Costa Mesa Pension Oversight Committee

Part 2 of a Series

"Pension Terminology"

October 2, 2013

This article is one in a series about Costa Mesa pension issues. This article is to help familiarize you with **pension terminology**.

Costa Mesa contracts with **CalPERS** (California Public Employees' Retirement System, PERS) to provide pensions to city employees. PERS administers pensions for the State of California, cities and public agencies including Newport-Mesa Unified School District, Mesa Water and Costa Mesa Sanitary District.

Costa Mesa has **three PERS contracts** for each employee type, including management: **Police, Fire and "Miscellaneous"**. Miscellaneous employees include Maintenance, Human Resources, Finance, City Manager and Information Technology employees.

Most Police and Fire employees have a **3%@50** benefit plan. To calculate an employee's unmodified benefit, multiply 3% **X** highest year of pay **X** years of service. An employee must be at least 50 years old, and can elect a smaller joint benefit with his spouse. Maximum benefit is 90% of highest year of pay. Example: 3% X $75,000/year X 20 years = $45,000 per year unmodified benefit.

Most Miscellaneous employees have a **2.5%@55** benefit plan.

All 3 plans include a **2% annual COLA** (Cost of Living Allowance) and **PPPA** (Purchasing Power Protection Allowance) to ensure that future payments are protected against inflation and are at least 80% of the initial payments.

The City and Employees both contribute to the cost of the pensions. The City also makes Employer Paid Member Contributions, **EPMC**. EPMC payments are added to an employee's highest year of pay for PERS benefit calculation purposes.

Costa Mesa's pension plans currently have **unfunded liabilities.** The unfunded liabilities are calculated by PERS **actuaries.** Actuaries are financial professionals who evaluate a pension plan's assets, expected future payouts, contributions, and investment returns. Actuarial valuations are long term evaluations, usually over a thirty year period. Actuaries use **smoothing** methods to even out annual changes in the stock market and plan investments.

GASB (Governmental Accounting Standards Board) are the accounting standards used for public agencies. Private firms are bound by **FASB** (Financial Accounting Standards Board). FASB has stricter standards about how pension plans' finances are evaluated and reported. **GASB standards 67 and 68** will soon require public agencies, like private companies, to report unfunded pension liabilities on their balance sheets. Some agencies will then have liabilities in excess of their assets, or be insolvent. http://www.calstrs.com/gasb-accounting-changes GASB 67 and 68 will take effect in **fiscal years (FY)** 2013-2014 and 2014-2015 respectively. Public agencies such as **PERS' and Costa Mesa's fiscal years start in July and end in June.**

CMPOC is a non-partisan group of nine volunteers appointed by the Costa Mesa City Council. Our mission is to focus on issues related to current and long term pension obligations. CMPOC is mindful that advising city employees, the City Council and the citizens of Costa Mesa of our findings is a critical function of that mission.