

# CITY OF OAKLAND

## AGENDA REPORT

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

2010 DEC -2 PM 4:32

TO: Office of the City Administrator  
ATTN: Dan Lindheim  
FROM: Budget Office  
DATE: December 14, 2010

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 obligations 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

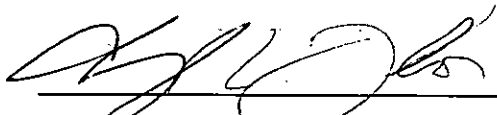
The BAC consists of 15 members, with four appointed by the Mayor, seven appointed by Councilmembers from each of the seven Districts, one by the Community and Economic Development Committee Chairperson, two by the Finance and Management Committee Chairperson, and one by the At-Large Councilmember. The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

Item: \_\_\_\_\_  
Finance and Management Committee  
December 14, 2010

**RECOMMENDATION**

Staff transmits and recommends City Council accept this report.

Respectfully submitted,



CHERYL TAYLOR  
Budget Director

Prepared by:  
Herman Chen  
City Administrator's Budget Office

APPROVED AND FORWARDED TO THE  
FINANCE AND MANAGEMENT COMMITTEE



Office of the City Administrator

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

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

## The City of Oakland Unfunded Pension and Retirement Benefits Liability

### EXECUTIVE SUMMARY

Nationally it is presently estimated that we have over a 3 trillion dollars in potentially unfunded state pension liabilities. Here in Oakland where our recent budget deficit led to police layoffs, we are estimated to have ½ a billion in unfunded actuarial accrued liabilities in its Police and Fire retirement System ("PFRS"). PFRS is one of two closed systems which cover the public safety employees that retired prior to 1970 and the establishment of CalPERS and the other is for municipal employees that were not public safety and this plan is the Oakland Municipal Employees Retirement System ("OMERS"). OMERS are also underfunded due to the recent stock market correction and are funded at about a 90% level. The City's current CalPERS retirement system in order to be fully funded at 100% requires an annual contribution of approximately 75 million dollars.

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 dollars.

It has become evident that as presently managed and funded the City of Oakland's Retirement and Retiree Benefits Plans are not sustainable given our overall budget realities. We recommend that the City's Finance Committee begin to study how best to move back to manageable sustainability. Here are ideas and approaches from comparable California Cities that should be entertained, reviewed, and studied for possible remedy to our present unsustainable situation:

### RECOMMENDATIONS

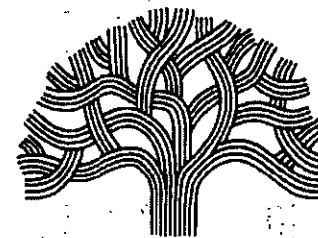
- a. Propose a charter amendment that prohibits the mayor/City Council from passing any benefit increases without voter approval or that create unfunded liabilities
- b. No COLA or other increase should be awarded to retirees unless the pension fund is found through a multi-year analysis to be sound 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
- e. Initiate new negotiations with public employee unions to revisit existing contracts to find cost-sharing arrangements to fund present unfunded liabilities.

- f. Review what charter changes would need to be made should any parties to existing agreements be unwilling to resume negotiations.
- g. City Council should seek opinions from the City Attorney on the legal ramifications of these remedies to the problem of unfunded liabilities.
- h. We recommend that the city council conduct all pension/retirement related discussions in an open and public manner.
- i. Look at reforms recently enacted by the state of California to see what savings opportunities exist.
- j. Ordinance to require using a three-year average to calculate benefits for new employees, instead of highest 12 months' salary to determine retirement benefits.
- k. City Council should consider a hybrid plan (both defined-benefit and defined-contribution elements).

# Unsustainable



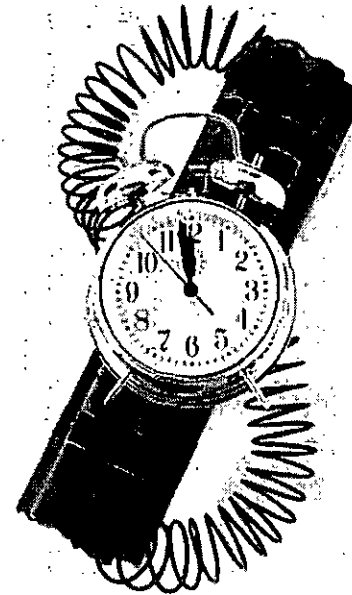
Challenges and Recommendations  
Regarding Oakland's Unfunded  
Retirement Benefit Liabilities



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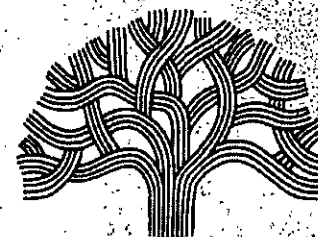
## What is the problem?

- 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.”**

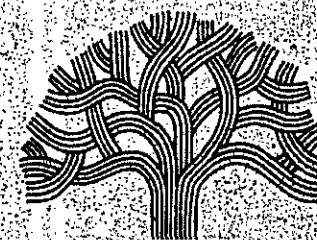
*-- Daniel Borenstein, Oakland Tribune*



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## What has Oakland done in the past?

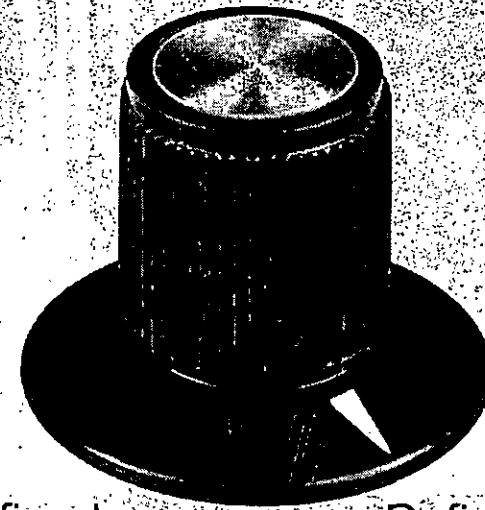
- **Adopted a two-tiered benefits approach (earlier hires vs. more recent hires)**
- **Issued bonds to finance unfunded payments, and taken a payment “holiday”.**
- **Oakland increased retiree benefit levels during economically prosperous times**



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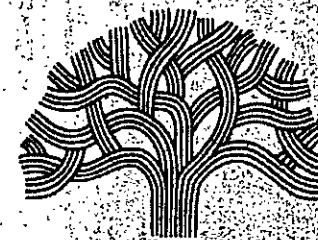
## What are other cities doing?

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



Defined  
Benefit  
Plan

Defined  
Contribution  
Plan

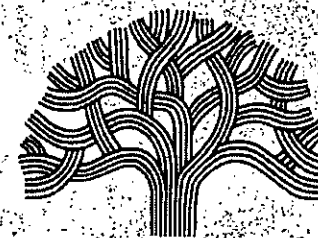


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## **Advice from the BAC - 1**

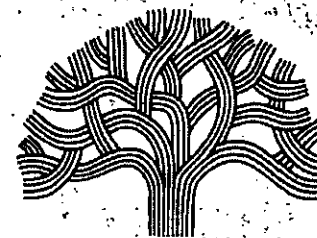
- **Propose a charter amendment that prohibits the mayor/City Council from passing any benefit increases without voter approval or that create unfunded liabilities**
- **No COLA or other increase should be awarded to retirees unless the pension fund is found through a multi-year analysis to be sound 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**

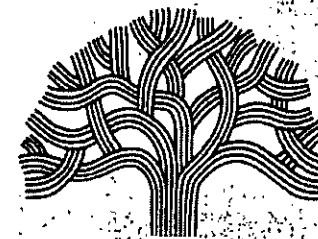
- **Initiate new negotiations with public employee unions to revisit existing contracts to find cost-sharing arrangements to fund present unfunded liabilities.**
- **Review what charter changes would need to be made should any parties to existing agreements be unwilling to resume negotiations.**
- **City 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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