

Supervisor Bill Campbell's Comments
At
Conference Committee on Public Employee Pensions
April 13, 2012

Good afternoon Chairman Negrete-McLeod, Chairman Furutani and committee members. I am Orange County Supervisor Bill Campbell representing the Third District of Orange County. I am here today to speak about Orange County's efforts at pension reform and specifically the County's hybrid pension option.

Like many public entities in California and around the country, Orange County has been concerned about the significant financial burden taxpayers will bear in funding public pension obligations now and in the future. Orange County currently has an unfunded pension liability of \$3.75 billion. Both Orange County and its largest union, the Orange County Employees Association (OCEA), recognized this problem prior to contract negotiations in 2009 and working in partnership together developed a new pension package which begins to address the problem.

The county, along with public employee representatives of OCEA, reached agreement on a new employee pension plan option in July 2009. This plan offered new employees the choice between a high cost defined benefit plan or a lower cost combined defined benefit and defined contribution plan. It also provided the opportunity for existing employees to voluntarily change to the lower cost program through a one-time irrevocable selection.

Under this plan, the County proposed offering an election to current and new employees between two different, statutorily established pension formulas. The first is the County's current defined benefit formula, 2.7% at 55, and the second is based on a 1.62% at 65 formula, that provides a lower defined benefit but which the County would offer in conjunction with participation in a defined contribution plan with an employer matching element. It was necessary to craft new legislation to allow the Board and the union to enter into this agreement for employees to be able to select between the two retirement plans.

Senator Lou Correa's SB752, which was passed by both houses and signed into law in October 2009 allowed the county to implement this innovative approach.

However, prior to the County's final implementation of the new hybrid option, we were notified by tax counsel of an Internal Revenue Ruling, 2006-43, which could cause future employee contributions to the retirement system to no longer be considered "picked up" contributions under Internal Revenue Code section 414(h)(2). The loss of "picked up" status has the potential to result in some or all of the employees' future contributions no longer being pre-tax contributions. This was something that the county was not willing to risk. Therefore the County, along with OCEA, approached the IRS beginning in September 2009 to seek a revision to Ruling 2006-43. This process has been ongoing for the past two and half years, but we have yet to receive a revised ruling from the IRS.

In parallel with the county seeking a revised ruling from the IRS, the county has engaged its local congressional delegation. In September 2011, Congresswoman Loretta Sanchez along with Congressmen John Campbell, Ed Royce, and Ken Calvert introduced H.R. 2934 which would legislatively solve the problem caused by Ruling 2006-43. In addition, the County and OCEA have spoken several times with Senator Dianne Feinstein on the issue and her staff has held meetings with the IRS in an effort to understand and solve the problem. Orange County continues to work to solve the obstacles place in its path in order to enact pension reform.

I should point out that the seeds of our 2009 negotiation were sown when the county increased its pension benefits in 2005 to 2.7% at 55 because at that time the employees agreed to pay for the entire cost increase associated with the improved pension benefit, including any future market risk and / or the actuarial adjustments. Consequently, as the pension investment fund has experienced market losses and actuarial adjustments our employees contribution rates have increased.

In closing, I want you to know that Orange County and its employee representative have been creative. The hybrid pension option benefits not only the County and its employees but also for taxpayers who ultimately bear the burden of paying for the pensions. As California continues to search for solutions to its current and future pension funding

problems, it may benefit the state to look to Orange County as an example and a possible model for creative pension reform.

Thank you for inviting me to speak today and I will be happy to answer any question that you may have.