

# The CalPERS Question

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*Updated: 12/21/08*

## A Direction for Pacific Grove

Pacific Grove will explore a defined contribution plan (e.g. 401K) for employees based on voter approval of Measure Y. The challenge is to create an alternative plan that can be affordable for the city and taxpayers and acceptable for employees.

## The Situation

City Employees receive retirement and disability benefits plus a health plan through CalPERS.

- The good – CalPERS has a strong investment track record. In an average year, the returns give us lower costs for benefits we provide our employees.
- The bad – The investment returns swing widely. A down market causes our costs to skyrocket. These high costs can wreck city finances.

## The Issues

- There are real people on all sides of this topic whose lives are affected in serious ways. We cannot be callous or high-handed about a transition.
- We must honor the benefits that our long term employees have earned. This is an ethical and legal issue.
- We must make provision for health insurance (which employees now pay for) and for disability. CalPERS provides for both of these items now.
- The transition and the cost of a defined contribution plan may actually be MORE per year in the early stages. We need to understand the costs.
- The impact on recruiting and retention uncertain, and we will need to estimate the impact.

## The Way Forward

The City must communicate effectively with the employee associations and also with the public in pursuing a new benefit plan.

- We need to encourage our employees to be open to new approaches. There are things about a defined contribution plan that can be attractive, especially for younger employees. The balance of wages and benefits may be different to achieve this goal.
- We should allow flexibility for those who want to save more of their salary.
- I feel the city must join with other cities that are facing similar cost challenges. We should not pursue this entirely alone.

## Potential Advantages

Under an alternative plan, it may be possible to provide competitive benefits for employees. The city can have far more predictable costs for employee benefits. We will no longer be subject to the cost crises that have devastated companies such as General Motors and cities such as Vallejo.