Retiree obligations sucking SLT coffers dry

By Kathryn Reed

In five years, nearly one-quarter of South Lake Tahoe's General Fund is expected to be allocated for retiree pensions. This doesn't even include what goes out for health benefits, let alone current salaries.

It's normal for employees to be the No. 1 expense for public agencies. The amount though, is getting to be astronomical.

The California Public Employees' Retirement System, or CalPERS, has warned jurisdictions that what they must contribute is going up. Today the city of South Lake Tahoe pays $4.7 million a year to CalPERS. By 2022 that figure is expected to more than double to $9.7 million. That's for current employees and those who have retired.

The spike has to do with bad investment choices by CalPERS, believing at one-time the agency was superfunded and therefore didn't need members to contribute, the change in retirement age (making it lower), and pay increases to workers when everyone thought CalPERS was flush with cash.

It was bad math and illogical. The superfunded status was really a blip in time in about 1997. By 2000 funding levels had already started to drop. When the dot-com bubble burst thus began the freefall for CalPERS. While the evidence was there to prove the meteoric rise of the fund could not be sustained, the powers that be chose to be enraptured by these larger numbers.

The largest public pension fund in the country in 14 years went from superfunded to having a $241 billion deficit by 2014. Superfunded is defined as being 120 percent over the amount needed to pay retirees at that given point and time.

And while retirees like to say they are on a fixed income, those drawing on CalPERS and CalSTRS (the education equivalent) all get an annual cost of living increase that averages 2 percent each year. This annual raise is paid for by the taxpayer with no benefit to the taxpayer.

All of this will be explained by South Lake Tahoe City Manager Nancy Kerry on May 16 at the City Council meeting. This is part of the five-year business plan review.

While the presentation is not expected to be all doom and gloom, it is a bit of a punch in the gut – especially for taxpayers who are the ones footing this bill.

In the narrative of Kerry's presentation she goes over the history of the city's finances, and what has been done t make it solvent. It includes conservative budgets, not spending money until it is in hand, realistic revenue and expense projections, refinancing bonds to lower debt, and overhauling the health plan.

She will also explain that the city is handcuffed to CalPERS.

The problem with being a CalPERS member agency is that it's impossible to get out. And what's worse is that jurisdictions per state law are not allowed to negotiate a different payout with employees.

But it is possible, through talks with bargaining units, not to offer CalPERS to future employees. While no one is saying that is on the current negotiating table, it's not out of the realm of possibilities in future years.

What is likely to happen first is for the city management team of about a dozen people to have a drastically different compensation package.

"The executive team is working on a wages and benefits package to present to the City Council that offers define contributions to 457 retirement plans based on years of service, encourages employee contributions to 457 retirement plans by offering additional 457 matching amounts, offering contribution to health reimbursement arrangements, elimination of city-sponsored medical insurance," the staff report says. A 457 is similar to a 401(k) in the private sector.

The goal is to reduce the pensionable compensation, which means lowering the city's obligation to individuals post-employment.

Because the city is obligated to pay whatever bill CalPERS sends, staff and the electeds must come up with the cash. The five-year forecast shows a structural deficit by 2020. A possible solution is to use the reserves and/or restructure the maximum amount in that pot of cash.

Today the city puts aside 25 percent of the General Fund into reserves. It has not been tapped – not during the Angora Fire, not during the Great Recession. Kerry will talk about having a set amount in the pot or a lower percentage that would still protect the city in an emergency. It would take a four-fifths vote of the council to alter the reserve allocation.

The staff report goes on to say, "If CalPERS projections hold, reduction in staff and services may become necessary by 2020."