

# CIVIL GRAND JURY REPORT

## SAN JOSE – UNFUNDED PENSION LIABILITIES

Presentation for Retirement Stakeholder Solutions Working Group

November 9, 2020

## BACKGROUND

- In June 2019, the Santa Clara County Civil Grand Jury released a report entitled, “San Jose – Unfunded Pension Liabilities. A Growing Concern”
- In their report, the Civil Grand Jury concluded that the City will have to continually increase its share of the required cash payouts and liabilities if changes are not made to the way the public pension plans are funded and managed.
- The Grand Jury had 6 findings in support of their conclusion that the City and the two retirement boards responded to in writing.

# FINDINGS AND RECOMMENDATIONS

- **FINDING I:**
  - Moving the City of San Jose mature pension plan to a more risk-averse investment portfolio has contributed, in part, to poor investment returns.
- **RECOMMENDATION I:**
  - The two Boards of Administration should conduct a comprehensive review of the investment portfolios that should be made public by June 30, 2020. The review should consider investment strategies used by other state and government pension organizations, particularly assessing portfolios of other pension plans with similar risk profiles that had higher returns.

# RESPONSE

- FINDING I:
  - The Boards respectfully disagree with this finding.
- RECOMMENDATION I:
  - The Boards will implement the recommendation and make public a report in a timely manner, once the data has been obtained and analyzed.

# FINDINGS AND RECOMMENDATIONS

- FINDING 2:
  - The City of San José pension plans are overburdened with a large number of investment managers and excessive investment management fees.
- RECOMMENDATION 2:
  - The two Boards of Administration should study ways in which to reduce the number and the cost of investment managers and make their findings public by June 2020.

## RESPONSE

- **FINDING 2:**
  - The Boards respectfully disagree with this finding.
- **RECOMMENDATION 2:**
  - This recommendation is being implemented by the Boards.

# FINDINGS AND RECOMMENDATIONS

- **FINDING 3:**
  - The City of San José's mandatory required contributions to pension plans are putting an ever increasing burden on the City's General Fund, which impedes the ability of the City to provide essential services to its residents.
- **RECOMMENDATION 3:**
  - The City of San José should work collaboratively with the II bargaining units to find ways to reduce this burden and make the findings public no later than June 2020.

## RESPONSE

- **FINDING 3:**
  - The City agrees with this finding.
- **RECOMMENDATION 3:**
  - The City agrees with the recommendation to work collaboratively with its bargaining units. Additionally, the Alternative Pension Framework Agreement contain provisions for 10 year retirement MOAs, with the current MOA ending in 2025.

# FINDINGS AND RECOMMENDATIONS

- FINDING 4:
  - Maintaining two separate pension Boards has resulted in inefficiencies including duplication of various tasks and responsibilities.
- RECOMMENDATION 4a:
  - The City of San José should examine the current Board models, consider opportunities for streamlining, and identify areas of administrative cost reduction. This investigation should include evaluating one board for both plans but structured to prevent the proportional dilution of members' representation. This recommendation does not include the combining or commingling of plans funds. The results of these actions should be made public by June 30, 2020.
- RECOMMENDATION 4b:
  - The Boards of Administration should implement employee reviews based on measurable goals and performance metrics for the CEO and CIO. The goals and performance metrics should be completed and made public by December 31, 2019.

## RESPONSE

- **FINDING 4:**
  - The City agrees with this finding, in general.
  - The Boards disagree with this finding.
- **RECOMMENDATION 4a:**
  - This recommendation requires further analysis.
- **RECOMMENDATION 4b:**
  - This recommendation is being implemented.

# FINDINGS AND RECOMMENDATIONS

- **FINDING 5:**
  - The expertise of the public members of the Boards of Administration is heavily weighted toward investment professionals. Other more successful pension funds, such as LACERS, have boards that have a much wider range of expertise.
- **RECOMMENDATION 5:**
  - The City of San José should broaden the backgrounds of the public Board members beyond the present focus on investment strategy beginning with the next Board member appointment.

## RESPONSE

- **FINDING 5:**
  - The City partially disagrees with this finding.
- **RECOMMENDATION 5:**
  - This recommendation has not yet been implemented, but will be implemented as Board members' terms expire.

# FINDINGS AND RECOMMENDATIONS

- FINDING 6:
  - The 3% COLA for Tier I retirees has a major impact on the unfunded liability, increasing the burden on the City's General Fund and further impeding the ability of the City of San José to provide essential services to its residents.
- RECOMMENDATION 6:
  - The City of San José should examine ways in which the 3% COLA liability can be reduced fairly as many other public entities have done by considering options such as reducing COLAs in exchange for lump sum buyouts, etc. This examination should be completed and made public by June 2020.

## RESPONSE

- **FINDING 6:**
  - The City agrees with this finding.
- **RECOMMENDATION 6:**
  - This City disagrees with this recommendation.

# DISCUSSION