



**City of Oakland
Office of the City Auditor**

City Auditor Courtney A. Ruby, CPA, CFE

Office of the City Auditor Pension Audit Report

**Oakland City Council
May 20, 2014**



Objectives

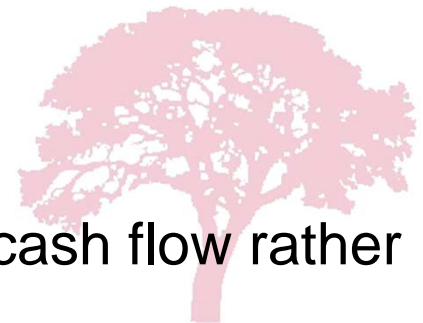
To report the status of Oakland's unfunded pension obligations, steps Oakland has taken regarding its pension, what else can be done, and lessons learned from the private sector and other government agencies.



General Background on Pensions

Oakland faces a three-pronged challenge of delivering critical City services and meeting the promises made to current and retired employees, without overburdening taxpayers.

- Pension obligations were impacted by a variety of factors:
 - State laws: Prop 13 and SB 400
 - Longer life expectancy & baby boomers retiring
 - Poor market performance
 - Ballooning health care costs
 - Guaranteed defined benefits
- Pension obligations historically viewed as a cash flow rather than solvency issue



Key Differences in Private & Public Pensions

Key Difference	Private Sector	Public Sector
Benefit plan used	Defined Contribution Plan	Defined Benefit Plan
Discount rate used	4.9% Average / Actual Yield	7.5% CalPERS / Expected Yield
Responsibility for pension	Employees	Employers
Funding requirements	100% Funded Required	80% Funded Goal

Overview of Oakland's Pension Actions

Oakland has worked to stabilize the City's finances.

Key changes include:

- Significant service cuts, staff reductions, and new tax increases over the last decade
- Increased employee pension contributions
- Added benefit tiers & met PEPRA and CalPERS requirements
- Issued pension obligation bonds
- Administration proposed strategies to reduce long-term liabilities

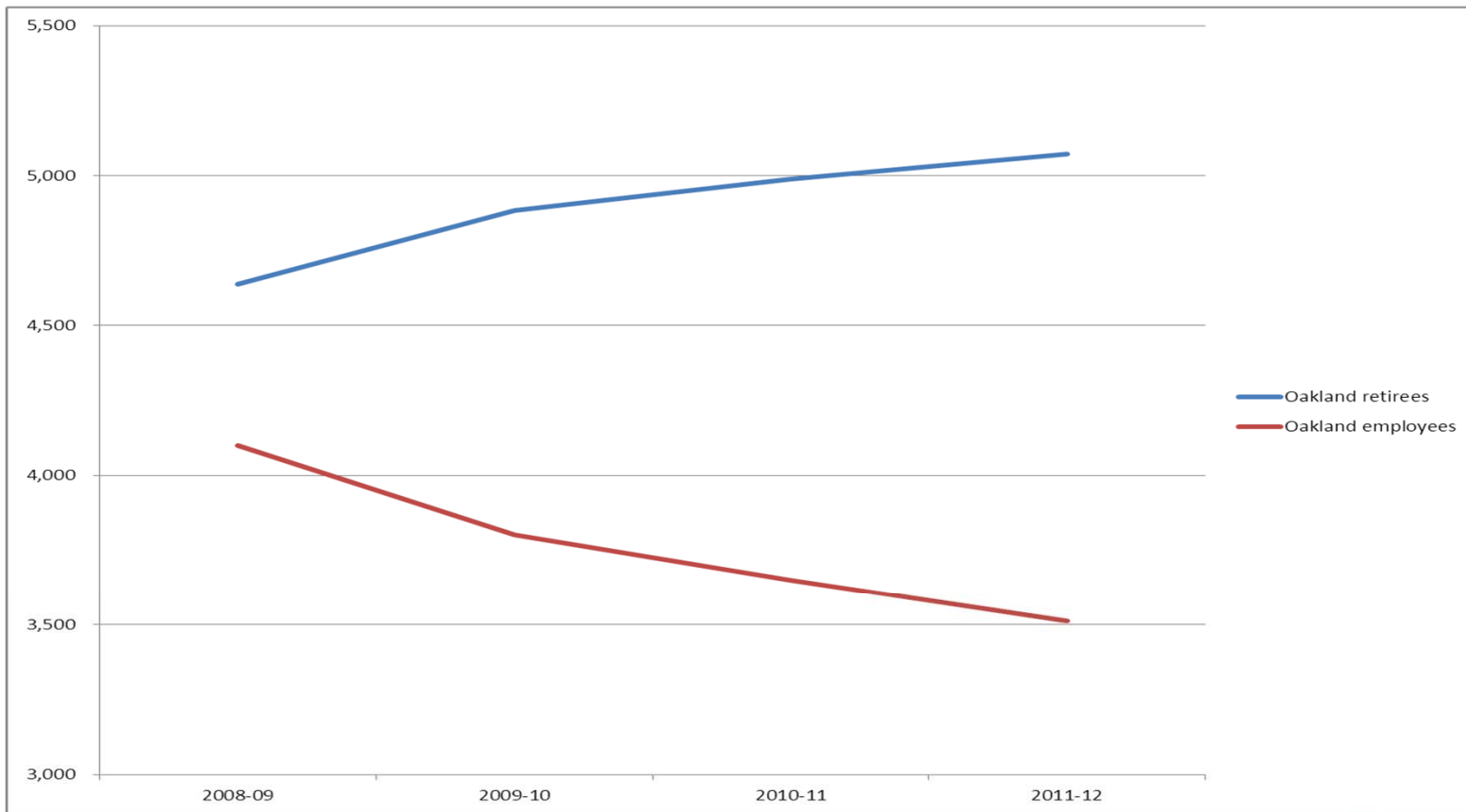


Oakland has \$1.5 billion in Pension Obligations

Pension Obligation	Unfunded Liability	Funded Ratio
CalPERS	<u>\$742,168,699</u>	
- Sworn	\$317,959,951	77.3%
- Non-Sworn	\$424,208,748	79.6%
PFRS	\$203,689,000	68.2%
OMERS	(\$818,000)	122.5%
OPEB	\$553,530,074	0%
TOTAL	\$1,498,569,773	

Oakland's Retirees to Active Employees

Exhibit 2: Comparison of Oakland's Retirees to Active Employees, 2008 – 2012

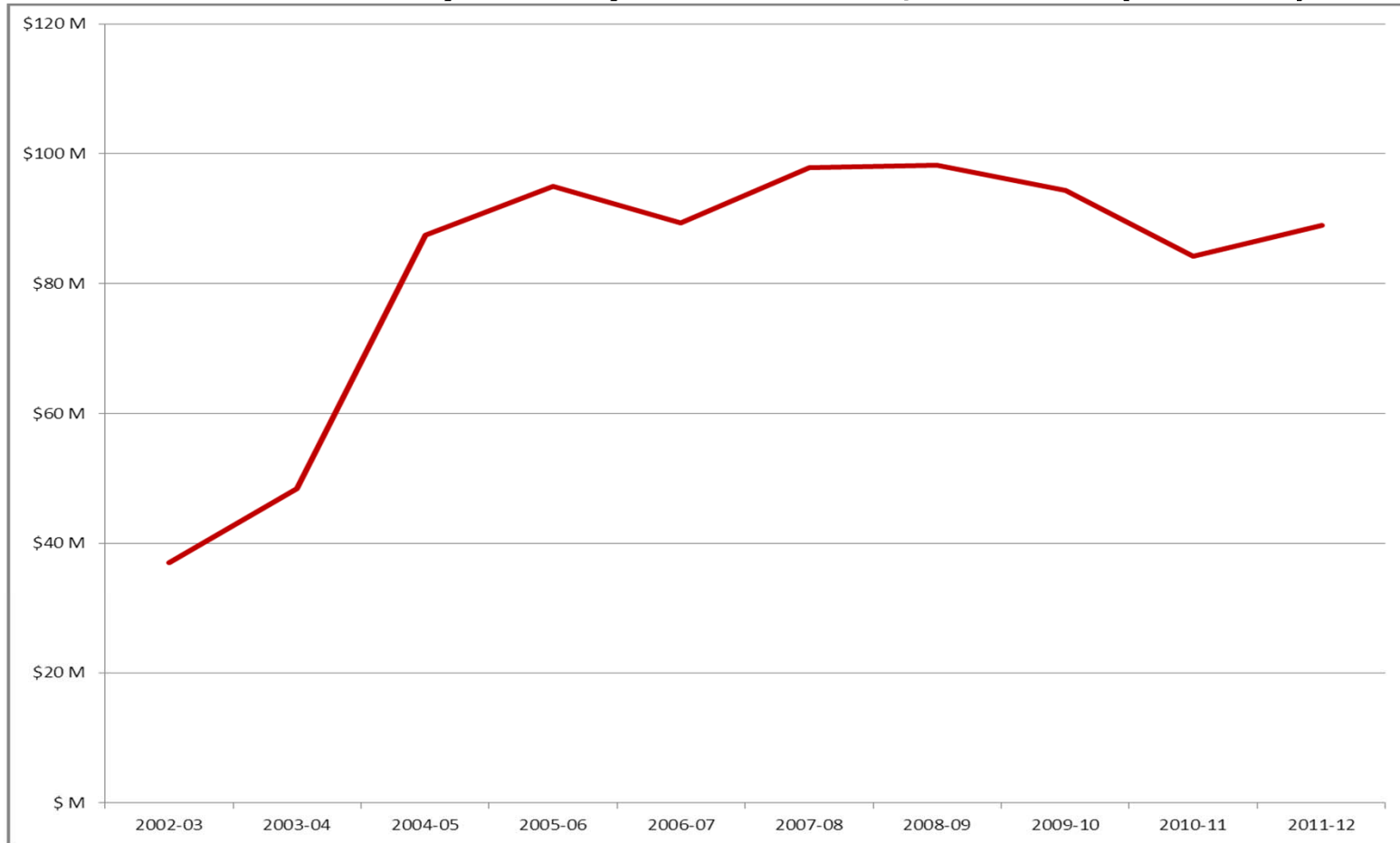


Source: Actuarial valuation reports and comprehensive annual financial statements for Oakland's pension systems for 2008-2012.

** Retirees data include beneficiaries.*

CalPERS Annual Payment has Doubled (\$37M to \$89M)

Exhibit 3: Growth in the City's ARC Payments to CalPERS, 2002 - 2012 (in millions)



Source: City's comprehensive annual financial statements from FY 2002-2012.

Legality of Possible CalPERS Pension Reform Options

	Pension Reform Option	City Attorney's Opinion
1	Cap pensionable pay	Not Legal
2	Cap pension payouts	Not Legal
3	Cap maximum benefits	Not Legal
4	Provide defined contribution plans for new employees	Not Legal
5	Offer current employees a choice to convert to a defined contribution plan with employer match and match incentives for employees to convert	Not Legal
6	Amend CalPERS contract to have members pay a portion of the City's contribution	Legal

Beyond Oakland's Pension

The report also includes:

- Lessons learned from private sector pension reform
- Lessons learned from public sector pension reform
- Benchmarking other California cities' pension information



Pension Audit Findings

1. Oakland's pension obligations are growing but it appears that Oakland's leaders have limited ability to address this significant liability
2. Oakland could benefit from lessons learned from the private sector and other government agencies



Pension Audit Recommendations

1. Convene a pension advisory group to gather, evaluate, and organize information for a comprehensive solution to Oakland's unfunded pension liabilities
2. Form a coalition of cities to find common ground to support comprehensive solutions at the state and CalPERS levels

