

Serving the Active and Retired Members of:

CITY OF SAN JUAN
CAPISTRANO

COUNTY OF ORANGE

ORANGE COUNTY
CEMETERY DISTRICT

ORANGE COUNTY CHILDREN &
FAMILIES COMMISSION

ORANGE COUNTY
DEPARTMENT OF
EDUCATION (CLOSED TO
NEW MEMBERS)

ORANGE COUNTY
EMPLOYEES
RETIREMENT SYSTEM

ORANGE COUNTY FIRE
AUTHORITY

ORANGE COUNTY IN-HOME
SUPPORTIVE SERVICES
PUBLIC AUTHORITY

ORANGE COUNTY LOCAL
AGENCY FORMATION
COMMISSION

ORANGE COUNTY PUBLIC LAW
LIBRARY

ORANGE COUNTY
SANITATION DISTRICT

ORANGE COUNTY
TRANSPORTATION
AUTHORITY

SUPERIOR COURT OF
CALIFORNIA, COUNTY
OF ORANGE

TRANSPORTATION
CORRIDOR AGENCIES

UCI MEDICAL CENTER AND
CAMPUS (CLOSED TO NEW
MEMBERS)

August 31, 2016

Charles Margines, Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Dear Presiding Judge Margines,

The OCERS Board met on August 15, 2016 to consider the Grand Jury Report entitled "Orange County's \$4.5 Billion Unfunded Pension Liability & Retirement Plans." On page 26 of that report, the Grand Jury requested the OCERS Board respond to a number of findings and recommendations. The Board's approved responses follow:

Findings

F.3 The County and OCERS have taken recent actions to control and slightly reduce the unfunded liabilities by 11% from \$4.5 billion in 2012 to \$3.8 billion in 2015, but the County could be more aggressive.

The OCERS Board of Retirement takes action on an annual basis to prudently fund the promised benefits.

F.5 OCERS Board of Retirement made a solid financial decision to reduce the amortization period of the UAAL from 30 years down to its current period of 20 years, resulting in increased annual payments from the County.

The OCERS Board of Retirement believes all of its funding decisions have been actuarially sound.

F.6 Passage of the state Public Employees' Pension Reform Act of 2013 should improve the financial stability of the County's retirement system.

The OCERS Board of Retirement is unable to predict the future impact of the Public Employees' Pension Reform Act of 2013.

F.7 The State and local governments have the ability to implement Defined Contribution Plans, or hybrid plans, instead of the traditional Defined Benefit Plan. Much of the private sector has transitioned to the Defined Contribution Plans such as 401K plans and more than 30 jurisdictions in California use Defined Contribution Retirement Plans, including Orange County.

The OCERS Board of Retirement is not sufficiently familiar with this area of the law governing state and local governmental entities, as well as the private sector, to be able to comment.

Recommendations

R.1 The County should encourage the OCERS Board of Retirement to maintain financially sound assumptions and to oppose any relaxation of current assumptions. (F1)(F3)

The OCERS Board of Retirement believes this recommendation is addressed to the County of Orange.

R.2 The County should establish and adopt a plan, working with OCERS, to increase the pension percent funded liability to 80% from its current level of 70% by making additional payments to OCERS. This plan should be developed as part of the County Strategic Financial Plan is being updated in late summer 2016. As the 2017-2018 budget is being developed, the first advance payment of the Plan should be included. (F1) (F2)

The OCERS Board of Retirement believes this recommendation is addressed to the County of Orange.

R.4 The County should direct its lobbyists or work through the California State Association to find support in the legislature for a bill with additional pension reforms, beginning with the next legislative session that would further reduce the impact of unfunded pension liabilities. (F6)

The OCERS Board of Retirement believes this recommendation is addressed to the County of Orange.

R.6 The County should review the current practice of using taxpayer money to benefit eight non-County employees through the 401(a) retirement plan by the end of 2016. (Executive Director LAFCO; Executive Manager- Children & Family Commission and six OCERS executives). (F8)

The OCERS Board of Retirement believes this recommendation is addressed to the County of Orange.

R.7 The Board of Supervisors should, by the end of calendar year 2016, publicly revisit and determine if the Executive Compensation package 401(a) supplemental retirement plan for 44 County elected officials and top executives is still justifiable. (F8)

The OCERS Board of Retirement believes this recommendation is addressed to the County of Orange.

I may be contacted if there are any questions or comments.

Sincerely,



Steve Delaney
Chief Executive Officer

Cc: Orange County Grand Jury