



ENGAGE MORGAN HILL

A conversation about services, funding, and priorities.

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CITY OF MORGAN HILL EMPLOYEE PENSIONS

What type of retirement pension plans do local government employees receive?

A defined-benefit pension plan, in which the employer (City of Morgan Hill) promises a specified pension payment pre-determined by a formula based on the employee's earnings history, tenure of service, and age.

Are City employees in the Social Security system?

No, Morgan Hill employees are not a part of the Social Security system. The City has two pension plans, Safety, which covers public safety employees, and Miscellaneous, which cover all non-public safety employees.

Who manages the City's pension program?

The California Public Employees' Retirement System (CalPERS) is an agency in the California executive branch that manages City employees' pension, as well as for most of California public employees, retirees, and their families.

How is the pension funded?

CalPERS requires public agencies in the system to contribute sufficient funds, held in trust, to pay for pension benefits as they are earned. This helps to ensure sufficient funding is in place to provide the promised pension benefits. This trust money is invested and expected to return a long-range investment return as high as 7.00% (after expenses). It is these investment earnings that are expected to pay for the majority of the cost of pension benefits.

Are other cities facing pension cost increases?

Yes. In 2012, the Santa Clara County Civil Grand Jury reported that all cities in the County are facing pension cost increases. Santa Clara County is not alone; a majority of the California cities are part of the nation's largest pension fund, CalPERS, and are facing pension cost increases.

Could the City offer employees 401k plans instead of pensions?

Pulling out of the CalPERS system would not relieve Morgan Hill of any pension obligations. Most of the City's pension liability is for benefits for already-retired employees, and the City still needs to fund those benefits. Pulling out of the CalPERS retirement system would pose an immediate unfunded liability upon the City of approximately \$197.9 million. The cities are experiencing increased pension plan contributions due to several actuarial assumption adjustments including: reduction in the assumed investment rate of return, changes in life expectancy for retirees, and a reduction in the amortization period in investment gains and losses.

How has the City determined future pension costs?

CalPERS issues each public agency an Actuarial Valuation Report annually. The report identifies the minimum required employer contributions for the upcoming fiscal year. The report also provides projected future employer contributions for the next five years, therefore allowing the City to plan accordingly.



How much do employees pay towards their pension?

City of Morgan Hill employees pay between 9 - 15% of their salary towards their pension cost, depending on their bargaining unit and pension tier. This is among the highest employee contribution rates in the Bay Area region and the State. Similar to most public agencies, Morgan Hill has a two-tier pension system in which newer hires receive more modest benefits.

How many employees are in each of the City's different pension tiers?

Groups	Count	%
Classic	135	73%
PEPRA*	51	27%
Total	186	100%

*The California Public Employee Pension Reform Act (PEPRA) was approved in 2012 and took effect January 1, 2013. PEPRA changes the way CalPERS retirement and health benefits are applied, and places compensation limits on new members. As defined by PEPRA, new members are new hires who join CalPERS for the first time on or after January 1, 2013.

What has the City done to address pension costs?

Morgan Hill took pro-active steps, prior to PEPRA, to address rising pension costs. All Management and Represented City employees share in the increases to the City's employer's retirement contribution rates. Morgan Hill employees now contribute up to 15% of their salary to help cover their pension. This is among the highest employee contribution rates in the Bay Area region and the State. Further, in 2015, the City Council approved the creation of a separate pension trust to help offset future pension costs and liabilities. The contributions and investments of the pension trust are separate from CalPERS, and the City maintains oversight of the investments, therefore allowing more local control over assets.

What percent of the City budget goes to paying employee pensions?

Approximately 9% of the General Fund is spent on employee pension costs. Approximately 4% of the City's total budget (including the General Fund and enterprise funds such as the water and sewer funds) is spent on employee pension costs.

AGENCY NAME	SAFETY PLAN	MISC. PLAN
Morgan Hill	69.90%	73.10%
Santa Clara (City)	66.00%	62.00%
Palo Alto	63.50%	66.30%
Cupertino	N/A	68.10%
Sunnyvale	67.60%	69.80%
Milpitas	64.50%	70.10%
Mountain View	68.90%	70.70%
Santa Clara (County)	68.40%	70.90%
Gilroy	68.20%	71.10%
Campbell	68.90%	73.70%
Saratoga	N/A	83.10%

CalPERS Funded Status for Public Agencies is at 69.5% as of 2016-17.

As of FY 2016-17

What is Morgan Hill's pension funded status?

The chart to the left compares Morgan Hill's Plans' funded ratio to other cities within the County. The funded ratio equals the value of assets in the Plans divided by value of pension liabilities. While all cities hope to achieve 100% funded ratio, an 80% funded ratio is considered healthy for the pension plan to be financially sound.

Unfunded Liabilities as of FY 2016-17: \$44.6 million

Misc. Plan: \$26.7 million
 Safety Plan: \$17.9 million

City Managed PARS Trust Fund

Contribution to date: \$0.8 million
 Market value as of July 30, 2019: \$0.9 million