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# The Fiscal Realities of Retroactive Pension Increases

Supervisor John M.W. Moorlach  
Second District  
July 31, 2007

# Annual Salary Growth

Age	Salary
	(4% Growth)
25	\$54,000
26	\$56,160
27	\$58,406
⋮	⋮
47	\$127,976
48	\$133,095
49	\$138,418
50	\$143,955

# A Promise Made and Kept: “2% @ 50”

Age	Beg Bal	Contribution (17.3% of salary)	Earnings (7.75%)	“2% @ 50” Benefit (3% COLA)	End Bal
25	\$0	\$9,333	\$723	\$0	\$10,057
26	\$10,057	\$9,707	\$1,532	\$0	\$21,295
27	\$21,295	\$10,095	\$2,433	\$0	\$33,823
⋮	⋮	⋮	⋮	⋮	⋮
47	\$749,931	\$22,119	\$59,834	\$0	\$831,884
48	\$831,884	\$23,004	\$66,254	\$0	\$921,142
49	\$921,142	\$23,924	\$73,243	\$0	\$1,018,309
50	\$1,018,309	\$24,881	\$80,847	\$0	\$1,124,038
51	\$1,124,038		\$87,113	\$71,978	\$1,139,173
52	\$1,139,173		\$88,286	\$74,137	\$1,153,322
⋮	⋮	⋮	⋮	⋮	⋮
78	\$429,971		\$33,323	\$159,883	\$303,411
79	\$303,411		\$23,514	\$164,679	\$162,246
80	\$162,246		\$12,574	\$169,620	\$5,200

**TOTAL PAYOUT: \$3,424,363**

# The Retroactive Surprise: “3% @ 50”

Age	Beg Bal	Contribution (17.3% of salary)	Earnings (7.75%)	“3% @ 50” Benefit (3% COLA)	End Bal
25	\$0	\$9,333	\$723	\$0	\$10,057
26	\$10,057	\$9,707	\$1,532	\$0	\$21,295
27	\$21,295	\$10,095	\$2,433	\$0	\$33,823
⋮	⋮	⋮	⋮	⋮	⋮
47	\$749,931	\$22,119	\$59,834	\$0	\$831,884
48	\$831,884	\$23,004	\$66,254	\$0	\$921,142
49	\$921,142	\$23,924	\$73,243	\$0	\$1,018,309
50	\$1,018,309	\$24,881	\$80,847	\$0	\$1,124,038
51	\$1,124,038	<b>\$561,500</b>	\$130,629	\$107,966	\$1,708,200
52	\$1,708,200		\$132,386	\$111,205	\$1,729,381
⋮	⋮	⋮	⋮	⋮	⋮
78	\$641,064		\$49,682	\$239,825	\$450,922
79	\$450,922		\$34,946	\$247,019	\$238,849
80	\$238,849		\$18,511	\$254,430	\$2,930

**TOTAL PAYOUT: \$5,136,545**

# The Retroactive Cost

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- Without contributing additional funds to the employee's account, the plan funds will be exhausted by the time the employee reaches age 65 (within 15, versus 30 years).
- In order to cover the employee to age 80, \$561,500 must be added the 26th year, or \$45,200 must be added that year and each subsequent year (the 30-year amortization solution).
- Under the "2% @ 50" system, the employee was to receive a nominal payout of \$3,424,363 (\$413,577 in contributions, plus net investment earnings) over the course of his/her retirement. However, with the retroactive increase to "3% @ 50" this employee will now receive a nominal payout of \$5,136,545 (\$1,769,577 in contributions). A 50% increase at a 328% greater cost.
- This employee receives a gift of \$1.712 million at an employer cost of \$1.356 million (\$1,769,577 less \$413,577).

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