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OFFICE OF THE CITY CLERK
OAKLAND

CITY OF OAKLAND

AGENDA REPORT

2011 FEB 10 PM 6:36

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Budget Office
DATE: February 22, 2011

RE: Receive A Report From The Budget Advisory Committee On Oakland Pension Liabilities

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SUMMARY

This document transmits the Budget Advisory Committee's (BAC) executive summary, "The City of Oakland Unfunded Pension and Retirement Benefits Liability," and PowerPoint presentation, "Challenges and Recommendations Regarding Oakland's Unfunded Retirement Benefit Liabilities."

FISCAL IMPACT

There are no immediate fiscal impacts associated with the acceptance of this presentation. The figures reported in the presentation were originally contained in an informational report on the City's obligafions for long-term liabilities related to retirement benefits, which was prepared by the Finance and Management Agency Treasury Division and presented to the City Council on May 18, 2010.

BACKGROUND

The BAC consists of 15 members, with four appointed by the Mayor, seven appointed by Councilmembers from each of the seven Districts, one by the Community and Economic Development Committee Chairperson, two by the Finance and Management Committee Chairperson, and one by the At-Large Councilmember. The BAC has prepared a presentation, entitled "Challenges and Recommendations Regarding Oakland's Unfunded Retirement Benefit Liabilities," which focuses on the City's pension and retiree health liabilities.

RECOMMENDATION

Staff transmits and recommends City Council receive and file this report.

Respectfully submitted,

Sabrina Landreth
Budget Director

Prepared by:
Herman Chen
City Administrator's Budget Office

FORWARDED TO THE
FINANCE AND MANAGEMENT COMTE:

Office of the City Administrator

Attachment A: The City of Oakland Unfunded Pension and Retirement Benefits Liability Executive Summary

Attachment B: Challenges and Recommendafions Regarding Oakland's Unfunded Retirement Benefit Liabilities PowerPoint Presentation

The City of Oakland Unfunded Pension and Retirement Benefits Liability

EXECUTIVE SUMMARY

Throughout the nation, unfunded state pension liabilities are estimated to exceed three trillion dollars.

In Oakland, where the budget deficit recently led to police layoffs, the Police and Fire Retirement System (PFRS) estimates unfunded actuarial accrued liabilities of one-half billion dollars. PFRS is one of two closed systems which cover the public safety employees that retired prior to the establishment of CalPERS in 1970. The other system, the Oakland Municipal Employees Retirement System (OMERS) is for municipal employees that were not involved in public safety. OMER is also underfunded due to the recent stock market correction at approximately 90%. The third plan is The City's current CalPERS retirement system. To fully fund the current CalPERS system would require an annual contribution of approximately $75 million.

In addition to these three retirement plans and their present unfunded liabilities, the City is also tasked with three programs to pay the partial costs of health insurance premiums for its retirees. The annual required contribution (ARC) for post employment benefits is currently $85.7 million.

Recent actuarial reports placed the size of the unfunded liabilities of these three City of Oakland pension and benefits at the following:

- PFRS as of July 1, 2009 stood at $435 million short
- CalPERS as of June 30, 2009 was at $1.3 billion short
- Actuarial reports to cover future retiree health benefits as of 2008 $592 million short

As presently managed and funded, the City of Oakland's Retirement and Retiree Benefits Plans are not sustainable. We recommend that the City's Finance Committee study various approaches to determine the best method to regain sustainability. Listed below are ideas from comparable California Cities to be reviewed for possible remedies to our present dilemma:

RECOMMENDATIONS

a. Propose a charter amendment that prohibits the Mayor/City Council from passing any benefit increases without voter approval or that create unfunded liabilities.
b. No Cost of Living Allowance (COLA) or other increase should be awarded to retirees unless the pension fund is found, through a multi-year analysis, to be sound and fully funded.

c. Compare the retirements in other comparable California cities of similar size.

d. Increase the qualifying age of retirement for both public safety and non-public safety employees by five years across the board

    i. Public Safety 50 > 55

    ii. Other 55 > 60

   Initiate new negotiations with public employee unions to revisit existing contracts in the hopes of finding cost-sharing arrangements to fund present unfunded liabilities.

e. Determine whether charter changes would be required should any parties to existing agreements be unwilling to resume negotiations.

f. City Council should seek opinions from the City Attorney on the legal ramifications of these remedies to the problem of unfunded liabilities.

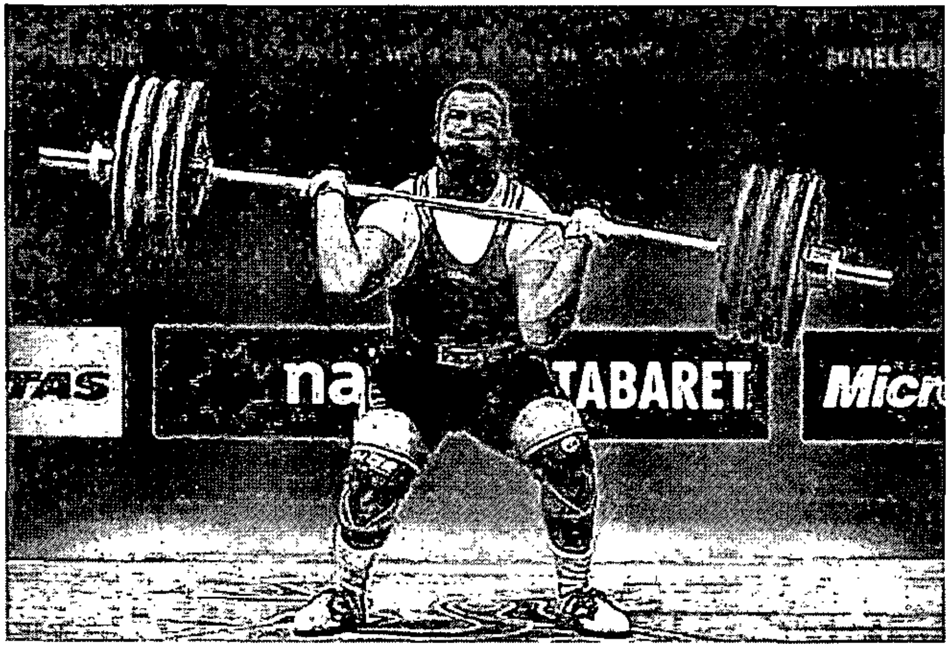
g. We recommend that the city council conduct all pension/retirement related discussions in an open and public manner.

h. Look at reforms recently enacted by the state of California to see what savings opportunities exist. BAC will continue to study and review these emerging reforms and bring ideas and recommendations forward.

i. Ordinance to require using a three-year average to calculate benefits for new employees, instead of highest 12 months' salary to determine retirement benefits.

j. City Council should consider a hybrid plan (both defined-benefit and defined-contribution elements). BAC will study other municipalities and states as they study or implement these hybrid plans and bring ideas and recommendations forward.

Unsustainable



Challenges and Recommendations
Regarding Oakland's Unfunded
Retirement Benefit Liabilities

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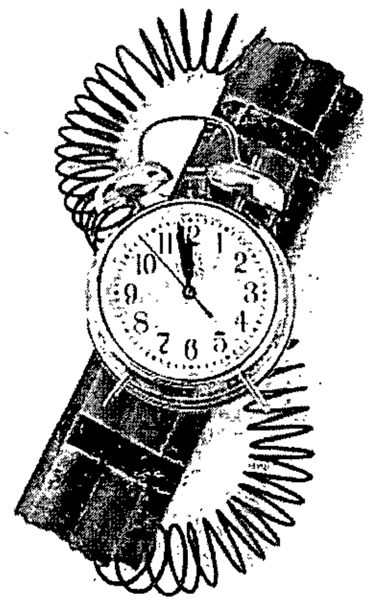
Attachment B

What is the problem?

- Our defined benefit plans (CalPERS, PFRS, OMERS, OPEB) are not fiscally sustainable

- Escalating pension/retirement costs have not been adequately addressed in public budget discussions.

- The rising cost of retirement healthcare benefits threatens to starve resources to support core city services



"Simply put, the city faces a financial time bomb, fueled by at least $2 billion of unfunded liabilities for employee pensions and retiree health care costs."

-- Daniel Borenstein, Oakland Tribune

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What has Oakland done in the past?

- Adopted a two-tiered benefits approach (earlier hires vs. more recent hires)
- Issued bonds to finance unfunded payments, and taken a payment "holiday".
- Oakland increased retiree benefit levels during economically prosperous times

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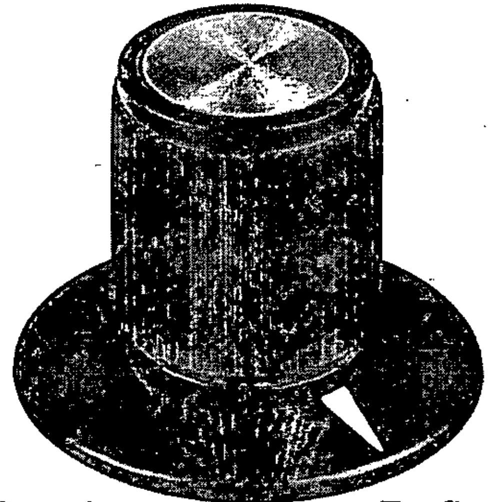
What are other cities doing?

- **San Francisco**
  - Measure B: charter amendment to adjust from defined benefit plan to defined contribution model, and to increase retirement ages – *Measure Failed*
- **San Jose**
  - Changes Proposed by Ballot Measures
    - **A**ll increases to benefits require voter approval – *Passed*
    - Benefit increases cannot create unfunded liabilities – *Passed*



Defined Benefit Plan

Defined Contribution Plan

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Advice from the BAC - 1

- Propose a charter amendment that prohibits the Mayor/City Council from passing any benefit increases without voter approval if it creates unfunded liabilities.

- No Cost of Living Adjustment (COLA) or other increase should be awarded to retirees unless the pension fund is found through a multi-year analysis to be sound and fully funded.

- Compare the retirements in other comparable California cities of similar size.

- Increase the qualifying age of retirement for both public safety and non-public safety employees by five years across the board.
  - Public Safety 50 > 55
  - Other 55 > 60

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Advice from the BAC - 2

- Initiate new negotiations with public employee unions to revisit existing contracts to find cost-sharing arrangements to fund present unfunded liabilities.

- Review what charter changes would need to be made should any parties to existing agreements be unwilling to resume negotiations (e.g. binding arbitration).

- City Council should seek opinions from the City Attorney on the legal ramifications of these remedies to the problem of unfunded liabilities.

- We recommend that the city council conduct all pension/retirement related discussions in an open and public manner.

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Advice from the BAC - 3

- Look at reforms recently enacted by the state of California to see what savings opportunities exist.
- Ordinance to require using a three-year average to calculate benefits for new employees, instead of highest 12 months' salary to determine retirement benefits.
- City Council should consider a hybrid plan (both defined-benefit and defined-contribution elements).

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