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## **Los Angeles County is already a model example of pension reform**

### **Key points**

- Pension reform for public employees is an issue that will continue to be hotly debated, particularly given the state of the economy and its impact on the tax revenues used to fund government operations. There is no doubt that employee pension obligations bare a financial burden on State and local government alike, making discussion of reform prudent.
- Our County pension system has not only been reformed four times since 1977, including four separate benefit roll backs and increased employee contributions, but one that is today considered one of the most cost-efficient plans available to local public employees in the State of California.
- The State is only now beginning to discuss implementing reforms that the County Board of Supervisors implemented 30 years ago. In fact, the County rolled back retirement benefits for General Members of the retirement system four times during the period of 1977 through 1981.
- The rolled back pension plans created during that time, known as “Plans D and E,” are the only tiers that have been open to new hires since 1979 and 1981, respectively. Plan D, the greater of the two open tiers, provides a benefit equal to 2% of final compensation for each year of service for individuals who have attained an age of 61.
- County employees pay half the cost of this benefit through payroll deductions taken over their working lifetimes. Today, 97% of the County workforce is now covered by our bottom tiers, Plans D and E.
- The County also withdrew from Social Security nearly 30 years ago. This means that no County employee “double-dips” into Social Security retirement benefits by virtue of employment with the County. Moreover, Federal law may reduce the Social Security benefits a County retiree earns from other employment solely because the individual is retired from a public employer that does not participate in Social Security.

### **Would Los Angeles County Employees be impacted by Governor Brown’s pension reform proposal?**

Yes. Members of the Los Angeles County Employees Retirement Association (LACERA) would be included. The County’s legislative advocates in Sacramento had

direct confirmation from the Governor's Director of Finance that the twelve-point framework proposal for pension reform includes locally-controlled agencies like LACERA. While there is little detail yet available, current workers would be expected to pay at least half of their retirement costs, but the higher retirement age and new savings plan would apply only to employees hired later.

### **What is LACERA?**

LACERA has the duty and authority to administer defined retirement plan benefits for the employees of Los Angeles County and certain outside districts. It is responsible for collecting, depositing, investing, and managing the retirement funds contributed by the County, outside districts, and County employees. LACERA has been and continues to be the benchmark of well-funded, financially-stable local public retirement associations. Our system is very strong, recently independently verified by the 2010-2011 Los Angeles County Civil Grand Jury, which did an extensive investigation into the state of our pension/retirement system. The Grand Jury found LACERA to be well-run and the retirement fund in no threat of defaulting. They also praised the County for being proactive over the past 30 years by taking deliberate steps to control and lower pension costs.

### **What does LACERA provide?**

LACERA provides retirement, disability, and death benefits to its active safety and general members, and administers the plan sponsor's retiree health benefit program. Safety membership includes law enforcement (Sheriff and District Attorney Investigators), firefighting, forester, and lifeguard classifications. General membership is applicable to all other occupational classifications. The retirement benefits within the plan are tiered based on the date of LACERA membership.

### **How many members are there?**

*As of June 30, 2010*

Active Members:	
Vested:	<b>66,078</b>
Non-Vested:	<b>28,332</b>
Total Active Members:	<b>94,410</b>
Retired Members:	<b>54,171</b>
Terminated Vested (Deferred):	<b>7,938</b>
Total Membership	<b>156,519</b>

### **What is Governor Jerry Brown proposing?**

The County's legislative advocacy team is currently reviewing what we can from the Governor's proposal for potential impacts to the 156,000 members of LACERA, and will

provide more information as it becomes available, but what we do know so far about the proposal is that it would:

- Change pensions for **future** public employees, blending guaranteed benefits with a new 401(k)-style savings plan;
- Raise the retirement age for most **future** public workers from 55 to 67 and require all public workers to contribute at least half of the cost of their retirement benefits;
- End employees' ability to work for the government while drawing a public pension from a previous job;
- Provide full health benefits to only those retirees who were publicly employed for at least 25 years. *(This is already the rule for LACERA members)*

### **Why does he want these changes?**

During his announcement, the Governor stated that state and local pension costs have escalated in recent years. The Governor says existing public retirement programs are unaffordable, underfunded, and unsustainable. Pension reform has been a stated goal for the Governor since assuming office.

### **Is LACERA well-funded?**

Independent audits and analysis annually conclude that LACERA continues to be in sound financial condition. The basic financial goal of LACERA is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain level for each generation of active members. A further goal is to minimize employer contributions, consistent with the requirements of Article XVI, Section 17 of the California Constitution and Section 31595 of the California Government Code.

LACERA's funding status based on the past three actuarial valuations is:

<b>Valuation Date:</b> June 30, 2007	<b>Funded Ratio:</b> 93.8%
<b>Valuation Date:</b> June 30, 2008	<b>Funded Ratio:</b> 94.5%
<b>Valuation Date:</b> June 30, 2009	<b>Funded Ratio:</b> 88.9%

### **How much money does LACERA have?**

As of June 30, 2010, LACERA has \$33.4 billion in Plan Net Assets, which means Total Assets of \$36.1 billion exceeded Total Liabilities of \$2.6 billion. As of June 30, 2009, LACERA had \$30.5 billion in Plan Net Assets, as a result of Total Assets of \$33.2 billion exceeding Total Liabilities of \$2.7 billion. The Total Plan Net Assets represent funds available for future payments. The primary uses of LACERA's assets include the payment of benefits to members and their beneficiaries, the refund of contributions to

terminated employees, and the cost of administering the plan. These deductions total \$2.2 billion for fiscal year 2010, an increase of \$114 million, or 5.5 percent from the prior year. For fiscal year 2009, these deductions total \$2.1 billion, an increase of \$104 million, or 5.3 percent from the prior year.

**What kind of pension benefits do LACERA members receive?**

There several different plans employees can choose from, depending on if an employee is a safety member or general member. The chart below is sample of benefits available to general members, called “Plan D” and “Plan E.” Our benefits and contributions are conservative compared to many other public retirement systems. Members who joined LACERA after 1983 do not pay into Social Security, so County employees are not “double-dipping” into different public retirement funds. If an employee desires a pension matching 100 percent of their final salary, they must contribute to their retirement. If they are non-contributory, maximum retirement is only 80 percent.

<b>COMPARISON OF BASIC PROVISIONS</b>	<b>Plan D</b>	<b>Plan E</b>
Member makes cash contributions	Yes	No
Employer makes cash contributions	Yes	Yes
Member vested	In 5 yrs.	In 10 yrs.
Member entitled to a service retirement allowance (after meeting requirements)	In 10 yrs.	In 10 yrs.
Minimum retirement age	50	55
Maximum percentage of final salary member can receive as retirement allowance	100%	80%
Final compensation based on monthly average of	1 year of service	Any 3 years of service

**What would the impact be on County employees who are union members?**

The strong relationship between the County and our labor partners will be a tremendous asset as a statewide discussion of pension reform develops. In 2009, every single County union and bargaining unit agreed to a two-year, no change extension of their current contracts. The extensions included no cost-of-living increases or salary increases. The County’s union partners represent nearly 90-percent of the approximately 100,000 County employees.

**How much money would the Governor’s proposal save?**

The *Los Angeles Times* reported the Governor believes that when fully phased in over the next 30 years, his proposal could cut the state's retirement fund obligations in half, saving “\$4 billion to \$11 billion”. Although we do not yet have analysis or details about local level impacts on LACERA, the Governor’s office believes an additional “\$4 billion

to \$11 billion” would be saved in locally-controlled retirement programs like LACERA.

**What are the next steps?**

The governor will likely send his plan to the Legislature and ask that portions be placed on the November 2012 ballot. Moving it onto the ballot would require support from two-thirds of both the Assembly and Senate.