OCERS' Response to Stanford Pension Report
March 13, 2012

Typically OCERS chooses not to respond to media reports on the pension system, preferring that our members and plan sponsors get the facts directly from OCERS' Web site and publications such as the Comprehensive Annual Financial Report (CAFR). However, in the wake of a number of calls from active members and retirees this week, OCERS has issued a response to the Stanford Institute for Economic Policy Research (SIEPR) report issued on Feb. 21, 2012 examining the Orange County Employees Retirement System (OCERS) and many of the largest independent public employee pension systems in California. One message lost in the language of the report and subsequent media coverage is that OCERS is strong and has more than $9.4 billion available to pay benefits.

Based on the composition of investments in the OCERS portfolio, OCERS currently assumes an investment rate of return of 7.75% annually, and the portfolio has in fact exceeded that assumption on average over the past 20 years with an 8.11 percent return. Meeting the 7.75 percent mark over the long-term provides employers the ability to forecast their pension costs far into the future. The question of an appropriate investment rate of return is important, and is an issue the OCERS Board of Retirement regularly considers, most recently at their public meeting of October 17, 2011. Just as a family considers its household costs and income when planning for the future, the Board of Retirement will be studying OCERS' investment rate of return in further detail as it determines ongoing benefit costs.

The Stanford Institute report seeks to opine on this topic, and advises that a public pension system such as OCERS should actually be assuming earnings of no more than 5% annually. That approach of assuming a much lower rate of investment growth in public pension investment portfolios is a major difference between the authors of the study and the trustees, investment professionals and actuaries who work together to set the discount rate used by OCERS.

Here are some important facts about OCERS to consider when thinking about the health of the retirement system:

- $1 invested in OCERS in 1985 would have grown to $8.72 by Dec. 31, 2010. That same dollar invested in a 10-Year Treasury would only be worth $5.78, and even when invested in a 30-Year Treasury would only be worth $6.82.

- OCERS' investment portfolio has grown from $3.8 billion (as of Dec. 31, 1997) to $9.4 billion (as of Jan. 31, 2012).

- OCERS is a "cash positive" system, meaning the retirement system collects more contributions every year than it pays out in benefits.

- For every dollar paid in pension benefits from 1998 – 2010 the majority came from investments:

    1. Investment earnings 53 cents
    2. Employer contributions 31 cents
    3. Member contributions 16 cents

Finally, it's important to note the very good partnership between labor and the administration here in Orange County related to funding pension benefits. The Board of Retirement has been assisted by the good efforts already being made on issues such as a "reverse pick-up" component which has members funding benefit formula changes, the creation of a DB/DC hybrid plan, and the fact that the vast majority of OCERS members pay all or almost all of their employee contributions and have a three-year measuring period used in the calculation of their retirement allowance.