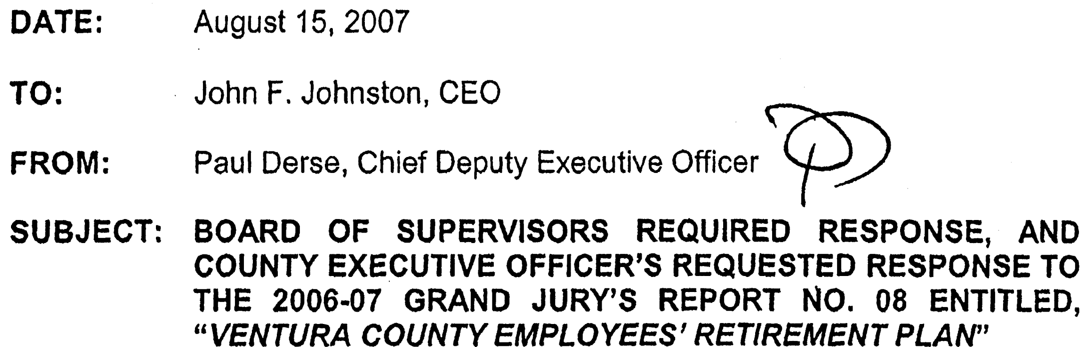
County of Ventura
COUNTY EXECUTIVE OFFICE
MEMORANDUM



DATE: August 15, 2007

TO: John F. Johnston, CEO

FROM: Paul Derse, Chief Deputy Executive Officer

SUBJECT: **BOARD OF SUPERVISORS REQUIRED RESPONSE, AND COUNTY EXECUTIVE OFFICER'S REQUESTED RESPONSE TO THE 2006-07 GRAND JURY'S REPORT NO. 08 ENTITLED, *"VENTURA COUNTY EMPLOYEES' RETIREMENT PLAN"***

The Board of Supervisors' required responses to recommendations R-02, R-04 and R-05 of the referenced Grand Jury Report, prepared on its behalf by the CEO's office, are included in the overall response provided below.

Although the Grand Jury did not *require* a response from the County Executive Officer to recommendation R-03, it did *request* one. In addition to providing the requested response from the CEO to recommendation R-03, there is a response to every finding, conclusion and recommendation contained in the Grand Jury's report. Also included is the list of references cited by the Grand Jury.

FINDINGS

The Ventura County Employee Retirement Association

F-01 The Ventura County employees' retirement plan (Plan); established by the County in 1947,is a defined benefit plan organized under the County Employees Retirement Act of 1937 ('37 Act, California Government Code §31450 et seq.). The Plan is governed by a third-party agency known as the Ventura County Employees' Retirement Association (VCERA), which serves as administrator and fiduciary for the pension plan trust fund.

Response: Concur

F-02 The Plan includes all full-time county employees, Court staff (except Judges), County Supervisors, VCERA staff, and the employees of certain Special Districts.

Response: Concur

F-03 VCERA is governed by a nine member retirement board comprised of:

- County Treasurer-Tax Collector
- One County Supervisor
- Three public members appointed by the Board of Supervisors (BOS).
- One County employee elected by safety employees (e.g., employees of the Sheriff, District Attorney, Fire Department).
- Two County employees elected by non-safety employees.
- One County retiree elected by the retirees in the Plan.

Response: Concur

F-04 Qualifications for the four elected VCERA director positions require only that they be elected by their group. No knowledge of accounting, finance, investments, or pension issues is required.

Response: Concur

F-05 Public members are recommended by the County Executive Officer (CEO) and approved by the BOS. One public member has served over 40 years in that capacity; another public member has served over ten years.

Response: Partially concur.

> The BOS appoints the public members with input and advice from the CEO.

F-06 The California Constitution (Article XVI, §17 (b)) provides that members of a retirement board of a public pension or retirement system must discharge their duties with respect to the system solely in the interests of, and for the exclusive purposes of:

- Providing benefits to participants and their beneficiaries
- Minimizing employer contributions thereto
- Defraying reasonable expenses of administering the system

Response: Concur

F-07 The decision made by the VCERA Board include assumptions of future inflation; interest rates; and asset allocation of stocks, bonds, and real estate. Additionally, the Board determines which investment advisors, actuaries, and auditors will be retained.

Response: Concur

Retirement Benefits

F-08 A defined benefit plan is a retirement plan that specifies the benefits each employee receives at retirement. In most plans, the benefit is stated as a percentage of pre-retirement compensation, which is payable for the participant's remaining life. The defined benefit plan provides a fixed predetermined benefit that has an unknown cost to the employer.

Response: Partially concur.

> Do not concur with the statement that the benefit has an unknown cost to the employer. The cost is actuarially determined and can fluctuate from year to year based upon a number of factors.

F-09 A defined contribution plan is a retirement plan in which employer contributions are allocated to the accounts of individual employees. One example is a 401(k) plan. The defined contribution plan has a predetermine cost to the employer and provides an unknown benefit to the employee, based upon the rate of return.

Response: Concur

F-10 Ventura County and the special districts involved in the Plan guarantee retirees and their beneficiaries lifetime annuities in a defined benefit plan. Payments are generally a function of:

- Years of employment with the County (plus reciprocity and buybacks)
- Age at retirement
- Final credited compensation

Ventura County also provides employees with a voluntary 401(k) plan.

Response: Concur

F-11 Final credited compensation may include salary (excluding overtime pay), shift differential, auto allowance, vacation redemption, flexible benefit credit, education incentive, and County-paid employee pension contribution.

Response: Concur

F-12 Monthly retirement benefits are calculated by a VCERA staff analyst, verified by a staff supervisor, re-verified after data entry, and subsequently sample-checked by VCERA's independent auditors.

Response: Concur

Plan Oversight

F-13 The BOS does not receive a regularly scheduled briefing on the financial condition of the plan.

Response: Do not concur.

The Board of Supervisors receives annual updates from VCERA discussing the results of VCERA operations. Included in the VCERA's presentation is a discussion of the actuarial report that has been provided to the Board of Supervisors. In addition, the Board of Supervisors receives regular status reports from the County Executive Office on the contribution rates and financial impact of the required retirement contributions.

F-14 The BOS is not responsible for the amount of required annual contribution, investment of assets, or the administration of the Plan. These decisions are the responsibility of VCERA.

Response: Partially concur.

The Board of Supervisors is not responsible for determining the amount of required annual contribution, however, the Board of Supervisors is responsible for the payment of the annual contribution.

F-15 The elected County Auditor-Controller performed the VCERA audit until 1992, when Proposition 162 gave retirement boards more autonomy. Since that date, an independent CPA firm selected by the VCERA Board has performed the audit. VCERA began using an independent CPA firm because the Auditor-

Controller is part of County government, and thus a conflict of interest could exist.

Response: Partially concur.

> Proposition 162 was not the impetus for an independent CPA to perform the VCERA audit. VCERA obtained special legislation to allow selection of an auditor other than the Auditor-Controller.

Plan Funding and Performance

F-16 Neither the BOS nor VCERA management agrees on how low the funded ration can fall before they would become concerned. The number varied from 70% to 80%.

Response: Partially concur.

> The funded ratio is just one indicator of the financial health of a defined benefit plan. Since there are a lot of factors involved in how a funded ratio is developed, it cannot be taken in isolation as indicating fiscal health. For example, a system could have a 100% funding ratio but also have significant pension obligation bonds outstanding that are not represented in the funding ratio. In addition, there are a number of actuarially valid ways to determine the plan's assets and liabilities, which all effect funded ratios. A concern over the funding ratio would occur when there was an inability to pay the actuarially required contributions.

F-17 The BOS approves current employee compensation and benefits, often without receiving a thorough written analysis of future impacts on funding the Plan.

Response: Do not concur.

> There is thorough analysis of employee compensation and benefits for the Board of Supervisors to review prior to their approving any increases. The County Executive Office provides written information on the estimated effect of salary and benefit adjustments will have on the retirement system.

F-18 Funded status (assets minus liabilities) of the plan decrease when:

- Investment earnings are less than projected.

- Salary increases are greater than expected.
- Employees retire earlier or retirees live longer than projected.

Response: Partially concur.

In general this is a correct statement. However, there are numerous factors that have an impact on funded status beyond the listed items including, but not limited to, greater than expected disability retirements and less than expected withdrawal rates.

F-19 The annual report issued by VCERA for the period ended June 30, 2006, [Ref-01] disclosed that the funded ratio (assets divided by liabilities) decreased from 123% on June 30, 2000, to 83% over the six-year period.

Response: Concur with comment

Isolating a time period of six years in a retirement plan, that has existed since 1947 and will continue into perpetuity, can be misleading. If the same analysis is done for the five years prior to June 30, 2000 there would be an increase in funded level from 79% to 123%.

F-20 This six-year reduction in funded ratio is equivalent to a decrease in funded status from a positive $368 million to a negative $482 million – an $850 million net change. Components of this change were:

- $99 million from salary and wage increases in excess of actuarial assumptions and unbudgeted headcount additions.
- $426 million from investment earnings less than the expected 8% actuarial assumption
- $325 million from demographics (disability retirements, age at retirement, employee turnover, and longevity in retirement) not in accord with actuarial assumptions

Response: Concur

F-21 An increase in the value of the Plan assets because of investment appreciation increases the funded status. At times, this has permitted an enhancement of benefits paid to retirees. Some of these enhancements include:

- $108.44 per month to all retirees, effective January 15, 1991. This enhancement is vested for all retirees.
- STAR COLA, effective October 1, 1997. Special payments for employees who retired prior to April 1981 and lost over 20% of the purchasing power

from their retirement benefit because of inflation. This benefit is non-vested and must be approved annually.

- $27.50 to all retirees, effective March 17, 2003. This amount is non-vested and can be discontinued.

Response: Do not concur.

Increase in benefits is not dependent upon funded status. In 1991, when a supplemental benefit of $108.44 was granted, the unfunded liability of the retirement fund was in excess of $150 million. The legal authority for the Board of Retirement to grant unvested supplemental benefits is based upon the accounting anomaly of undistributed earnings and is not based upon plan asset value, but rather based upon realized gain from sale of plan assets. The pressure to increase benefits increases with an increase in the value of the Plan assets. However, granting benefit increases that will be continuous during a time where increases to assets may not be continuous is a questionable practice.

F-22 Benefits paid to retirees and the number of retirees both continue to increase. For the six years ended June 30, 2006, the number of retired members collecting benefits increased from 3,520 to 4,570, while the number of active members in the Plan remained constant at 7,403.

Response: Partially concur.

It is not unusual for a system's benefits and costs to increase over time. However, the number of active members over the time period indicated actually decreased from 7424 to 7403.

F-23 For the three years ended June 30, 2006, all VCERA equity (stock) and real estate investments underperformed their benchmarks (goals).

Response: Concur

F-24 During the same three-year period, investment management fees paid by VCERA increased from $5.6 million to $7.2 million per year.

Response: Concur

F-25 The increase in costs for investment management was the result of retaining additional managers for VCERA's real estate holdings.

Response: Do not concur

The increase in management fees is primarily a result of the increase in the value of assets under management.

F-26 The Board of VCERA has discussed moving more of the equity portfolio from active to passive management, thereby reducing investment fees.

Response: Concur

F-27 The decision on changing actuarial assumptions might sometimes be driven by political considerations.

Response: Do not concur.

This is not a finding but rather a conclusion based on undetermined data. The Retirement Board's fiduciary responsibility is to the retirement trust.

F-28 VCERA determines Ventura County's contribution rates early in the calendar year. However, changes in the contribution rates do not become effective until the fiscal year beginning in the following calendar year, 12 to 18 months later.

Response: Do not concur.

VCERA's actuarial report is issued in December, *late* in the calendar year. The contribution rates established in the December report become effective in the fiscal year beginning the following July.

The Cost of the Plan

F-29 Employee contributions for the Plan are currently established at 11.50% of compensation for safety employees and 5.35% for non-safety employees.

Response: Partially concur

The member contribution rates established by the June 30, 2005 actuarial valuation are; 8.89% for Tier I general members, 5.35% for Tier II general members, and 11.50% for safety members. The member contribution rates established by the June 30, 2006 actuarial valuation are; 9.20% for Tier I general members, 5.57% for Tier II general members, 8.20% for Tier II general members who contribute for a negotiated 2% COLA, and 12.10% for safety members.

F-30 It is customary in governmental defined benefit plans for employees and the employer to share in the cost of the program.

Response: Partially concur.

It is not only customary that employers and employees share in the cost of the retirement program; the Government Code dictates cost sharing.

F-31 The BOS in various labor negotiations has agreed to pay some or all employee contributions to the Plan. This agreement is negotiated periodically for a finite period of time.

Response: Concur

F-32 In fiscal year 2004-2005, the County contributed $25.8 million on behalf of employees as the negotiated vested and non-vested "pickup" of employee contribution.

Response: Concur

F-33 In fiscal year 2005-2006, the County contributed $26.8 million on behalf of employees as the negotiated vested and non-vested "pickup" of employee contributions.

Response: Concur

F-34 During the three years ended June 30, 2003, while the Plan's funded status fell from a surplus of $368 million to a deficit of $145 million – a $513 million net change – VCERA did not require any normal (current) employer

contributions to the Plan. Ventura County made no employer contributions during this period.

Response: Partially concur

> Although the County was not required to make any employer contribution to the retirement system during that time period, there were Pension Obligation Bond debt service payments made in excess of $57.5 million. When evaluating the retirement fund and the County's obligations and payments to the fund, all factors need to be considered. The proceeds of the pension bonds were used to prepay the County's contribution for the unfunded liability. This prepayment was a significant factor in the creation of the surplus in the Plan.

F-35 During this three-year period, when the County made no employer contributions, the total required employee contributions were $70.6 million, of which the County paid $60.6 million as its negotiated "pickup" of employee contributions.

Response: Concur

F-36 The California Public Employees Retirement System (CALPERS) required no normal contributions from the City of Oxnard during approximately the same period cited in F-36. During this period, Oxnard chose to apply the money saved to a reserve for future contributions.

Response: No comment

F-37 The County annual pension expense includes the normal cost and the amortization of any deficit in funded status. VCERA informs the CEO and the BOS each year how much the County must contribute to the plan for the ensuing fiscal year.

Response: Concur

F-38 VCERA does not evaluate specific BOS actions relative to compensation and layoffs to determine if they are within the Plan's actuarial assumptions.

Response: No comment

F-39 In 2003, the VCERA Board approved a reduction in the assumed rate of return on investments from 8.25% TO 8%. This reduction was estimated to have caused in increase of 2.5% of payroll in annual normal pension costs charged to the County plus a significant increase in the funded status deficit.

Response: Concur

F-40 Deficits in the funded status are amortized as a level percentage of payrolls, payable by the County over a 15-year period. Each year, new deficits are amortized over a new 15-year period.

Response: Partially concur

> Finding assumes that each year there is a new deficit. This is not accurate as there can also be surpluses. Deficits and/or surpluses are amortized over the 15-year period.

F-41 The June 30, 2004, VCERA annual report [Ref-02] disclosed that the unfunded liability of the Plan had doubled in one year from a negative $145 million to a negative $323 million.

Response: Concur

F-42 On August 16, 2004, the VCERA Board increased the amortization period from 10 years to 15 years, which decreased the County's annual pension costs.

Response: No comment

F-43 On May 15, 2006, the VCERA Board considered an agenda item to further reduce the actuarial assumption of the rate of investment returns. The actuary suggested a range of 7.75% to 8%. By a vote of 5-4, the Board agreed to keep the rate at 8%. The cost of this actuarial change to the County would have been similar to that noted above in F-41.

Response: No comment

F-44 The Plan uses an ongoing five-year "smoothing" of the difference between actual investment results and the expected investment return.

Response: Concur

F-45 The total unrecognized investment gain as of June 30, 2006, is $174 million. As a result of smoothing, this amount will be recognized over the next five years.

Response: Partially concur

> A portion of the unrecognized investment gain will be recognized over the next four years since the first year has already been incorporated into the actuarial valuation. This investment gain is an accumulation of both investment losses and investment gain from the five-year period.

F-46 VCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of Ventura.

Response: Concur

F-47 The County borrowed $154 million in 1995 in the form of Pension Obligations Bonds (POBs). This new debt covered a deficit in the Plan's funded status.

Response: Concur

F-48 POBs had the effect of exchanging the County's obligation to VCERA for the deficit in the funded status for an increase in the County's debt load.

Response: Concur

F-49 POBs are debt instruments that the County has used to fully fund a shortfall in the Plan in a single payment. The debt is repaid with interest over a 15-year period.

Response: Do not concur

> The Pension Obligation Bonds are paid off over a 12-year period. The final payment is due November 1, 2007.

F-50 POBs will cost the County $20 million in interest and principal in 2006-2007 with a final payment of $12 million due in 2007-2008.

Response: Concur with correction.

> The payment in fiscal year 2006-07 was $24.4 million with a final payment in fiscal year 2007-08 of $12.7 million.

F-51 Ventura County has no plans at this time to use POBs for meeting its obligations to the Plan.

Response: Concur

CONCLUSIONS

C-01 The Board of Supervisors (BOS) has not been routinely briefed on the details of the Ventura County employees' retirement plan's (Plan) funded status. As a consequence, the public may be unaware that the Plan's funded ratio has fallen from 123% (a surplus) to 83% (a deficit) in a span of six years. During three of the six years, the County was not required to, and did not make, any normal employer contributions to the Plan. (F-13, F-16, F-17, F-19, F-20).

Response: Do not concur

> The Board of Supervisors has been regularly and publicly updated on the retirement plan including funded status.

C-02 The funded status of the Plan changed by $850 million in the past six years, from a surplus of $368 million to a deficit of $482 million. The deficit is largely due to lower investment returns, salary and wage increases, and demographic issues, all three of which fell outside the range of the actuarial assumptions approved by the Board of VCERA. (F-18, F-20, F-38).

Response: Partially concur

> Although the facts stated in this conclusion are correct, it is precarious to isolate a short time period and draw conclusions on a retirement plan that has been in effect since 1947 and will continue into perpetuity. If we isolate the six-year prior to 2001, the unfunded liability went from $207 million negative to a $368 million positive, a $575 million positive swing.

Actuarial assumptions are long term in nature and to compare actual result to the actuarial assumptions for a specific short time period is not of significant value.

C-03 Ventura County could have established a reserve account when no employer normal contributions were required (similar to the reserve the City of Oxnard established). Reserve funds could then have been contributed to the Plan to cover funded status deficits in later years rather than impacting current operating budgets. (F-18, F-34, F-36, F-37).

Response: Do not concur

The County has, and will continue to make, all actuarially required contributions to the retirement fund. During the time period the County was not required to make a contribution, the County was also eliminating positions and facing severe funding cuts from the state. In addition, the Board of Supervisors was being pressured by unions to increase benefits allowances with the claim that over funding in the retirement system would pay for the benefits at no cost to the County. While local cities and special districts were increasing retirement benefits, including retroactive benefits, the Board of Supervisors had the foresight to recognize that increasing benefits during the boom years would lead to additional budgetary stress when the stock market corrected itself. Therefore the Board of Supervisors held strong against unwarranted and inappropriate retirement benefit increases. Had the Board of Supervisors succumbed to the pressure to increase benefits, we estimate that the unfunded liability would now be approaching $1 billion. Cities and counties are not comparable as their operations and funding sources are not equivalent. To fully evaluate the retirement issue, an evaluation of the public policy discussion and retirement benefits granted and associated costs incurred during this time period would be required. Further, the actuarial surplus that generated the employer payment credit was, for a great part, the result of the timing impact of the issuance of POBs and market returns. Repayment of POBs and putting additional normal cost into a reserve would have impacted operating budgets immediately and needlessly during a period already hit with the state financial crisis.

C-04 The Board of VCERA has been slow in changing actuarial assumptions to reflect actual experience. Had VCERA made recommended changes in a timely manner, larger contributions to the Plan would have been required from the Ventura County budget. Instead, VCERA approved a plan in 2004 to lengthen the amortization period of funded status deficits, which helped to reduce required

annual pension contributions from the County's operating budget. (F-06, F-20, F-27, F-39 through F-45).

Response: Do not concur

The Retirement Board has been very diligent in evaluating and changing, as necessary, actuarial assumptions. Retirement trusts are long-term entities. Any change in actuarial assumption should be evaluated over a number of years and not reactive to short-term conditions. The actuarial valuation makes adjustments every year to incorporate actual experience. A key actuarial assumption, the earnings rate, is not necessarily based upon actual experience. Rather, it is based upon data the Retirement Board receives from both their investment advisors and actuary regarding prospective earnings for the fund. All of the actions taken by the Board of Retirement regarding actuarial assumptions are based upon recommendations from their actuary. Therefore, we are not sure about what recommendations the grand jury is referring to as far as timely implementation.

C-05 Investment advisor fees have increased from $5.6 million to $7.2 million per year on VCERA's actively managed portfolio. However, investment performance of this portfolio over the past three years has been less than the actuarial expected 8% return. (F-06, F-07, F-23 through F-26).

Response: Do not concur

Fundamentally, a three-year time horizon is not an appropriate benchmark for a mature pension plan. Regardless, including fiscal year 2007, the VCERA's investment return has exceeded the actuarial assumption rate in four of the last five years. In addition, these returns are net of investment management fees.

C-06 While salary increases pension plan enhancements, and negotiated "pickup" of employee contributions may have a known immediate fiscal impact, the resulting increase in future County-guaranteed pension plan obligations may pose an additional and increasing burden to the County's future budgets. (F-02, F-11, F-21, F-29 through F-33).

Response: Concur

We are well aware of this issue and have taken into account all associated costs when negotiating salary and benefits. One major reason the County

was opposed to retroactive 3% at 50 benefits was because of the burden it would have put on future County budgets. The County also opposes the concept of "air time" purchases for similar reasons. In addition, the County objected to the granting of the $27.50 supplemental benefit because it was funded out of an artificial actuarial surplus that could disappear, while the benefit, in all likelihood, would remain.

C-07 When there is a shortfall in invested plan assets (the result of a funded status deficit), there might be a corresponding shortfall in investment earnings. Delays in payments towards reducing a funded status deficit may increase the deficit by delaying additions to VCERA's investment portfolio and thus increase pension costs in future Ventura County budgets.

When there is an excess of invested Plan assets (the result of a funded status surplus), there might be a corresponding excess of investment earnings. Delays in recognizing a funded status surplus may similarly increase the surplus and thus impose unnecessary pension costs on the current Ventura County budget.

Whether there is a surplus or deficit in the funded status, any delay in correcting that condition can thus magnify it and have an adverse impact on Ventura County budgets. (F-06, F-18, F-19, F-28, F-37).

Response: Do not concur

The County has, and will continue to make, all actuarially required contributions to the retirement fund in a timely manner. Therefore, there has never been a delay in payments toward reducing the unfunded liability.

C-08 There are both positive and negative factors for employers offering defined benefit plans. The employer bears all the risk from the plan's investment decisions, but the employer can reduce retirement plan contributions if those decisions yield more investment earnings than expected. The employer also bears the risk if retired employees live longer than expected but gains if retirees do not live to their actuarially projected age. Thus, when actual experience differs from actuarial assumptions, all risks or rewards fall on the employer.

With defined contribution plans, those same factors apply to employees. Employees bear all the risks and rewards from their investment decision. Similarly, the employees bears the risk that he or she might outlive the invested funds, but his or her heirs receive any remaining funds if the employee does not

fully utilize them before death. Thus, when actual experience differs from expectations, all risks or rewards fall on the employee. (F-08, F09, F-10, F-22)

Response: Concur

> This information was publicly presented to the Board of Supervisors and the Ventura County Taxpayers Association in 2001 and 2002. The County, and therefore the taxpayers, is the risk underwriter for the County's defined benefit plan. This is the primary reason the County went to court to fight the Mathews case where retirees sued to obtain rights to VCERA undistributed earnings. It is also a primary reason for opposing unwarranted and unearned retroactive 3% at 50 benefits and air time initiatives.

C-09 Salary increases for Ventura County have been averaging more than VCERA's actuarial assumptions: $99 million during the past six years. (F-17, F-20, F-38).

Response: Do not concur

> Once again the time period in question is only a snapshot of a long-term defined benefit plan. If the prior six years are evaluated there is a $63 million actuarial gain from salary increases less than VCERA's actuarial assumptions. Over the last 13 years, which is as far back as we track, the combined shortfall from salaries in excess of actuarial assumptions is about $15 million. Compared to a $3 billion pension plan the impact is insignificant and could be made up over the next few years .

C-10 When a local government issues pension obligation bonds (<u>POBs</u>) to make payments into its pension plan; it is merely converting a pension liability into a general liability. The Plan's funded status is improved by POBs, but the government's overall liability for its pension plan remains unchanged. The use of POBs thus complicates the ability of taxpayers, government employees, and elected officials to compare the relative strengths of different pension plans and to comprehend the "real" unfunded liability. (F-47 through F-51).

Response: Concur

> This information was publicly presented to the Board of Supervisors and the Ventura County Taxpayers Association in 2001 and 2002. Numerous counties and cities succumbed to pressure to grant retroactive retirement benefit increases only to shift the cost by issuing POBs. One large

California County granted benefits that increased their pension liability by over $1 billion and, in turn, issued $500 million in POBs. Ventura County did not succumb to the pressure and fortunately learned of the pitfall in time.

RECOMMENDATIONS

R-01 The Ventura County Employees' Retirement Association (VCERA) should provide annual public reports to the Board of Supervisors (BOS) on the status of the Ventura County employees' retirement plan (Plan). Each report should include:

- Current actuarial assumptions relating to compensation increases, investment earnings, and demographics.
- Details about variances between those actuarial assumptions and the past year's actual experiences.
- Changes in assumptions recommended by VCERA's actuary, with explanations of why any of those assumptions were not adopted by the VCERA Board.
- A long-term forecast of the Plan's funded ratio.
- Fees paid to investment advisors and how those fees relate to the performance of VCERA's investment portfolio. (C-01, C-04, C-05).

Response: No comment

R-02 The BOS should establish a Pension Reserve account. When VCERA does not require employer normal contributions to the Plan, an amount at least equal to the previous year's employer normal contribution should be transferred into the Pension Reserve from the County's current operating budget. When a funded status deficit occurs in the Plan, Ventura County should make payment to the Plan for that deficit from the Pension Reserve account. (C-02, C-03)

Response: Do not concur

VCERA is a long-term defined benefit plan with an overall goal of 100% funding. The actuaries have valid ways to account for under and over funding conditions and the contribution rates reflect various smoothing methodologies. The County has, and will continue to make, all actuarially required contributions to the retirement fund. Since the inception of the plan, the only time VCERA has been over funded was for the seven years between 1996 and 2002. The over funding was due primarily to the county issuing $154.5 million in pension obligation bonds in 1995

combined with an irrationally exuberant investment market. Even though the retirement fund was over funded, the liability for the POBs remained.

Will not implement

R-03 Actions by the BOS to change employee compensation and employment levels should be monitored by the County Executive Officer (CEO) on an ongoing basis for consistency with VCERA's actuarial assumptions. When the cumulative effects of BOS actions fall outside the range of actuarial assumptions, the BOS should be notified immediately. (C-02).

Response: Do not concur

The County Executive Office has and will continue to calculate and report to the Board of Supervisors all impacts of negotiated salary and benefit increases. Salary and benefit increases are a function of meet and confer labor negotiations and are not limited by actuarial assumptions. VCERA's actuarial assumptions should not be used as a benchmark for negotiating salary and benefit increases. Actuarial valuations are and should be revised to reflect the real world conditions, not the other way around.

Will not implement

R-04 The BOS should increase the emphasis on its defined contribution plan (401(k)) in the County's retirement benefits. (C-08)

Response: Do not concur

The County has always emphasized the availability and advantages of the defined contribution plans it offers. As a result, over 70% of active employees are enrolled in a defined contribution plan. Both the 401(k) and 457 defined contribution plans are valuable benefits employees have to help supplement their retirement income. However, the County does not intend, at this time, to replace the defined benefit plan currently offered with a defined contribution plan.

Will not implement

R-05 The BOS should eliminate the "pickup" of employee contributions to the Plan when current employee agreements expire. (C-06).

Response: Do not concur

The pick-up referred to is part of negotiated labor contracts and part of the cost of total compensation. Eliminating such a benefit would require replacement with a benefit of equal or greater value or an offsetting increase in base salary. In other words, it is an element of labor cost not a cost reduction.

Will not implement

R-06 VCERA should return to the use of 10-year amortization of deficits or surpluses in the Plan's funded status, thus avoiding growing deficits or surpluses that may occur when corrective action is delayed. (C-04).

Response: Do not concur

The amortization period has been recommended by the actuary whose independent expertise is relied upon for determining actuarial assumptions applied to VCERA.

R-07 When VCERA determines changes in required contributions to the Plan, the changes should become effective in the County's next fiscal year's budget. The current extra year's delay in the funding of those changes must be eliminated. (C-07).

Response: Do not concur

This recommendation is based upon an erroneous conclusion. The County already implements the changes in actuarial required contributions in the next fiscal year's budget. There is no extra year delay.

RESPONSES

Responses Required From:

Ventura County Board of Supervisors: R-02, R-04, R-05

Ventura County Employees' Retirement Associations: R-01, R-06, R-07

Responses Requested From:

Ventura County Chief Executive Officer: R-03

REFERENCES

Ref-01 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006; Ventura County Employees' Retirement Association.

Ref-02 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004; Ventura County Employees' Retirement Association.

Ref-03 "Board OK's Pension Benefit Study", Los Angeles Times, October 4, 2006.

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