeRelations/retirementreform/POA-Complaint(MeasureB)Dated06.06.12.pdf

Santa Clara County Civil Grand Jury. (2010). Cities must rein unsustainable employee costs. Retrieved from: http://www.sccsuperiorcourt.org/jury/GJreports/2010/CitiesMustReinInUnsustainableEmployeeCosts.pdf

Santa Clara County Civil Grand Jury. (2012). An analysis of pension and other post employment benefits. Retrieved from: http://www.scscourt.org/court_divisions/civil/cgj/2012/pension.pdf

Seipel, T. (2012a, May 2). San Jose city officials cautiously optimistic about 2012-13 budget. San Jose Mercury News. Retrieved from: http://www.mercurynews.com/bay-area-news/ci_20526123/san-jose-city-officials-cautiously-optimistic-about-2012

Seipel, T. (2012b, July 3). Santa Clara County Registrar of Voters certifies June 5 election. San Jose Mercury News. Retrieved from: http://www.mercurynews.com/elections/ci_21002391/santa-clara-county-registrar-voters-certifies-june-5

Seipel, T. & Harmon, S. (2012, July 6). Pension Reforms expected to stand. Senate leader says S.J. initiative won't be overridden. *San Jose Mercury News*. pp B1-B6.

Shuler, P. J. (2012, May 15). San Jose Voters to Decide On Pension Reform Measure. Retrieved from: http://www.kqed.org/news/story/2012/05/15/94162/san_jose_voters_to_decide_on_pension_reform_measure?category=politics

Social Security Administration. (n.d.). Information for government employees page. Retrieved from: http://www.ssa.gov/gpo-wep/

Social Security Administration. (2011, March). Government pension offset publication. SSA Publication No. 05-10007, ICN 451453. Retrieved from: http://www.ssa.gov/pubs/10007.pdf

Social Security Administration. (2012a, January). Windfall Elimination Provision. Retrieved from: http://www.ssa.gov/pubs/10045.pdf.

Social Security Administration. (2012b, July). Social Security Retirement Benefit. SSA Publication No. 05-10035. Retrieved from: http://www.ssa.gov/pubs/10035.pdf

Social Security Administration, Office of Retirement and Disability Policy. (2012, February). Annual Statistical Supplement, 2011, Appendix D: Computing a Retired-Worker Benefit. Retrieved from: http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2011/apnd.pdf

Social Security On-Line. (2012, March 9). Maximum Social Security retirement benefit. Retrieved from: http://ssa-custhelp.ssa.gov/app/answers/detail/a_id/5/~/maximum-social-security-retirement-benefit

Stevens, E. (2011, May 22). San Jose Mayor Declares State of 'Fiscal Emergency'. *The New York Times*. Retrieved from: www.lexisnexis.com/hottopics/lnacademic

Steyer, R. (2011, April 18). IRS decision due on hybrid plan. Orange County's efforts to open new fund to DB participants still on hold nearly year later. Pension and Investments Online. Retrieved from: http://www.pionline.com/article/20110418/PRINTSUB/304189981

Susko, J., Putnam, J. & Villarreal, M. (2012, April 27). San Jose pension estimates questioned. Have San Jose officials used fuzzy math to estimate future pension costs? NBC Bay Area. Retrieved from: http://www.nbcbayarea.com/investigations/series/san-jose-pension-plans-under-scrutiny/Guessing-Pensions-138981764.html

Taylor, M. (2011, November 8). Public pension and retiree health benefits: an initial response to the Governor's proposal. Legislative Analyst's Office. Retrieved from: http://www.lao.ca.gov/laoapp/PubDetails.aspx?id=2537

United Parcel Service. (2011). UPS/IBT full-time employee pension plan: questions and answers for UPS employees in Central States Pension Fund website. Retrieved from: http://www.ibtupspensionfund.ups.com/IBT_QA.htm

Urevich, R. (2010). Tightening the PERS strings. *Monterey County Weekly*, p 12. Retrieved from: http://search.proquest.com/docview/762998626?accountid=10361

US Census Bureau. (2012a, January 31). Sacramento (city) QuickFacts from the US Census Bureau. Retrieved from: http://quickfacts.census.gov/qfd/states/06/0664000.html

US Census Bureau. (2012b, January 31). San Diego (city) QuickFacts from the US Census Bureau. Retrieved from: http://quickfacts.census.gov/qfd/states/06/0666000.html

US Census Bureau. (2012c, January 31). San Jose (city), California QuickFacts from the US Census Bureau. Retrieved from: http://quickfacts.census.gov/qfd/states/06/0668000.html

Woolfolk, J. (2010, October 6). Labor leader blasts San Jose pension audit. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/ci_16273209?source=most_viewed

Woolfolk, J. (2011a, December 2). San Jose's deficit estimate slashed dramatically as pension costs fall. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/bay-area-news/ci_19451203

Woolfolk, J. (2011b, December 4). San Jose's $100,000 pension club is rapidly growing. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/bay-area-news/ci_19465443

Woolfolk, J. (2012a, January 4). San Jose City Council members issue a call to cut their own pensions. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/bay-area-news/ci_19675143

Woolfolk, J. (2012b, March 6). Pension measure headed to SJ ballot. *San Jose Mercury News.* Retrieved from: http://www.mercurynews.com/pensions/ci_20114735/san-jose-mayor-confident-key-pension-vote?source=autofeed#

Woolfolk, J. (2012c, March 7). State lawmakers order San Jose pension audit. *Oakland Tribune,* pp. n/a. Retrieved from http://search.proquest.com/docview/926587654?accountid=10361

Woolfolk, J. (2012d, April 29). Pension cuts top agenda. Vote on reducing future hires retirement benefits come ahead of controversial June ballot measure. *San Jose Mercury News*. B1 and B9.

Woolfolk, J. (2012e, May 25). More than $1 million spend on fight over San Jose pension reform. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/elections/ci_20705986/more-than-1-million-spent-fight-over-san?IADID=Search-www.mercurynews.com-www.mercurynews.com

Woolfolk, J. (2012f, June 6). Victory for pension reform. San Jose voters overwhelmingly approve city initiative that could have nationwide influence. *San Jose Mercury News*. A1 and A17

Woolfolk, J. (2012g, June 13). San Jose lowers pensions for new hires. *San Jose Mercury News*. Retrieved from: http://www.mercurynews.com/bay-area-news/ci_20843384/san-jose-lowers-pensions-new-hires?IADID=Search-www.mercurynews.com-www.mercurynews.com

Yamamura, K. (2012, July 4). Gov. Jerry Brown, legislative Democrats still haggling over California public pension cuts. *Sacramento Bee*. Retrieved from: http://www.sacbee.com/2012/07/04/4608914/gov-jerry-brown-legislative-democrats.html