



Serving the Active and Retired Members of:

October 24, 2016

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)

Carrie L. Carmody, Ph.D.
Foreperson, 2016-2017 Orange County Grand Jury
700 Civic Center Drive West
Santa Ana, CA 92701

Dear Ms. Carmody,

The OCERS Board met on October 17, 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 agrees that the County and OCERS have taken recent actions to control and reduce the unfunded liabilities. The OCERS Board of Retirement agrees that the County of Orange could be "more aggressive" if by that the Grand Jury means that the County could contribute more money sooner to the retirement system, further reducing unfunded liabilities.

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 agrees.

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 disagrees because reduced benefits for new and future members is not correlated with the financial stability of the retirement system.

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 disagrees in part. Many counties in California, including the County of Orange, provide supplemental retirement savings plans such as the County of Orange Defined Contribution Plan (457) administered by Empower Retirement (formerly Great West Retirement Services). The County of Orange also provides supplemental retirement benefits in the form of a 401a plan to executive management employees. These supplemental plans do not conflict with the County Employees Retirement Law of 1937 (CERL) under which OCERS operates.

Counties may also establish hybrid plans that combine defined benefit and defined contributions plans. The County of Orange has done this with its 1.62% plan which provides for a combined defined benefit administered by OCERS and a defined contribution administered by Empower. OCERS refers to the defined benefit portion of the hybrid plan as Plans O, P, T, and W. Provision of a hybrid plan such as that in the County of Orange is not in conflict with CERL.

While a county operating under CERL, such as the County of Orange, may offer supplemental defined contributions retirement plans and hybrid plans, a state legislative change would have to occur in order for a CERL county to close its defined benefit plan to new members. According to Gov. Code sec. 31552, all officers and employees of the county, with certain narrow exceptions, must become members of the retirement system once the retirement system becomes operative in that county. CERL became operative in the County of Orange in 1945. Also, CERL contains a provision (Gov. Code sec. 31564) that allows for districts to withdraw from a county retirement system, but there is no provision that would allow a county to withdraw from the system. In order to withdraw from a CERL system a county, would likely have to seek authorization from the Legislature to get an exception to section 31552 and a resolution to the withdrawal funding issue in section 31564.

A county would likely be prevented from involuntarily moving current employees who are in a defined benefit plan to a defined contribution plan due to California vested rights law.

The OCERS Board of Retirement is unable to comment on private sector plans.

Recommendations

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

The recommendation will not be implemented by the OCERS Board of Retirement because it lacks authority to implement this recommendation.

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 recommendation will not be implemented by the OCERS Board of Retirement because it lacks authority to implement this recommendation.

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 recommendation will not be implemented by the OCERS Board of Retirement because it lacks authority to implement this recommendation.

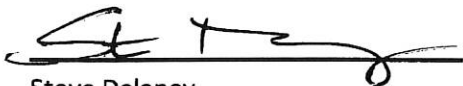
R.6 The County should review the current practice of using taxpayer money to benefit eight non-County employees through the 401(a) retirement plan by the end of 2016. (Executive Director LAFCO; Executive Manager- Children & Family Commission and six OCERS executives). (F8)

The recommendation will not be implemented by the OCERS Board of Retirement because it lacks authority to implement this recommendation.

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 recommendation will not be implemented by the OCERS Board of Retirement because it lacks authority to implement this recommendation.

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



Steve Delaney
Chief Executive Officer

Cc: Orange County Grand Jury