



Pension measure saves \$950M over 30 years

By Craig Gustafson

2:06 p.m., March 19, 2012

\$963 million: Savings from proposed five-year freeze on current workers' pensionable pay

\$13.5 million: Cost to city of switching most new hires to 401(k)s

\$949.5 million: Overall savings if initiative passes

Sources: City Council's independent budget analyst

An initiative on the June 5 ballot to overhaul San Diego's pension system is projected to save at least \$950 million over the next 30 years, according to a fiscal analysis released Monday.

Proposition B would replace pensions with 401(k)-style plans for most new city hires, but the analysis by city and pension officials shows the savings come entirely from a controversial provision to freeze the pensionable salaries of current workers for five years. Union leaders say the move violates labor law and vow to challenge it in court.

The projected savings are about \$250 million shy of the \$1.2 billion figure touted last year by supporters — including Mayor Jerry Sanders and City Councilmen Carl DeMaio and Kevin Faulconer — as they gathered signatures to place the "Comprehensive Pension Reform" initiative before voters. The lower estimate stems from robust returns last year in the pension fund, higher projected costs for 401(k)s and the system's recent assumption that no across-the-board raises would be issued for the next two years. Supporters had based their previous estimate on pension data available last spring.

In a statement, Sanders said the analysis bolsters the argument in favor of the initiative.

"I'm not aware of any voter initiative in San Diego history that has ever saved taxpayers this kind of money," he said. "If the voters approve this, and I'm confident they will, this money can instead be used for police, fire, branch libraries, recreation centers and street resurfacing."

Michael Zucchet, head of the city's white-collar union, said the analysis confirms the initiative relies entirely on the legally dubious move of freezing employee pay.

“It’s the only thing that they can point to that actually generates savings,” he said. “We’re basically left with the propaganda of the proponents being all about pension reform, but the alleged savings having nothing to do with pension reform. It has to do with salaries, which are already under the purview of the City Council and have already essentially been frozen for seven years.”

The fiscal analysis is required by law and will be included in informational guides mailed to registered voters. It was crafted by the City Council’s Independent Budget Analyst Andrea Tevlin using projections from the pension system’s actuary. According to the municipal code, the language must be approved by at least two of three entities: the IBA, the independent city auditor and the Mayor’s Office.

City Auditor Eduardo Luna refused to sign off on the language because he didn’t feel comfortable using so many specific assumptions in the analysis. He said the public would have been better served with a more general analysis, noting the many factors that could alter how much will eventually be saved.

“There’s almost a false sense of precision when maybe precision is not possible with some of the numbers,” he said. “To be that specific ... there’s so many factors, so many variables that you really don’t know.”

The projection shows the switch from pensions to 401(k)s will cause annual pension costs to increase over the first four years of implementation but eventually save nearly \$1.5 billion in payments over 30 years. Those savings are swallowed up by the costs of the 401(k) match for new workers and the creation of a death and disability plan. In the end, after three decades, the city’s expenses are \$13.5 million higher than if no changes are made.

That increased expense is dwarfed by the \$963 million in estimated savings over the next three decades from the five-year salary freeze.

The initiative requires the city begin labor negotiations for the next five years by proposing a freeze on the portion of each worker’s base salary that is applied toward a future pension. To avoid violating labor law, which calls for good faith bargaining, supporters included a provision that says a super majority of the City Council (six votes) can override those terms. That hurdle makes it difficult, but not impossible, for workers to receive pay hikes.

Union leaders say the provision won’t hold up in court because it violates state labor law. If the expected legal challenge is successful, the purported savings would evaporate and the initiative would only serve to increase the city’s overall retirement costs.

Supporters are equally confident the freeze will survive legal scrutiny.

The analysis made several assumptions to come up with its savings estimate. For example, it assumed the city would provide the maximum allowable 401(k) match to new city hires — 9.2 percent for general workers and 11 percent for public safety employees. The matches are significantly higher than the 3 percent provided by most private companies because city workers are ineligible for Social Security. The initiative gives city leaders the option to enroll new hires in Social Security (at a cost of 6.2 percent of

payroll) and if they do so those workers would receive a much smaller 401(k) match of 3 percent to 4.8 percent.

If city leaders choose to provide a smaller match, the overall savings would grow larger because the 401(k) switch would be less expensive.

DeMaio, who is the initiative's most ardent champion, called the methodology of the analysis flawed and conservative because it neglected to account for certain variables, such as a vesting period for the 401(k) plan and the elimination of pension spiking.

"I'm absolutely confident this is the low end of savings and we will produce far more savings through the full implementation of Proposition B," he said.

Each of the three Republican mayoral candidates -- DeMaio, District Attorney Bonnie Dumanis and state Assemblyman Nathan Fletcher -- support Proposition B. The lone Democrat in the race, Rep. Bob Filner, opposes it. He's pitching a plan to refinance the pension debt and cap benefits while leaving pensions available for future workers.

"The plan on the ballot saves zero money," Filner said in an interview Monday with NBC 7/39. "It is all on the pay freeze and you can't do that with a referendum."

The civic discussion over public employee pensions has enveloped San Diego for the past decade after disastrous decisions by past city leaders to increase benefits in 1996 and 2002 while simultaneously underfunding the pension system. The moves pushed hefty financial obligations to the future so officials could fund pet projects such as the Republican National Convention and Petco Park.

Supporters spent nearly \$1.2 million on a six-month petition drive to get Proposition B on the ballot. In addition to the pay freeze, it would eliminate guaranteed pensions for all new hires except police officers and give them 401(k)-style plans instead, cap police pensions, strip pensions from convicted felons and provide annual public disclosure of pension payouts.