

News Release: Newport Beach Wins Award for its Pension Reform Program

Posted Date: 7/19/2013 4:45 PM



The City of Newport Beach (City) won a Rose Award for its pension reform program at the Orange County Taxpayers Association's (OCTax) annual Roses, Radishes and Royalty awards dinner held on July 20. The annual event honors the best and worst of individual, business and public agency taxpayer policy.

Rose Awards are given to individuals or organizations that have programs consistent with OCTax's mission that "Taxes and tax-supported programs must be fair, understandable, cost-effective and good for the economy." Winning programs must also show measurable results in terms of taxpayer benefit, tax savings, or government waste cutting.

Newport Beach faced its CalPERS pension problem head on, in advance of any pension reform regulations issued by the State. The City's efforts included the following major initiatives between May 2012 and May 2013:

- Labor contracts were negotiated with nearly all bargaining units. They include significant increases in employee contributions toward retirement benefits. In 2008, City employees contributed approximately \$500,000 toward total pension costs, but by FY 13-14, that amount is anticipated to be \$5 million, increasing to \$7 million by FY 2015-16. These contributions will save taxpayers \$31.5 million through FY 2015-16 and over \$7 million annually.
- The City adopted lower benefit formulae (second tier) for all groups, ensuring all new employees, including lateral "classic" members, are hired under a lower benefit factor. Not all cities were able to accomplish this – those who did not do so will see transfers from other PERS-member agencies come in at the oldest, most generous tier, but not here. For Newport Beach, the savings associated with adopting second-tier formulae will occur gradually. As the number of employees entering City employment under a lower retirement benefit tier increases, the savings will be reflected over time in the City's Employer Rate. CalPERS estimates the rate for employees in second tier retirement benefit plans will be reduced by 2% to 4%.
- The City Council elected not to phase-in expected CalPERS rate increases and instead opted to accelerate payment of the City's unfunded liability by amortizing payments on a fixed declining schedule, rather than a rolling 30-year amortization schedule. Paying over a fixed and shorter time period will help the City to potentially avoid \$113 million of interest expense over the next 30 years.

The significant savings by implementing pension reforms cannot be overstated. Major gains have been in the short term, and in the long term, the impact of reform will be fully realized as the City anticipates saving hundreds of millions over the next 30 years.

Council Member Leslie Daigle, holding the City's Rose award, is pictured with Reed Royalty, OC Tax President Emeritus.