

**First Report of the Pension Subcommittee of the City Council for the City of
Rancho Palos Verdes**

Members: Stefan Wolowicz and Thomas Long

Initial Meeting: December 7, 2010

Although the subcommittee anticipates conducting additional meetings and working with an independent consultant to attempt to formulate one or more proposals for possible pension revision to be considered by the city council as a whole, the subcommittee felt it would be useful to issue a set of preliminary observations and common agreements under which the subcommittee is working for the purpose of providing information to those interested in the subcommittee's work. These observations and common agreements are subject to revision if the independent consultant presents information not currently known or considered by the subcommittee.

Observations:

- A. The average benefit collected from the City of Rancho Palos Verdes pension plan by retirees is approximately \$1,000 per month. Rancho Palos Verdes employees do not earn Social Security benefits based on their time with the City. According to the speakers at the December 7, 2010 meeting the City's pension benefits are about average when compared to those offered by other comparable cities.
- B. Funding the City's pension benefits, even after significant investment losses have required large increases in contributions, consumes about 3% of the City's general revenue budget. Protective service employee pension costs are not under the control of the city council. Fire Department pensions are under the fire department's budget within the County of Los Angeles. Sheriff Department's pensions are under the control of the Sheriff. Although the City contracts with the Sheriff to provide police services, the City has no control over the Sheriff's pension policies.
- C. Prior to the initial subcommittee meeting the City Manager relayed a concern expressed by Staff that included in the concept of "vested benefits" is the percentage of employees' portion of contribution. While the core elements of the existing employees plan should not change, the discretionary latitude of this percentage needs to be clarified and understood. Moreover the independent consultants may identify other factors that are not now known for consideration.
- D. The subcommittee was established by the Council to address concerns expressed by council members about the City's rising pension costs both in terms of absolute dollars and as a percentage of covered payroll. The subcommittee was also tasked to consider the potential impact, if any, of underfunding of vested benefits.

- E. Various factors contribute to the complexity of the subcommittee's tasks and may be beyond the control of the council and the City. These include:
- (1) Unpredictable and uncontrollable impacts on investments from market performance and changes in actuarial factors that affect the costs of benefits.
 - (2) CalPERS offers only a limited set of options. Based on comments from the speakers during the December 7, 2010 it is our understanding that CalPERS does not provide service for Defined Contribution retirement plans. CalPERS would require cities offering a second tier defined contribution plan to place the defined benefit plan with another plan administrator.
 - (3) Adopting changes to the City's pension plan that would reinstitute Social Security benefits or adopt currently unavailable formats may require agency rulings, judicial interpretations, and/or legislative action.

Common Agreements:

1. The subcommittee is considering changes in pension formulas, contributions, and benefits only for newly-hired employees. The subcommittee is not now considering any changes, whether it is in benefits or funding of contributions, for existing employees and retirees of the City of Rancho Palos Verdes.

2. The subcommittee is not considering options which involve the City departing from the California Public Employees Retirement System ("CalPERS"). Given the preliminary comments received, the subcommittee has found that departing from CalPERS is not now practical or cost-effective.

3. Any revisions made to the City's pension benefits should not degrade the City's ability to recruit and retain high quality professional employees. The City has a long established policy of attempting to provide compensation at the 75th percentile when compared to other comparable California cities as a way of recruiting and retaining skilled employees.

4. The primary purpose of pension revisions is to control costs and to provide a sustainable pension plan. It may be found that given viable alternatives now available retirement costs cannot be significantly reduced but only limited in the increases. The purpose of pension revisions is not to cut pension benefits to existing employees or otherwise disrupt the City's relationships with its employees or with potential recruits. Instead, the purpose is to assure that pension contributions both appropriately fund promised benefits but also are within the City's abilities to support. Future pension cost increases should be controlled such that the City's overall pension costs remain a relatively low share of the City's budget and do not grow disproportionately compared to other of the City's costs. A sustainable pension plan providing good value benefits is in the common interest of both the City's employees and its residents.

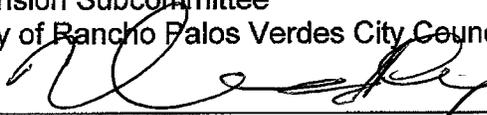
5. Broader pension revisions are likely to be effective, if at all, only at a higher government level. Members of the subcommittee and/or members of the public may support different and more considerable revisions to pension benefits for public employees. However, a broader scope of revision may not be possible at the level of a City the Consultants will be asked to identify viable (practical and cost-effective) alternatives. Significant alternatives may be made available to municipalities through action by the governor, legislature, ballot initiative, or new models developed for municipalities. The current or future Councils should be free to consider those alternatives as they arise.

As the subcommittee proceeds forward, it hopes to develop a consensus as to whether or not a viable revision to the City's existing pension program is necessary and possible. If such a consensus in favor of a revision emerges, the subcommittee will either reach a consensus on a single proposed option for a revision or perhaps two or more options for the entire Council to choose among. We anticipate at least one additional report summarizing the results of recommendations from the retained independent consultant and our additional work.

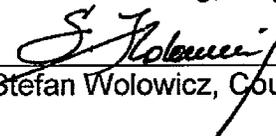
Dated January 4, 2011

Sincerely,

Pension Subcommittee
City of Rancho Palos Verdes City Council



Thomas D. Long, Mayor



Stefan Wolowicz, Councilmember