

Charter amendment would revamp S.F. pensions

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Tuesday, December 15, 2009

San Francisco voters may soon have the opportunity to decide major changes to the city's pension and retiree health care systems - both of which have seen their costs skyrocket as the city grapples with consecutive years of major budget deficits.

Supervisor Sean Elsbernd, with support from Mayor Gavin Newsom, will introduce a charter amendment at today's Board of Supervisors meeting that would drastically reshape the city's pension system.

Ten years ago, the city paid \$383.7 million to health insurance for active and retired workers, retirement contributions and Social Security. This year's tab is \$890 million, a 132 percent increase. In fiscal year 2013-14, the projected amount is \$1.4 billion.

Driving the rise is the overall increase in health care costs and the poor performance in investments during the economic downturn.

"It's alarming growth, and this just underscores the magnitude of the problem," Newsom told The Chronicle's editorial board Monday. "We have to do something dramatic."

The package of legislation, which needs the votes of six supervisors to be placed on the June ballot, would aim to rein in annual costs to the city and protect it against future economic downturns. The legislation tackles four areas of pension reform:

-- Create a new budget set-aside to fund the city's pension and health benefits system to help pay down the city's projected costs in future years.

Currently, projections determine how much the pension fund should grow annually - usually around 9 percent. In boom years, high investment earnings mean the fund grows without much new financial help from the city, freeing up general fund money for more city services or pay hikes.

Under Elsbernd's proposal, the city would be required to pay into the fund even in economic boom years to provide a cushion against downturns. In good years, that could mean as much as \$200 million in extra money would be funneled into the fund, but that money wouldn't be available for city services or raises.

"There's no ignoring this bill," Elsbernd said. "It's coming due, and the more we pre-fund this, the better off future generations of San Franciscans are going to be."

-- Require newly hired public safety employees to start picking up more of their pension costs. Their contribution would jump from 7.5 percent to 9 percent. The change would target public safety workers because they can retire earlier and get better benefits than other city workers.

Gary Delagnes, head of the Police Officers Association, said he's resistant to asking his members to pay more into the pension system, but "if the city can show me this is something they need to do to preserve our pension system, I'm willing to listen."

-- Remove from contract negotiations the issue of employee pension contributions. Most city unions have already agreed to have the employees pay the 7.5 percent contribution instead of the city, often in exchange for higher salaries. But this would require that the few holdouts - including two groups within the Service Employees International Union - pick up the cost as well.

Damita Davis-Howard, president of the local SEIU, said she didn't know anything about the proposal.

-- Change the way pensions are calculated. Currently, pensions are based on the pay earned in the last year of employment. Under the proposal, the amount would be based on the worker's average highest pay over three consecutive years. The idea is to stop the practice of "spiking," where employees are rewarded on their way out with a promotion and higher pay.

Newsom said that spiking doesn't cost the city that much money, but that it's perhaps the one union perk most despised by the general public.

"This is a no-brainer from the public's perspective," he said of removing the one-year provision.

Reaction around City Hall was cautious with most other supervisors and union representatives seeming to know little, if anything, about Elsbernd and Newsom's plan.

Supervisor John Avalos, chair of the board's budget committee, said he didn't know the details of the proposed ballot measure but said it appears to offer "some solutions worth taking a look at."

Pension reform is needed, he said, to put the city on more sound financial footing - especially as it faces a \$522 million deficit for the coming fiscal year. Supporters say pension reform would help curb deficits.

"I think it's one of the areas we have to tackle," Avalos said.

Supervisor Ross Mirkarimi has yet to sign on to the plan but said he is excited about the prospects of clamping down on pension costs. "Our ability to satisfy our funding obligations in years to come certainly raises concerns," he said.

Tim Paulson, executive director of the San Francisco Labor Council, said he would meet today with a variety of union representatives to go over the pension proposals. But he said it was too soon to say how individual unions would respond.

"We are a little bit concerned that there is a proposal for pension reforms ... coming out without a consultation with the labor unions," Paulson said. "They're talking about our benefits, and different unions have different perspectives. We'll find out if we have common ground."

Proposed pension changes

Voters could decide in June on proposed changes to San Francisco's pension fund. The changes would:

Create a dedicated fund to pay for pension and health-benefits costs.

Require newly hired public safety employees to pay for more of their pension costs.

Remove from contract negotiations the issue of employee pension contributions.

Reconfigure how pensions are calculated.

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This article appeared on page A - 1 of the San Francisco Chronicle

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