Another County Crisis: Pensions, Health Care, and Other Benefits

1. Summary

Orange County government's contribution to retirement funding has grown from $45 million in fiscal year 2000-2001 to $178 million for FY 2004-2005, an increase of $133 million, or 296%. The reasons:

- recent pension enhancements for county employees
- the failure of county government to establish pension reserves in good economic times
- poorer than expected returns on pension fund investments during some years, particularly following the 9-11-2001 attack on the World Trade Center in New York

More disturbing, a recent calculation of retirement system funding by an actuarial firm commissioned by the Orange County Employee Retirement System (OCERS) puts the system's unfunded liability at $2.3 billion as opposed to the previous projection of $1.3 billion. That could mean an additional $110 million per year the county would be contributing to the pension fund.

This is coupled with an additional $1.3 billion shortfall in liabilities related to health care costs for county employees and retirees.

If the new pension projections are taken into account, county liabilities covered in this report should total approximately $4.4 billion ($2.3 billion unfunded pension, $1.3 billion unfunded health care, and $800 million bankruptcy payoff).

By making the latest pension enhancement retroactive for all current general employees the county Board of

Some Acronyms and Abbreviations in this Report

BOS	Orange County Board of Supervisors
CEO	OC Chief Executive Officer
CFO	OC Chief Financial Officer
GASB	Governmental Accounting Standards Board
MOU	Memorandum of Understanding
OC	Orange County
OCEA	Orange County Employees Association
OCERS	Orange County Employee Retirement System
PIP	Performance Incentive Program
ROI	Return on Investment

Supervisors (BOS) instantly increased the unfunded pension liability by $300 million. This will be offset, according to county officials, by three years of no wage increases and other wage and benefit concessions by county employees.

With the same decision the BOS also created the potential for more than 800 county employees to retire in July 2005 under the enhanced formula without having contributed additional money to the retirement fund in accordance with the new formula. This one-time expense could cost as much as $18 million in immediate payoffs for unused vacation and sick leave, if all 800-plus choose to retire in July. That translates to an average payoff ranging from about $8,000 for an eligible retiree with 10 to 14 years of service to almost $41,000 for an eligible retiree with 35 or more years of service.

The BOS approved the agreement on a split vote, and it remains controversial. It includes financial savings for county government, but sets up another possible exposure in the county's financial structure. These exposures already include a remaining debt of approximately $800 million from the county's 1994 bankruptcy and unfunded health care liabilities of approximately $1.3 billion.

2. Introduction and Purpose of Study

Spurred by public interest and its own curiosity, the 2004-2005 Orange County Grand Jury decided to examine the issues related to the pension enhancement. This is not the first time a grand jury has looked at the actions of a BOS regarding county employee pay and benefit enhancements. For example, the 2002-2003 Orange County Grand Jury challenged the BOS for "benefit increases generously distributed with little regard to impacts on county budgets or taxpayer interests." It appears the current BOS is repeating the pattern of granting generous benefits—this in light of tight county budgets and the residual effects of the bankruptcy 10 years ago.

The purpose of this study was to determine the extent of the unfunded pension liability and related costs in light of county government's other financial obligations.

3. Method of Study

The grand jury reviewed the contracts and MOUs in question, and studied various county financial reports. Grand jurors conducted 19 interviews of high-ranking county and union officials as well as representatives of OCERS. Grand jurors also read widely on the subject of public employee pensions in newspapers, websites, and magazines.

4. Background

County government has about 17,600 employees. In FY 2004-2005 the county budget covering salaries, benefits, and workers' compensation for its employees is almost $1.4 billion, or about 31% of the county's total budget of approximately $4.5 billion.

Under the California Constitution, the BOS is responsible for setting terms and conditions of employment for county employees, including salaries and benefits. As interpreted by the County Counsel's office, this means the responsibility applies to the BOS itself, even when it affects board members. The terms and conditions are set through a collective bargaining process governed by state law. While in progress the process is not subject to public disclosure.

On August 24, 2004, the BOS approved an agreement with unions representing most of the county's general employees for an enhanced retirement formula. The formula, referred to as "2.7% at age 55," followed a formula of "3% at age 50" adopted by the board for the county's safety employees (fire and law enforcement) on June 28, 2002.

This is what the county board sought during labor negotiations leading to the 2004 agreement:

2004 Contract Negotiations Summary–Five Negotiating Issues	
County Goal	**Actual Contract**
1. No wage increases for at least two years	Unions accepted
2. Health care concessions from county employees	Unions accepted
3. An improved retirement benefit so long as the improvement was without cost to the county	Unions accepted, but county needs detailed annual analysis to ensure cost neutrality
4. Only employees who pay for the improved retirement benefit should receive it	Unions rejected
5. A defined contribution plan as an alternative to expanding the existing defined benefit plan	Unions rejected

Grand Jury chart 2005

The first two issues were accepted by both sides. The key element of the third–without cost to the county–requires more analysis over time to determine if this goal will be achieved. The county failed to win the last two negotiating issues. Orange County has a highly unionized workforce of approximately 17,600 employees. About 13,000 of those workers belong to the Orange County Employees Association (OCEA).

As part of the agreement, employee representatives of the non-safety unions agreed verbally, during the August 24, 2004, public session before the BOS that their members would pay for the retirement enhancement by contributing 2.46% of their pay to the pension fund for the next 30 years. This would be in addition to their pension contributions already in place. This agreement is also in writing. It remains to be seen if it will be enforceable in the long run.

The contract stipulates there will be no pay raises for the life of the contract, which ends in 2007, with negotiations re-opening in 2006. In addition, employees agreed to pay a larger share of their medical insurance costs. The latter arrangement became effective January 1, 2005, with employees paying higher deductibles and co-pays, and the county dropping the most costly health plans. The medical agreement is expected to save the county about $11.2 million during the first year of the contract, with more savings likely in future years.

County supervisors on a 3-2 vote approved the overall plan. The actuarial report by an outside firm (based on 20-year-old statistics), the health plan design, cost savings projections, and the various employee payment configurations were validated by the county's Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Auditor-Controller. The CEO of OCERS concurred with the actuarial assumptions and individual bargaining unit costs. Language in the memoranda of understanding (MOUs) with each bargaining unit and the resolution for adopting the formula were developed by the County Counsel. Each bargaining unit conducted its own vote approving the plan.

4.1 What do "2.7% at 55" and "3% at 50" mean?

The formula for the county's "general" employees, who make up the bulk of the county's workforce, provides for a retirement benefit of 2.7% of final earnings, multiplied by years of service, payable beginning at age 55. The 3% at 50 formula applies to the county's safety employees, primarily sheriff's deputies and firefighters. On July 1, approximately 1,100 probation officers will be added to the "safety" category. This alone will cost the county an additional $1.3 million per year.

However, "final earnings" means more than just salaries. The salary figure can be enhanced for pension purposes by other forms of employee compensation under the 1997 Ventura Decision by the California Supreme Court. Orange County employee contributions to the pension fund are calculated only on the employee's base salary, excluding overtime and other extra pay categories. Pension benefits, on the other hand, are calculated on the basis of total compensation that can include categories defined in the Ventura Decision. This is called "compensation earnable." There are about 20 categories. They include items such as bilingual pay, uniform allowances, and paramedic pay. (See Appendix, Section 8.3, Ventura Decision Categories, for a complete list.)

There are two tiers of county employees. Those hired prior to September 21, 1979, are considered Tier I employees. Their retirement pay is based on their highest one-year salary. Those hired after September 21, 1979, are Tier II employees. Their retirement is based on the average of the salaries they drew during their last three years of employment.

The 2.7 at 55 formula becomes effective July 1, 2005.

4.2 How does the county retirement plan work?

The major plan for county workers is the Orange County Employees Retirement System, based on the County Employees Retirement Law of 1937, a state law. It is known as a "defined benefit" system, whereby employees are guaranteed a certain level of pension benefits based on age, years of service, and salary levels.

The membership of OCERS is made up of most of the county's 17,600 employees, plus employees of 15 cities and other agencies. The current membership is about 23,000, including general and safety employees. OCERS has a nine-member board (four members elected by retired and active employees and four members appointed by the BOS). The county's elected treasurer-tax collector is a member automatically.

Pension monies paid to retirees by OCERS are generated from three sources:

- employee contributions
- employer contributions
- returns on invested pension funds

The investment funds are managed by OCERS. Current contract language calls for county employees to pay for a greater portion of pension costs in the years ahead. The contract language also calls for an annual review of benefits, including "costs impacted by changes in investment earnings" to determine if adjustments in employee contributions are necessary. The contributions will double for many employees.

There is disagreement among county officials interviewed by the grand jury as to whether employees will indeed make up any losses over the next 30 years in case of lower than expected investment returns, or if this could be renegotiated as soon as 2007. Some believe this will be the subject of renegotiation; some county officials believe that, in terms of future negotiations, this issue is "off the table," meaning it will not be renegotiated.

These officials maintain the commitment for employees to pay for the benefit does not end when the contract ends, pointing out that the language of the written agreements states, "This additional employee contribution shall continue beyond the expiration date of this MOU, for the purpose of amortizing over a 30-year-period, the cost of the retirement benefit. . . ."

Should the sources of funding, most likely investment returns, fail to produce the dollars needed to pay the pensions, someone will have to make up the difference. According to the OCERS website:

> The County approved the retirement formula 2.7% at 55 with the understanding that the employee would bear the full cost of the benefit enhancement. Therefore, in addition to the base rates listed [on the website], employees will pay an additional contribution based on their representation unit. Those rates are . . . a percentage of pay.

4.3 Pensions at-a-Glance

Both current pension programs for county employees (safety and general) are comparatively generous in light of the county's other financial obligations. Potential pension benefits using the current average salaries of safety and general employees are shown below. These examples cover only pensions resulting from county employment. They take into account the current average retirement ages for safety (54 years) and general (58 years) employees. The examples assume each employee began working for the county at the current average ages; i.e., 28 years for safety employees and 34 years for general employees. The average base salaries used in the examples do not include pay added to the pension benefit calculation under the aforementioned Ventura Decision.

- Safety employee retiring with 26 years service at age 54:
  $70,822 x 3% x 26 = $55,241 per year
- General employee retiring with 24 years of service at age 58:
  $51,808 x 2.7% x 24 = $33,571 per year

More than 300 of the 800 county employees eligible to retire in July have worked for the county 30 years or more. Their ages are not known. The ability to retire at the age of 50 or 55 means a county employee could be receiving retirement benefits 8 to 12 years earlier than a private sector employee on social security, who must wait until the age of 62 or 66 to collect benefits which are not as generous.

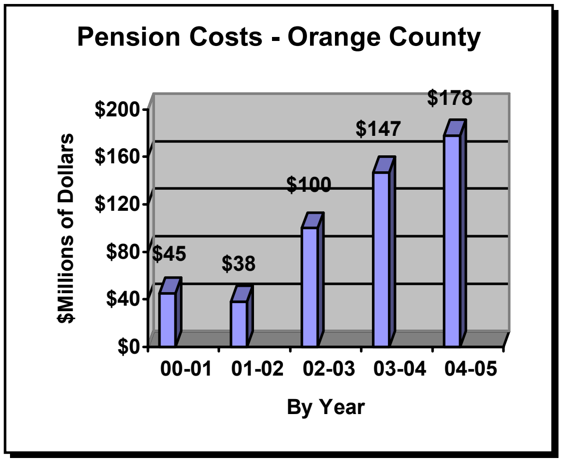
4.4 Who benefits from the 2.7% at 55 pension enhancement and who loses?

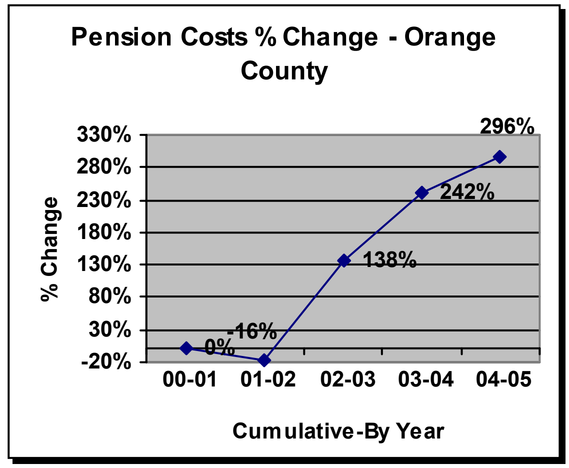
- ***July 1, 2005 Retirees***: The chief beneficiaries are those 800-plus senior county employees eligible to retire July 1. Their pensions will be enhanced without any cost to them.
- ***County Government***: The second major beneficiary is county government. This is because employee wage and benefit concessions are projected to pay off the $300 million unfunded liability for the enhanced retirement benefit in an estimated four years.
- ***Employees with 12 Years or More of Service***: Next on the list of those benefiting from the enhancement are employees who have been with the county more than 12 years. They will pay less into the retirement fund over the long haul than employees with under 12 years of service.

Employees with fewer than 12 years of service will bear the brunt of the cost of the enhancement. Paychecks for all general county employees will begin reflecting less take-home pay in July. For many it may come as "sticker shock," as more than one county official has put it.

4.5 Escalation of Pension Costs to the County

There has been a dramatic increase in pension costs to the county starting in FY 2002-2003. The increase results from underperforming pension fund investments and the 3% at 50 pension enhancement for safety employees. The county pension contributions increased from $45 million in FY 2000-2001 to $178 million (budgeted) in FY 2004-2005, and could climb to $339 million or more in FY 2009-2010, if the latest actuarial projections produced for OCERS hold true. The following charts illustrate the increases from FY 2000-2001 to FY 2004-2005.





Grand Jury Chart, Data Source: Orange County CEO-Budgets

4.6 Are county retirees eligible for Social Security or 401(k)?

- County employees do not pay into or receive social security benefits.
- About 90 county executives have access to the 401(a) savings plan, a public sector version of the private sector's 401(k) savings plan. The county contribution is 3%. For the county CEO and elected officials, the contribution is 6%.
- All other employees have access to 457 tax-sheltered savings plans, but the county does not contribute matching funds to these accounts.

Two charts (See Appendix, Section 8) show the difference between an individual who works in the private sector under social security and an Orange County employee under the safety members' retirement plan of 3% at 50, or the general employee retirement plan of 2.7% at 55.

Both charts show yearly money contributions into each system, social security and the county system, on similar yearly earnings at the prescribed contribution rates over 30- and 35-year work histories. In each case the job entry age is at 21. At the end of their work careers at age 50 and 55, pension benefits are drastically different. The private sector employee typically will not get any benefits until age 62 or 66, whereas the county employee can start collecting his/her pension at age 50 or 55.

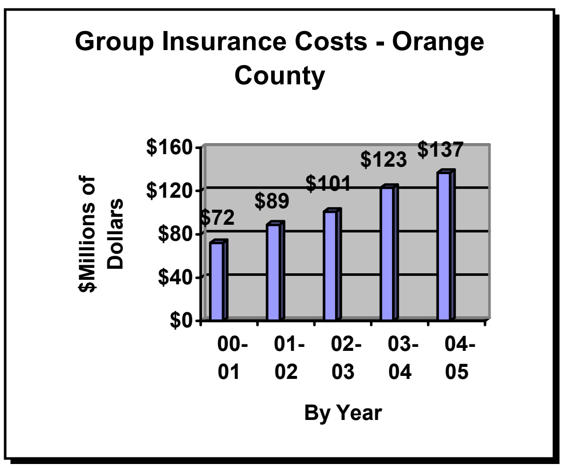
4.7 Other County Financial Exposures

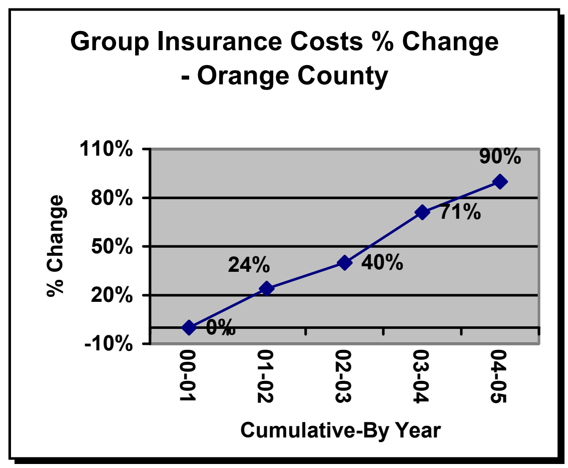
Following are brief summaries of some of the other financial issues facing county government. Of primary concern are health care costs for employees and retirees.

4.7.1 *Medical and Group Insurance Costs*

Medical and other group insurance expenditures will increase from $72 million in FY 2000-2001 to $137 million in FY 2004-2005. This represents a 90% increase. (See charts, below.) There is a current underfunding of $1.3 billion in projected health care related liabilities, according to county officials who say they are working on a plan to start paying for this obligation. Medical costs for retirees could prove to be an even more serious problem for county government than enhanced pensions. Despite the increase in medical contributions negotiated in the recent contract, health care costs are expected to continue rising.

New government accounting standards will require the county to show how much it owes for retiree health care costs. Statement 45 by the Governmental Accounting Standards Board (GASB) is the vehicle. It says state and local government employers must report annual costs of health care and other "post-employment benefits" and related outstanding obligations and commitments as they currently do for pensions. The new standards are required by December 15, 2006, but Orange County officials plan to implement them sooner.





Grand Jury Chart, Data Source: Orange County CEO-Budgets

4.7.2 *Proposition 172*

An initiative that would reallocate a portion of the county's Proposition 172 funds from the Sheriff-Coroner and District Attorney to the Orange County Fire Authority is expected to be on the ballot in November 2005. If the proposal for the "Guaranteed Fire Protection and Firefighter Safety Funding Ordinance" passes, up to $30 million per year would be diverted from the county's general fund to the Orange County Fire Authority.

4.7.3 *Bankruptcy*

Ten years later the county is still fighting its way out of the 1994 bankruptcy, with approximately $800 million in debt remaining. Annual debt payments run about $94.2 million. The money is diverted from a variety of county departments, agencies, and special districts. All this money could be spent on public services and projects, but instead goes to service debt. At the current rate the bankruptcy will be paid off in 2024. However, a plan announced this year calls for an earlier payoff in 2015. If finalized, the plan would save the county an estimated $200 million to $250 million in debt service costs.

4.7.4 Return on Investment

Prior to the August 2004 contract agreement, OCERS had assets of almost $5 billion. Contributions amounted to $219.5 million in 2004, with $137.9 million contributed by the county and $81.6 million by employees. The average rate of return over the past five years on OCERS' investments was a "smoothed" 5% (weighted average of investment returns over five years). For 2004 it was an "unsmoothed" 11%.

As mentioned, the investment funds are managed by OCERS, which projects an average 7.5% return on investments over the next 30 years. This figure is re-evaluated annually by OCERS. Other California counties are projecting returns of 8 to 8.5% for their pension fund investments.

Both the county's and the employees' contributions are calculated using the projected rate of return. The higher the expected rate of return, the lower the current contributions need to be. Conversely, the lower the rate of return, the higher the required contributions. It is important to use a realistic rate because a small swing in rate of return can translate into a large difference in required contributions.

4.7.5 Unfunded Liability

An unfunded liability is the amount by which the liabilities of the retirement plan exceed its assets at any given time. With the latest actuarial projections in place, the pension unfunded liability level would stand at about 69%. In other words, the pension system would be 31% short of being 100% funded. Analysts interviewed by the grand jury suggested a prudent liability level would be in the 80 to 90% range, meaning 10 to 20% unfunded.

Unfunded liabilities are a growing problem for public and private pensions and health care plans across the United States. Some say it is because the plans have become too generous. Others point out that the problem is exacerbated by the fact that Americans are living longer, thereby putting greater strain on the plans. In recent years, the poor return from the stock market has also contributed to the shortfalls.

4.7.6 PIP

The Performance Incentive Program (PIP) was started in January 2000 to reward employees for increased productivity. However, most departments began paying a

2% PIP bonus to 90% or more of their employees. More recently, the program was modified so that employees take paid time off instead of receiving cash. Currently, the paid time off averages five days per year for eligible employees. PIP expenses for FY 2003-2004 were about $6.5 million.

5. Observations and Discussion

5.1 Competing for Talent

It is unknown at this point what effects the higher benefit costs for employees, coupled with no raises over the life of the current contract, will have on recruiting new and retaining current county employees. It is already known that senior staff members in a number of departments and agencies will be leaving in July. That will mean losses of wisdom based on experience–a brain drain. The retroactive nature of the latest pension enhancement encourages people to leave county government. It also will mean senior level salary savings for the county, but there will be promotions, too, and although overall salary savings could last several years, they will not be permanent.

Currently, Orange County's Human Resources Office reports that, for the most part, it is able to fill every position current budgets allow. The exceptions tend to be positions involving certain medical specialties, some social worker positions requiring advanced degrees, and nurses, who are in high demand in both public and private sectors.

5.2 The Wage-Benefit Spiral

An argument often heard in relation to hiring and retention of county employees is that the county must offer more attractive salaries and benefits in order to maintain parity and compete with other counties seeking similar employees. As to whether the pension enhancements do or do not make the county competitive with other counties, the grand jury found no easily available data because there are so many variables.

This year, the BOS approved an 8% pay increase spread over the next two years for safety employees. This will raise their average salary from $70,822 to $76,488 per year. This raise doubtless will increase pressure for a pay raise for general employees when their no-raise and higher benefit payment contract ends in 2007.

5.3 Some Questions

Many things about the county's pension enhancements are unknown and likely will not become clear until after July 1, 2005, when the latest enhancement takes effect. Because of the unknowns, the 2004-2005 Grand Jury was moved to pose the following questions:

5.3.1 *Question 1: Given its various financial challenges, can the county afford the enhanced pension programs it has adopted?*

The overall pension program depends heavily on the performance of pension fund investments. If those investments do not perform up to expectations, shortfalls in the pension fund would have to be covered–if not by employees, then by county government.

5.3.2 *Question 2: Has the era of defined benefits run its course?*

The BOS negotiated unsuccessfully for a defined contribution plan in 2004, a type of retirement plans widely used today in private industry. The U.S. Department of Labor reported in 2004 that 21% of American workers in private industry were in defined benefit programs, while 42% participated in defined contribution plans. Legislation proposed in the California Legislature calls for all new public employees in the state to go on 401(k) type retirement savings plans by July 1, 2007.

If the county ever chooses to institute a defined contribution program, it likely would have to begin with new employees. Because it is difficult to undo a wage or benefit that has already been given, the county's defined benefits program likely would remain in place for employees hired before a contribution plan was put in place. At the same time, putting new employees on a contribution program would take away a revenue stream for benefit programs that would have to remain in place.

5.3.3 *Question 3: In planning the next round of employee wage and benefit negotiations, would the BOS benefit from advice from experts outside of county government?*

There can be a perception of conflict of interest when the BOS receives negotiating advice from people who are going to benefit from the plan ultimately adopted.

5.3.4 *Question 4: Will all of the assumptions factored into the recent pension enhancements for county employees be carefully and fully monitored? What are the alternatives if one or more of the assumptions proves to be incorrect?*

6. Findings

Under California Penal Code Sections 933 and 933.05, responses are required to all findings. The 2004-2005 Orange County Grand Jury has arrived at the following findings:

6.1 ***Yearly pension costs***: Yearly pension costs under the new formulas increased from $45 million in FY 2000-2001 to $178 million for FY 2004-2005. This is an increase of $133 million, or 296%. New projections indicate the county's unfunded liability for the pension program has risen to $2.3 billion as opposed to the previously projected $1.3 billion.

6.2 ***County's liabilities***: If the new pension projections are taken into account, county liabilities covered in this report would total approximately $4.4 billion ($2.3 billion unfunded pension, $1.3 billion unfunded health care, and $800 million bankruptcy payoff).

6.3 ***Retroactive pension enhancement***: The BOS made the latest pension enhancement retroactive, thereby applying it to all current general employees.

6.4 ***Pay enhancements***: Pensions are not based on salaries alone. Rather, they are enhanced with add-ons required under the Ventura Decision (California Supreme Court 1997), thus enlarging an employee's pay for pension purposes. However, employee contributions to the pension fund are based only on the employee's base salary.

6.5 ***PIP***: The Performance Incentive Program was designed to encourage employee productivity but morphed into a 2% bonus for a large number of county employees and now offers paid time off instead of cash.

6.6 ***Pension planning***: During 2004 labor negotiations, the BOS sought, but was unable to obtain, agreement for a shift in how county employee pensions operate.

Responses to *Findings 6.1* through *6.6* are required from the Orange County Board of Supervisors.

7. Recommendations

In accordance with California Penal Code Sections 933 and 933.05, each recommendation will be responded to by the government entity to which it is addressed. The responses are to be submitted to the Presiding Officer of the Superior Court. Based on the findings, the 2004-2005 Orange County Grand Jury makes the following recommendations:

7.1 ***Yearly pension costs***: The BOS should explain to the citizens of Orange County what the board intends to do about the increases in employee pension costs and the related unfunded pension liability. (See Findings 6.1 and 6.2.)

7.2 ***Retroactive pension enhancement***: In the future, the BOS should consider all other options before granting retroactive pension enhancements. (See Finding 6.3.)

7.3 ***Pay enhancements***: Ways should be found to narrow the gap between employee contributions to the pension fund that are tied to base salaries and final employee pay, a higher amount that is enhanced for pension purposes via the Ventura Decision. (See Finding 6.4.)

7.4 ***PIP***: The Performance Incentive Program should be reconstituted as a true incentive program with high qualifying standards, or it should be eliminated. (See Finding 6.5.)

7.5 ***Pension planning***: The BOS, in conjunction with OCERS and employee unions, should explore all possibilities for broadening the county retirement system in ways that would provide more options for employee retirement planning. The goal for all parties in this quest should be to arrive at a system beneficial to both employer and employee. (See Finding 6.6.)

Responses to *Recommendations 7.1* through *7.5* are required from the Orange County Board of Supervisors.

8. Appendix

8.1 Chart 1

2004-2005 - SOCIAL SECURITY VS. OC COUNTY BENEFITS 3% @ 50 FORMULA							
				Private Industry		OC County Employee	
Year	Wages SS Base	Age	Years of Service	SS % Rate	$ Contribution	% Rate	$ Contribution
1975	$14,100	21	1	4.95	$698	7.77	$1,096
1976	15300	22	2	4.95	757	7.77	1189
1977	16500	23	3	4.95	817	7.77	1282
1978	17700	24	4	5.05	894	7.77	1375
1979	22900	25	5	5.08	1163	7.77	1779
1980	25900	26	6	5.8	1502	7.77	2012
1981	29700	27	7	5.35	1589	7.77	2308
1982	32400	28	8	5.4	1750	7.77	2517
1983	35700	29	9	5.4	1928	7.77	2774
1984	37800	30	10	5.7	2155	7.77	2937
1985	39600	31	11	5.7	2257	7.77	3077
1986	42000	32	12	5.7	2394	7.77	3263
1987	43800	33	13	5.7	2497	7.77	3403
1988	45000	34	14	6.06	2727	7.77	3497
1989	48000	35	15	6.06	2909	7.77	3730
1990	51300	36	16	6.2	3181	7.77	3986
1991	53400	37	17	6.2	3311	7.77	4149
1992	55500	38	18	6.2	3441	7.77	4312
1993	57600	39	19	6.2	3571	7.77	4476
1994	60600	40	20	6.2	3757	7.77	4709
1995	61200	41	21	6.2	3794	7.77	4755
1996	62700	42	22	6.2	3887	7.77	4872
1997	65400	43	23	6.2	4055	7.77	5082
1998	68400	44	24	6.2	4241	7.77	5315
1999	72600	45	25	6.2	4501	7.77	5641
2000	76200	46	26	6.2	4724	7.77	5921
2001	80400	47	27	6.2	4985	7.77	6247
2002	84900	48	28	6.2	5264	7.77	6597
2003	87000	49	29	6.2	5394	7.77	6760
2004	87900	50	30	6.2	5450	7.77	6830
Totals	**$1,491,500**				**$89,592**		**$115,890**
				YEARLY PENSION @ AGE 50	**0**		**$79,110**

Data Source: Social Security Administration

Notes:

The county employee in the above example will start receiving a pension of $79,110 on the final year salary of $87,900 and in the next 16 years will collect more than $1,260,000 before the private sector employee starts receiving social security, which typically is never more than 25% of final year salary and also has maximum caps. Additional contributions of $26,298 by the county employee will be recouped in less than four months.

8.2 Chart 2

2004-2005 - SOCIAL SECURITY vs. OC COUNTY BENEFITS
2.7% @ 55 FORMULA

				Private Industry		OC County Employee	
Year	**Wages**	**Age**	**Years of Service**	**SS % Rate**	**$ Contribution**	**% Rate**	**$ Contribution**
1970	$7,800	21	1	4.6	359	4.29	$335
1971	7800	22	2	4.6	359	4.29	335
1972	9000	23	3	4.6	414	4.29	386
1973	10800	24	4	4.85	524	4.29	463
1974	13200	25	5	4.95	653	4.29	566
1975	14,100	26	6	4.95	$698	4.29	605
1976	15300	27	7	4.95	757	4.29	656
1977	16500	28	8	4.95	817	4.29	708
1978	17700	29	9	5.05	894	4.29	759
1979	22900	30	10	5.08	1163	4.29	982
1980	25900	31	11	5.8	1502	4.29	1111
1981	29700	32	12	5.35	1589	4.29	1274
1982	32400	33	13	5.4	1750	4.29	1390
1983	35700	34	14	5.4	1928	4.29	1532
1984	37800	35	15	5.7	2155	4.29	1622
1985	39600	36	16	5.7	2257	4.29	1699
1986	42000	37	17	5.7	2394	4.29	1802
1987	43800	38	18	5.7	2497	4.29	1879
1988	45000	39	19	6.06	2727	4.29	1931
1989	48000	40	20	6.06	2909	4.29	2059
1990	51300	41	21	6.2	3181	4.29	2201
1991	53400	42	22	6.2	3311	4.29	2291
1992	55500	43	23	6.2	3441	4.29	2381
1993	57600	44	24	6.2	3571	4.29	2471
1994	60600	45	25	6.2	3757	4.29	2600
1995	61200	46	26	6.2	3794	4.29	2625
1996	62700	47	27	6.2	3887	4.29	2690
1997	65400	48	28	6.2	4055	4.29	2806
1998	68400	49	29	6.2	4241	4.29	2934
1999	72600	50	30	6.2	4501	4.29	3115
2000	76200	51	31	6.2	4724	4.29	3269
2001	80400	52	32	6.2	4985	4.29	3449
2002	84900	53	33	6.2	5264	4.29	3642
2003	87000	54	34	6.2	5394	4.29	3732
2004	87900	55	35	6.2	5450	4.29	3771
TOTALS	**$1,540,100**				**$91,901**		**$66,070**
YEARLY PENSION @ AGE 55					**0**		**$83,066**

Data Source: Social Security Administration

Notes:

The county employee in this example will start receiving a pension of $83,065 on the final year salary of $87,900 and in the next 10 years will collect more than $830,000 in pension benefits before the private sector employee starts receiving social security. The latter typically is never more than 25% of final year salary and has maximum caps. The county employee contributed $25,831 less than the private sector worker.

8.3 Ventura Decision Categories

Following is a list of elements to be included in "compensation earnable" (Ventura Decision, California Supreme Court 1997).

- Base salary and wages
- Bilingual premium pay
- Educational incentive pay
- Aircraft rescue firefighting
- Paramedic pay
- Motorcycle bonus
- Emergency dispatch pay
- Field training officer bonus
- Shift differential pay
- Confined space pay
- Longevity incentive
- Uniform allowance
- Uniform maintenance allowance
- Payoffs of vacation, sick leave, and holiday
- Employee contributions to deferred compensation plan
- Overtime
- Compensatory time
- "Madera" pay
- Additional compensation for scheduled meal period

9. Bibliography

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14. Orange County Funds Document, December 12, 2004
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17. History of Actuarial Assumption Rates, January 1945-December 2003, Orange County Employees Retirement System
18. Orange County Employees Retirement System memo, "Contribution Rates for Fiscal Year 2006/2007," June 15, 2005

10. Acronyms:

BOS	Orange County Board of Supervisors
CEO	OC Chief Executive Officer
CFO	OC Chief Financial Officer
GASB	Governmental Accounting Standards Board
MOU	Memorandum of Understanding
OC	Orange County
OCEA	Orange County Employees Association
OCERS	Orange County Employee Retirement System
PIP	Performance Incentive Program
ROI	Return on Investment