Public Employee Post –Employment Benefits Commission
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Testimony by David E. Janssen
Los Angeles County Chief Executive Officer

COUNTY OF LOS ANGELES OVERVIEW

Population of Los Angeles County is 10.4 million people.

Budget is $21.7 Billion
102,000 budgeted positions
54 Bargaining units
2 fringe tables

We are in the middle of three year labor agreements.

COUNTY RETIREMENT SYSTEMS

We have 7 pension plans although most employees are in 3 of them:
Plan D 2%61 has 50,000 members
Plan E 2%66 has 27,000 members
Safety 2%@50 has 11,500 members

10 year vesting requirement.

Pension system has $35.2 B in assets and we are 90.5% funded.
County contribution is 12.91% (down from 14.86 %last year).

RETIREE HEALTH

Actuarial Accrued Liability:

$20.3 Billion @ 5%
$12.3 Billion @7.75%

Annual Required Contribution is respectively:
$1.5Billion @ %5
$1.03Billion@ %7.75

Medical is 85% of liability; Medicare Part B is 11%: remainder is dental/vision/life insurance.

RETIREE HEALTH (CONTINUED)

Current employee distribution:

38,000 retired members
19,000 spouses and dependents.

10 years service equals 40% of bench mark plan rate. 4% per year up to 100% after 25 years of service.

HISTORY OF RETIREE HEALTH IN LOS ANGELES COUNTY

In the early 70's our retirement system pursuant to 37 ACT provisions started providing health benefits for retirees and paid for it out of the surplus earnings.

In 1982 the County negotiated an agreement, which is still in place, with the retirement system (LACERA) to take over funding of retiree health and keep the surplus earnings in the retirement system.

As part of that agreement the county agreed to provide retiree health benefits "not less than those currently provided by" LACERA. And further agreed to make the obligation a statutory requirement. Section 31692 of the Government Code (which addresses vested rights) states. In Counties with a population of 5 million or more, the adoption of an ordinance…shall remain in effect for any member heretofore or hereafter retired for as long as the Board of Supervisors…provides similar types of benefits to any active member in current county service.

The cost of health benefits for retirees has been on our radar screen for about 7 years or so but the cost of funding the retirement system has absorbed much of our discretionary revenue. In 1997 were fully paying the cost of the county obligation out of surplus earnings (created by issuing pension bonds and a strong market). It has taken 10 years to wean ourselves off the use of surplus earnings.

The cost of our pay as you go retiree health plan is $347m this year expecting to grow to $1 billion in 2017. Now at 1.79% of budget; growing to 5% in 20 years if we do nothing.

HISTORY OF RETIREE HEALTH IN LOS ANGELES COUNTY (CONTINUED)

In our last contract negotiation we were unsuccessful in negotiating a new program for paying the cost of retiree health. We did establish a task force of labor union/management to develop recommendations to mitigate the future cost of the program. We will establish a funding vehicle; negotiate the changes to benefits/contributions and the Board has approved my recommendation to move the remaining surplus earnings $400 million into the account once established.

We are working with our own actuary to develop, if reasonable, an ARC different than that included in the actuarial study; and are looking at using the $300m freed up in 2011 by paying off the pension bonds for retiree health. For all of this we were able to get S&P to increase our long term rating for the first time since 1994.

TOTAL EQUIVALENT COMPENSATION ?

I have been involved in negotiating 4 contract periods with Los Angeles County and we have historically split bargaining into separate tables; two for benefits and 54 unit tables with common language tables. The shear magnitude of the effort has required this approach. Even with this complexity bargaining is primarily driven by public safety units and our largest union (SEIU 660). Even though we do not bargain on a TEC basis we do decide before we begin any session with an estimate of what we believe we can afford first and what it takes to recruit and retain second. That approach has resulted in what we believe are good contracts and bad contracts for the unions. None of them has resulted in budget problems for the county itself. We also adopted a policy of paying all units the same general movement and making equity adjustments as needed for recruitment/retention or settlement.

In the 2000 negotiations we were faced with the demand for 3%@50 for safety and 2% @ 55 for general members. After 4 long years of negotiations we settled for a longevity formula in lieu of either enhancement of the retirement systems. Two simple reasons for this outcome: 1) we did not believe we could afford the enhancements over time 2) the Board of Supervisors held firm on what they believed was a good existing retirement system. Only once in that 12 year period did we enhance benefits for retirees and that was to increase the death benefit to $5,000.

I can’t overestimate the impact of the ratcheting effect of bargaining in a county with a large city; this was true in San Diego County as well. Cities and Counties in California have very different revenue structures and can have different good and bad periods. So often times our primary challenge is the need to stay competitive with these cities for fire fighters, deputy sheriffs, librarians etc. Los Angeles County also has the challenge of competing with the private sector for hospital staff (nurses, doctors, pharmacists etc.).

TOTAL EQUIVALENT COMPENSATION ? (CONTINUED)

Retirees generally do not have a representative at the table which probably explains the very small improvements for retirement systems since 1980. The pressure to pay competitive salaries and benefits for active employees has always taken precedence and all of the money. GASBE 43 & 45 have changed that equation. It is not that the cost of retiree health would not catch up with all of us, but it has now become the elephant at the table and the necessity to “do something” about the increasing cost will directly compete with demands of active members. Which all things considered is a good thing.

COMMENTS AND OBSERVATIONS

1. Do not recommend OPEB bonds;
   In May Stephan Gauthier was reported in the Bond Buyer as expressing concerns about OPEB bonds saying..”We’ve always thought pension obligation bonds were really tricky..This is tricky squared”.
2. Recognize that every jurisdiction is in a different factual situation.
3. Recognize that eventually negotiations of salaries and benefits will force this issue to be resolved.
4. Remember a significant challenge to negotiations is competition from other govt. agencies and the ratcheting effect it has on costs.
5. Think about requiring that all salaries and benefits for active and retired employees be negotiated at the same time.