

To: MCCMC Pension & OPEB Reform Committee

From: Larry Chu

Date: January 25, 2011

RE: Summary of Business Items for January 31, 2011 Meeting

1. Pension benefit data – Emmett O’Donnell

Attached is a spreadsheet that has the data for the 11 cities and towns, the County of Marin, and the Twin Cities Police Authority.

The following jurisdictions have some missing information. Committee representatives should communicate with their Managers or Finance Director to have this information provided to the subcommittee.

San Rafael

Need info on 2011- 2012 MCERA contributions level
% employee pays (if any) and % employer picks up (EMPC Contribution rate)

Whether there is an EPMC considered special contribution

San Anselmo

Need info on 2011 – 2012 PERS contribution level
% employer (EMPC contribution rate)

Whether there is an EPMC considered special contribution

Corte Madera

Need info on 2011 – 2012 PERS contribution level
% employer (EMPC contribution rate)

Whether there is an EPMC considered special contribution

No data was received from Mill Valley, the County of Marin, and Sausalito. Committee representatives should review the information with their Managers or Finance Directors, confirm what is on the spreadsheet, and provide the subcommittee with any additional information that is missing.

No information was supplied by the Marin Municipal Water District and the Novato Sanitary District. Committee representatives should communicate with their Executive Officers or Finance Directors to have this information provided to the subcommittee.

Committee may want to make suggestions for additional information.

2. Other Post Employment Benefit data – Mike Kelly

Attached is a document with OPEB information compiled back in 2008. This has the 11 cities and towns, the County of Marin, and the Marin Municipal Water District.

Sausalito, San Rafael, San Anselmo, and Larkspur have provided updates. Committee representatives from other jurisdictions should review the information with their Managers or Executive Officer and their Finance Directors, confirm what is on the spreadsheet, and provide to the subcommittee any additional information that is missing.

Another source of information should be the audit for the fiscal year ending June 30, 2010. The reporting under GASB 45 now requires disclosure of the funding progress and funding status for OPEBs.

The subcommittee would also like to compile the information from all independent special districts. In addition, the subcommittee suggests the following data associated to OPEBs be included:

- eligibility provisions
- vesting rights
- jurisdiction's right to modify benefits (for current and future retirees)
- ability to offer a choice of plans (so called cafeteria)
- employer share of premiums (for current employees and retirees)
- plan authority (e.g. employee brochure, union contract, retirement agreement)

Committee may want to make suggestions for additional information.

Also included for informational purposes is a 2008 report entitled *Options for Reducing California's Other Post Employment Benefits Obligations*. This was written by the directors of the Department of Finance and the Department of Personnel Administration.

3. Financial impact study and sample resolution – Larry Chu

The subcommittee has read the reports *Novato Pension Policy*, *Sausalito Actuarial Issues*, and the Stanford Institute for Economic Policy Research Policy Brief entitled *Going For Broke: Reforming California's Public Employee Pension Systems*.

The SIEPR Policy Brief has challenged the methodology in which the obligations in the State's pension systems are calculated. To evaluate and

better understand the methodology used in the SIEPR report, the subcommittee met with Stanford Professor Joe Nation, the faculty advisor for the study.

He has also authored a similar report entitled *The Funding Status of Independent Public Employee Pension Systems in California*.

Note that the reports written by SIEPR are consistent with similar assertions made in studies by Robert Novy-Mark (University of Rochester) and Joshua Rauh (Northwestern University).

The subcommittee asked Dr. Nation to summarize the methodology and cost associated with a similar study if it were conducted for the local agencies in Marin.

The work would not be done by Stanford University, but by Vector Economics, a consulting firm specializing in probability management and predictive analysis modeling. Dr. Nation would be teaming up with Dr. Sam Savage, a Consulting Professor at Stanford and author of *The Flaw of Averages*. Other finance and actuarial experts may also be called upon to provide peer review in the analysis.

The process for the study would be as follows:

- Identify what the assets and liabilities are
- Analyze the shortfall and determine the stated funding status
- Repeatedly run thousands of simulations using random samplings against different rates of returns to create a distribution of probabilities for being adequately funded or being underfunded
- Incorporate these results into a budgeting model
- Evaluate the sensitivity any proposed changes will have on reducing the current costs and the risks associated with future obligation
- Provide an electronic web-based dashboard to change modeling assumptions and to re-run an analysis

Vector Economics' standard hourly rate is \$270. They are open to doing the work on an hourly basis or a not-to-exceed dollar amount.

The effort associated with the analysis is independent of the pension system, number of employees, or the size of the assets and liabilities. The shared component is primarily in the modeling and the variable component is the data associated with each participating agency.

Dr. Nation is currently engaged in a study for the Town of Atherton and he has recently signed an agreement to do a study for the City and County of

San Francisco. These studies are about \$14,000 each. Performing the study for ten Marin agencies is estimated to be \$100,000.

The timing now is right since the inherent flaws in the system are magnified in a bad economy. Dr. Nation stated that there is about a 2-3 year window before the continual increases in the funding requirements will severely impact local services and programs. If the studies done by Dr. Novy-Mark and Dr. Rauh are correct, California pension funds will exhaust their assets by 2026.

Further discussion is still needed about the use and benefit of performing a study like the ones done for Novato and Sausalito. Although those studies appear to use the same actuarial analysis as CalPERS, the subcommittee still wants to interview the people who did the work. The fundamental issue is whether an analysis should use discount rates that recognize the risk of the liabilities rather than the expected rate of return on the assets.

The next steps with Vector Economics are to refine the scope in a formal proposal, perform a due diligence on the company and project team, and to discuss a reduction on the hourly rate.

Regardless, the subcommittee needs to get input from the committee on the scope of the work and some general sense of what their respective councils or boards may be willing to spend on such an effort.

Attached is a sample resolution reflecting the scope of the project (see above bullets). This would change to reflect any comments from the committee.

4. Toolkit of actions – Jeanne MacLeamy

With the assistance of Tom McDonald, a member of the Novato ad-hoc pension committee that created the report *Novato Pension Policy*, the subcommittee has created a first draft of the 'Toolkit'. This document separates possible actions into the following sections:

- major benefit change
- reductions in benefits and cost
- abuses
- financial and management
- governance and administration

A fair amount of work is still needed to complete the matrix with the proposed actions that are currently documented. Several of these are legal issues.

Some committee discussion is needed to determine if a legal resource can be made available to the committee. The MCCMC does not have the budget to hire an attorney.

The subcommittee would also like the committee to submit other ideas for each of the Toolkit sections and to provide any suggestions for adding additional columns which could be of benefit to policy makers and decision makers.

5. Schedule next meeting

If the meeting day stays with 4th Monday of the month, the next meeting would be 2/28. However, that is a Regular meeting date for the Novato Sanitary District. A different venue is also needed since Larkspur City Hall will not be available that night.

Alternate dates are 2/24 (conflict with the Transportation Authority of Marin – Larkspur City Hall available) or 3/3 (conflict with the Marin Energy Authority – Larkspur City Hall not available).