REA
CITY OF SAN DIEGO RETIRED EMPLOYEES' ASSOCIATION

SAN DIEGO'S PENSION SYSTEM:
Separating Myth From Fact

Many San Diegans have opinions about San Diego city pensions based on misinformation. These conversations and misperceptions are opportunities to educate and reframe perceptions with the truth: that San Diego employees pay for the vast majority of their pensions, and that through reforms, fiscal discipline and steady management, our pension system is completely stabilized and no longer in crisis.

MYTH: Pensions are the problem.

Our streets are falling apart because all the money is going to the pensions.

Our streets are in disrepair because maintenance has not been properly funded for more than a decade. Faced with budget challenges, politicians put off funding street repair and other infrastructure in favor of pet projects and other interests. They did the same thing with the pension system by kicking annual pension payments down the road.

But while politicians were falling short on their responsibility to fund potholes and pensions, city employees were still paying every penny that they owed into the pension system. Even in years when the city failed to pay its required contribution, employees continued to pay a large chunk of every single paycheck into the pension system. Those employee contributions, plus investment earnings on the fund, are what pay for more than 80 percent of pension payouts.

When the city actually pays its portion into the fund, as it has over the past 10 years, the amount is comparable to what most private employers put toward their workers' retirement, when you factor in the 6.2 percent for social security (which the city doesn't pay) and 401(K) matching dollars.

Public employee pensions are a burden on government budgets and should be eliminated.
Pension systems worked for decades without any excessive strain on public budgets. Things only changed when politicians began treating some pension funds like credit cards or loan pools.

Like Social Security, pensions help ensure that working people have retirement security. As the city of San Diego has already done, we simply need to ensure that there are protections against the kind of poor decisions that created the crisis in the first place. The city has now made its required pension payment for 10 years; our system is conservatively managed and has returns on its investment that consistently exceed the long term goal; and the required funding by the city is projected to <u>decrease</u> every year.

Taxpayers shouldn't be on the hook for pension system problems caused by underfunding.
The money diverted from the pension system by politicians – that now is being paid back – was actually spent on taxpayer needs when it was diverted. City employees didn't dip into those funds or stop paying their share; politicians used the diverted funds to avoid making tough budget choices.

Today, through fiscal reforms, employee concessions and fiscal discipline by elected leaders, our pension system is completely stabilized and no longer in crisis. City payments to the fund are currently expected to decrease every year.

MYTH: City employees are responsible for the pension crisis.

The employees got greedy and demanded pension increases. The unions had the mayor and council over a barrel.

Pension underfunding was the brainchild of city management, not employees. Whenever city workers asked for cost of living increases and pay fairness, management instead offered increased retirement benefits. Then the city put off the cost of paying for those increased benefits and spent the "savings" elsewhere on pet projects. The underfunding plans were called "Managers Proposals" because they were management's idea.

Never once did anyone allow employees to suspend their required payments to the system from their paychecks. Only the city suspended its required contribution, resulting in an underfunded system.

The union-backed politicians/Democrats came up with the scheme to underfund the pensions. The unions run the city.

Actually, the schemes to underfund the pension were hatched by the city manager as a money "saving" concept – hence the names "Manager's Proposal 1" and "Manager's Proposal 2." Both times the underfunding was passed, Republican mayors were in office (Golding and Murphy), and both times union-unfriendly Republican councilmembers voted for the underfunding.

The objective of the underfunding was not to increase benefits for employees; it was so the city could skip paying its portion of the pension payment to spend those funds elsewhere. All city employees continued to pay their required share out of every single paycheck while the city took a break.

Public employees expect taxpayers to pay for their retirement.

Public employees pay for their retirement, just like employees in the private sector. City employees must contribute a sizable portion of every paycheck over their careers toward their pensions. Those contributions – plus investment returns on the pension fund – pay for more than 80 % of their pensions.

The city contributes as well, just like any other employer pays into a retirement system on behalf of employees. For most employers, that system is Social Security. But city employees do not have Social Security because the city chose to get out of the system in the 1980s to save money. The city saves 6.2% of payroll by avoiding Social Security, and city employees therefore do not receive Social Security benefits as a result of their city employment. Instead, the city makes – or is supposed to make – regular contributions to the pension fund to pay for employees' retirement. Had the city simply made those contributions over the years, there would have been no crisis.

I've seen television commercials that say city librarians are making six-figure retirements. How is that fair?

Don't let a few outliers trumpeted by politicians color your perception. The average general employee retirement allowance for city employees is less than $42,000 annually – with no Social Security – after working for the city for nearly three decades. Employees also contributed a big portion of every paycheck toward their retirement, just like private-sector employees do for their retirement.

Those television commercials were political advertisements by politicians interested in distorting the truth about the typical city employee. While there are a few six-figure retirements out there among retired city managers, department directors and deputy city attorneys, the vast majority of retired city workers earn less than $3,500 a month from a pension that they earned and paid for themselves.

The city also embarked upon reforms even before Proposition B in 2012 to end programs and practices that were being abused. For instance, "pension spiking" was addressed years ago in the City of San Diego system by basing pension payments on an employees' average of the last three years of salary rather than only their highest one year of salary.

MYTH: San Diego's pension system is hopelessly broken

San Diego can't afford to continue to pay for pensions.

The city's pension system is now healthy, and city contributions to the fund are scheduled to decrease every year. In the 10 years since the crisis came to light, the city has made its full annual payment, and employees have continued to make theirs, as they always did. Voluntary concessions by employee unions – like a five-year pensionable pay freeze – have also helped to completely stabilize the system, and it is no longer in crisis. The fund is well managed and operates conservatively.

The pension system is going bankrupt and has to rely on risky investments to save it.

The City of San Diego's pension fund is financially sound in every sense of the word, and not bankrupt or near bankrupt in any way, shape or form. It has more than $7 billion in assets, operates under conservative assumptions, and its investment history is superb with high returns compared to relatively low risk. The fund has posted an average annual return of 9.7% over the last 30 years; 8.8% over the last 15 years; and 13.3% over the last five years. Considering that the retirement system's target investment return is 7.25%, the system is doing far better than its own conservative assumptions.

I heard they were gambling with the City's pension fund and paying outrageous fees to private investment consultants?

Actually, those recent news stories did NOT involve the City of San Diego's pension fund. San Diego CITY's pension fund is conservatively managed and doesn't use leverage.

The city's pension fund is in good financial shape, and the actuarial assumptions are conservative – meaning they're anticipating their future costs and gains accurately, not gaming the system or taking unnecessary risk.

The city isn't able to pay its required share into the pension system.

The city has been paying its full pension bill for 10 years, and that will not change – especially now that the bills are now going down every year. Meanwhile, city employees continue to pay their required share from every paycheck, as they always have. Those paycheck contributions, along with investment earnings on the fund, pay for more than 80 percent of the pensions they ultimately receive.

MYTH: People don't deserve taxpayer-funded pensions and retirement security

My 401k is at the mercy of the stock market…why should city employees get a better deal?

For starters, Social Security is also taxpayer-funded retirement security. City employees do not have Social Security. And the fact is, the city foots no more of the bill for pensions than a private-sector employer does for Social Security plus a standard 401k-style retirement plan.

City employees' retirement security was paid for not only by their own contributions from every paycheck, but also by a number of tradeoffs and pay concessions over a lifetime of service – lower salaries, no bonuses, fewer raises than in the private sector. City employees traded higher earnings during their careers in large part for retirement security. This is the very model that has worked well for decades until politicians began to mess with the formula by tapping into pension funds to pay for pet projects.

Now that we've put the reins on manipulating and borrowing from the pension fund, it's once again in good shape to provide the promised benefits.