



August 9, 2005

KRIS ORGAN
Executive Director

representing service
employees in the
following jurisdictions:

CENTRAL MARIN
SANITATION AGENCY

CITY OF NOVATO

CITY OF SAN RAFAEL

CITY OF SAUSALITO

COLLEGE OF MARIN

COMMUNITY ACTION
MARIN CHILDCARE

COUNTY OF MARIN

LAS GALLINAS VALLEY
SANITARY DISTRICT

MARIN COUNTY HOUSING
AUTHORITY

MARIN MUNICIPAL WATER
DISTRICT

MARIN SUPERIOR COURT

NORTH MARIN WATER
DISTRICT

SAN RAFAEL CHILDCARE

TIMOTHY MURPHY
SCHOOL

TOWN OF CORTE MADERA

TOWN OF FAIRFAX

TOWN OF SAN ANSELMO

TOWN OF TIBURON

Marin Association of Public
Employees/Service Employees
international Union Local 949
AFL-CIO, CLC

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San Rafael, CA 94903-2104

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The Honorable J. Patrick Burke
Foreman, Marin County Civil Grand Jury
3501 Civic Center Dr., Room 303
San Rafael, CA 94903

Re: Marin County Civil Grand Jury Report on Retirement Plans

Dear Foreman Burke,

SEIU 949 Union members serve the public in many diverse ways, from low wage jobs to professional services. A brief response to the 04/05 Grand Jury Report "*Bloated Retirement Plans of Marin County, Its Cities and Towns*" cannot adequately address the many points in your report. In the spirit of the public services we provide, we have prepared the attached six-page report and completed the form.

We were pleased to find that the Grand Jury found errors in their report and corrected some of those errors.

I hope this information helps the Grand Jury understand the retirement plan levels as we do. I also hope the Public Safety organizations presented the very compelling information that they share in collective bargaining about the shortened average lifespan of a Deputy Sheriff or a Firefighter. For you to truly wrestle with these issues, understanding what people do and the sacrifices they make is critical to the final recommendations you present to the community.

Regards,

Kris Organ
SEIU 949, Executive Director



RESPONSE TO GRAND JURY REPORT FORM

Report Title: The Bloated Retirement Plans of Marin County, Its Cities and Towns

Report Date: May 9, 2005

Response by: SSIU 949

FINDINGS

- I (we) agree with the findings numbered: F8, F9
- I (we) disagree wholly or partially with the findings numbered: 1, 2, 3, 5, 6, 7, 10
(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS

- Recommendations numbered _____ have been implemented. *We cannot "implement" any recommendations directed at the employers.*
(Attach a summary describing the implemented actions.)
- Recommendations numbered _____ have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered _____ require further analysis.
(Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)
- Recommendations numbered _____ will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: 8/9/05 Signed: [Signature]
Number of pages attached 7

SEIU 949 Response to Civil Grand Jury Report
“Bloated Retirement Plans of Marin County, Its Cities and Towns, May 9, 2005”

SEIU 949 members serve the public. Many work side by side with volunteers and civic minded citizens who also serve, like those on the Marin Civil Grand Jury. Our normal appreciation would extend to those citizens for pointing out faults with the organization or management of government programs and resources, because more efficient operations improve the quality of our jobs.

Two positives emerge in the report: First, the Grand Jury calls on local governments to provide better funding for retiree health benefits. Second, the way public pension funding rises and falls from year to year is criticized.

However, this is not enough to put the retirement plans in context and generate public understanding or political will to change the current system. Worse yet, the Grand Jury plays politics, attacking members' Union goals, undermining collective bargaining, and casting doubts on one of the most primary features of public employment—loyal, professional service careers rewarded with stable salaries and fair benefits.

The greatest failure of this Grand Jury report centers on the failure to treat the public funding of the retirement plans as an investment while ignoring some of the tradeoffs in public service.

Are pensions disappearing?

Certainly, the media reports that focus on United Airlines make us think that. But, the American Association of Retired Persons (AARP) published an article in November/December of last year where they compared retirement in several developed countries. In their chart, they list some findings concerning pensions: “About 50% of U.S. workers have pension coverage at work. In some countries – Finland and Australia – employer pensions are required by law.” In the United States, financial advisors want retirees to have Social Security, a secured retirement investment (like the pension), and investments. So, when public employers like the County took Social Security away from its employees, the law required that they have a solid plan in its stead.

Social Security: Missing the Social Security element of retirement benefits is the key piece in the failure of the Grand Jury report. John Hancock Life Insurance Company manages my old 401(k). In selling me their investments, they presume I have Social Security and estimate that I am entitled to \$1,197 per month when I retire. The County reports that the average County retiree would have \$22,060 per year, or \$1,838.33 per month. Deduct the Social Security equivalent (\$1,838 - \$1,197) from the pension alternative to determine the “extra” associated with the pension - \$641 per month.

Employer contributions above the normal Social Security cost of 6.2% of salary run between 0.8% and 3.8% according to the County response to the Grand Jury.

Employee or Union member contributions above the normal Social Security cost of 6.2% of salary run between 1% and 10.71% (this last from members in Public Safety). These costs are

higher in the public sector, and deductions from salary have a significant detrimental effect on what Union members can afford for housing, transportation and other basic necessities. In other words, public employees with the County pay more than those in the private sector.

Contributions from the County taxpayer and the employee are invested. The returns, which have averaged over 10% per year, enable the County to substantially enhance the level of retirement for employees without substantially increasing their costs. The enhanced benefit attracts applicants seeking to offer long-term commitments in return to better financial security. This formula appears to offer the best of both worlds – a premium benefit that the employer can use to enhance recruitment efforts for a diverse set of professions and one that does not forgo the returns of the market, as Social Security does.

Salary Levels: Another misconception about pay levels also appears to prevail with the report from the Grand Jury. Anecdotal evidence suggests that the longevity of public employees actually reduces their lifetime income. One member wrote to the Independent Journal that her information services position was paid more at a scientific research facility. That member noted, “those of us who came from the private sector, took substantial pay and benefit cuts to work for local government.” Another member charged with the administration of patient care and funding with the County compared her \$51,000 salary to that of her daughter’s \$65,000, saying, “We do almost the same thing, but she works in the private sector.” She noted that the salary comparison did not count profit-sharing or bonuses.

The Unionized wages within the public sector reflect some improvements over private sector, non-union wages in some areas. In others, members accept regular hours and steady employment as working conditions in lieu of salaries that are better in the private sector. The tradeoffs remain as numerous as there are classifications with the County, hundreds and hundreds of classifications, making the County a unique employer. County employees have long accepted the 37.5-hour workweek, which results in less overall pay than their counterparts with other counties. And, let the Union assure the reader, many Union members believe that Marin County should compensate employees at levels higher than neighboring counties to reflect the higher Marin cost-of-living and the commutes workers must undertake to get to Marin. These are reasons the employers want to make sure they pay competitively when comparing to other public sector employers.

Pension Benefits: The Union contract with PG & E, a private sector employer, spells out the benefit of their pension as follows:

Physical Journeyman Rate of Pay

Weekly Pay \$1,283.60

32 years of service example –

25 years @ 1.5% of pay	$\$82.85 \times 25 = \$2,096.25$
7 years @ 1.6% of pay	$\$89.44 \times 7 = \$ 626.08$

Total benefit: \$2,722.33

Considering that PG & E also pays into Social Security as do their employees, we should probably add another \$1,000 to \$1,500 per month to that amount for Social Security.

For someone with the identical income, 32 years of services and no Social Security with the County miscellaneous formula would retire at age 62 (the average age when employees retire from the County) with about \$4,213 per month. So, depending on what Social Security does pay, the numbers appear comparable.

PG & E employee	-	\$3,722.33 to \$4,222.33.
County employee	-	\$4,213

By reporting that County retirement plans pay 2 to 3.5 times what other, private sector employers pay distorts the truth, as this example shows. The reason the numbers are actually much closer is that both the private and public employers plan around pensions in similar ways. Investments produce at certain levels. The private employer calculates what to expect from Social Security. Then, all employers answer the question: What do people need for retirement in the way of income?

The Union identified one positive from the Grand Jury report as trying to deal with the rolling pension rates that vary from year to year. The County is more conservative than agencies with Public Employees' Retirement System (PERS) on this, but only marginally. Most Union pensions take a 30-year view in setting contribution rates, not the 3-year or 5-year horizon of PERS or the County respectively. If actuaries can convince the public employers to take the longer view, those employers will not seek to minimize these contributions in future years when the market is rosy and the elected officials would rather use the funds to expand services.

Health Care: Another feature of the AARP article dealt with health care. Every comparison country offered some form of guaranteed health care, EXCEPT the United States. In a laughable bit of analysis, the AARP rated the U.S. close to these other nations on that item. The truth of this comparison emerges in the popularity of the Medicare program and the retirement health needs of the average American worker. Health care costs can force bankruptcy on the richest Americans. The elderly are particularly vulnerable to catastrophic illness or injury and the medical bills that accompany those events.

County employees once again have an exception that makes them hard to compare. A large set of employees with the County have been excluded from Medicare. They do not pay into Medicare, and the County does not pay the employer portion of Medicare. While this exclusion has been corrected some years ago, the idea was that the public employer guaranteed health care for the long term employee. Current formulas establish an expectation that an employee will work at least twenty years to have the retiree's health care fully funded.

Health care is one area where the public employer should set the prime example for all employers. Retirees should have health care. The public should take care to see that they do. The promise of Medicare and the long term commitment by taxpayers to public employees should make sure that health care is not denied to our senior citizens.

This is the other area that the Grand Jury made constructive observations. The proposal to project the costs and provide funding for these benefits in light of the projections makes tremendous sense. It makes even greater sense when we realize that our tax dollars can earn 8-10% each year toward funding that benefit. Certainly, it is hard to argue that we should wait to fund these expenses, as tax dollars become more and more precious.

Specific Responses: While the Union is not a public entity required to respond in substance or format to the Civil Grand Jury report, we do want to list responses as the governmental entities do. That said, we believe the public agency responses demonstrate that our Union has not bullied local government into unreasonable pay or benefits. We've worked hard to be heard and to win for our members, but that process has included recognition of financial hardships in the public sector and solutions designed to reach goals of both sides. This is what collective bargaining strives to do. And, we would ask the Grand Jury to recognize and respect collective bargaining accomplishments in future endeavors.

F1. Public sector pensions are substantially more valuable than private sector pensions. For Miscellaneous employees in Marin, pensions are 2 to 3 ¼ times as valuable as private sector pensions; for safety employees, they are 2 ½ to 4 ½ times as valuable.

The basis for this comparison doesn't appear to be substantiated.

F2. Most public sector employees in Marin do not participate in Social Security and thus contribute less (no Social Security taxes) to their retirement than do employees in the private sector.

The employee contribution in a pension plan is constant. The difference in a defined benefit plan as compared with social security is that it is based on the presumption of long term investment returns where as social security is a "paygo" system. Over the last decade employers have contributed less to employee retirement than in the private sector where employers typically make all the contribution to retirement. One also needs to look at employer contributions to 401(k) plans in the private sector that supplement retirement earnings. Typically on the public side employers do not make matching contributions to deferred comp.

F3. The employers' costs for public sector pensions in Marin are extremely volatile, causing financial stress to the County and its Municipalities. Average pension costs for miscellaneous plans for the County and its Municipalities increased from 2% of miscellaneous payroll in FY2002-2003 to 15% in FY2005-2006. For safety plans, the increase was from 5% of safety payroll in FY 2002-2003 to 30% in FY 2005-2006.

The county and municipalities could have or should have seen their current situation coming as the stock market continued to tank following 9/11 and the dot bust. During much of the 90's many public entities paid little or no contribution while employees continued to contribute.

F5. Despite extremely high pension levels and the financial stress that increases in pension costs bring upon public sector budgets, there is continuous pressure to increase public sector

pensions. Unions apply this pressure on the legislature which then enacts legislation enabling pension increases to proliferate throughout the state.

The legislative process enables all interested parties to encourage their elected representatives enact public policy changes. It is a transparent process, open to all. During the 90's employers joined unions in enacting benefit increases to reward our dedicated public servants, and our best advice at the time from the same actuaries that were consulted by this grand jury was that there were adequate funds to pay for it. Likewise, the enhancements were implemented locally based on the advice of experts and with the support of employers. In some cases employees forwent raises in order to get better retirement security or increased employee contributions to pay for them.

F6. Once pension increases are adopted by a public sector employer, they cannot be rescinded without a bargained compensatory improvement in some other element of compensation. This contrasts vividly to the private sector wherein reductions in the future promises, in either pensions or Social Security, are common.

This is the true and an unfortunate situation for those in the private sector single employer plans, as witnessed by the recent situation at United Airlines. Multi Employer plans in the private sector tend not to reduce benefits over time. Is that the kind of retirement security we want for anyone?

F7. Unless systemic (i.e., statewide) changes are made, the employers' abilities to attract and retain good employees would be undermined. Extremely large pensions, coupled with allegedly lower salary levels, impact hiring and retention. However, changing the mix, to increase salaries while decreasing pensions, would be harmful to public sector employers. **Likewise the cost of living in much of Marin County makes it exceedingly difficult to recruit high quality home grown employees and to entice people to relocate from other jurisdictions.**

F8. A number of reasonable pension reform proposals have been developed, and/or are being developed, to deal with the problems of public sector pensions.

SEIU supports several of the pension reforms that are under consideration and supports the legislative process underway to consider these bills.

F9. In addition to pensions, the County and its Municipalities maintain retiree healthcare plans for their employees. Although these plans share many characteristics with pensions, unlike the case with pensions, neither the County nor any of its Municipalities have been required to include retiree healthcare obligations on their financial statements.

The high cost of health care is not a problem limited to retirees. SEIU advocates for dramatic changes in health care delivery and access which is described in our Health Care for All platform. We firmly believe that relieving municipalities of the commitment to provide health care to retirees only reinforces the "race to the bottom" mentality that created the problem. Impoverished retirees without adequate health care create additional and costly burdens on the health care system, much of which is funded by taxpayers. Rather than carve out this problem we believe Marin County should support efforts to dramatically reform health care.

F10. Imminent changes required by GASB will require that public sector entities include retiree healthcare obligations on their books. In the private sector, similar Financial Accounting Standards already have caused many employers to discover substantial unknown obligations and, in many cases, to reduce those obligations by cutting retiree healthcare benefits.

See above. Accounting standards aren't the problem, our health care system is the problem.

R1. Sponsor pension reforms, including rolling back pension levels to historical, lower levels for new hires.

We do not support creating a two tier system. We do support the creation of contribution rate stabilization so that employers can't take prolonged contribution holidays as was prevalent in the 90's. We also support ending practices that result in over-inflated final year salary calculations.

R3. Work with plan administrators, in most cases CalPERS, to establish more stable funding models for pensions.

SEIU has long been in support of such efforts.

R4. Stop spending found money, which is temporary, on recurring obligations.

SEIU supports this strongly.

R5. Lobby the unions to act responsibly and lobby the legislature to stop legislating plans that undermine public employers' abilities to control the structure of compensation.

Unions have a duty to represent their members in securing appropriate wages and benefits including pensions. We are mindful and keenly aware that there is a necessary tension between overall staffing levels, service delivery and salaries/benefits. We do not think our interest in building and serving the people of Marin County is at odds with fiscal responsibility. State legislation provides for consistency across jurisdictions and is mandated by the 37 Act and state laws related to CALPERS.

R6. Rethink compensation strategy with a goal of sponsoring systemic (i.e., statewide) changes (including changes in disability retirement).

This is too vague to answer. We're always willing to discuss changes that will make the system work better.

R7. Sponsor programs to help employees understand their retirement, so they can take an active role in their retirement planning.

We have a strong commitment to doing just that, as evidenced by the capital stewardship program of SEIU. Further we would be excited about the prospect of working with CalPERS/cities and MCERA in sponsoring such educational sessions. We have helped develop such a program in Los Angeles County.