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## O.C. Pension Fund Is Short \$734 Million

■ County might sell bonds to cover the gap, the result of declining stocks and beefed-up benefits. Rising retirement costs could lead to layoffs.

By Jean O. Pasco, Times Staff Writer

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Orange County government is scrambling to cover its share of a shortfall in its employee retirement system.

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The system is suffering from the same quandary confronting government pension plans throughout California — generous retirement benefits approved for public workers even as investment income began to erode.

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That has left many governments, including Orange County's, with the prospect of having to use general funds, rather than depleted reserves, to make annual pension payments that are required by law.

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Last month, the Orange County Employees Retirement System board voted for the first time in memory to reduce the assumed rate that its investments would grow in coming years, a move that followed three years of equity losses in the stock market.

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The current value of its investment fund is \$4.2 billion.

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With less assumed growth, government employers must make larger contributions to make up the difference. Orange County supervisors next week will consider approving a \$734-million bond issue to close its share of the gap.

Although the county is the largest employer in the system, other members include the Orange County Fire Authority and the Orange County Transportation Authority.

It wasn't supposed to be this way. Three years ago, the retirement fund was flush. At the end of 2000, the pension system celebrated a first — it had \$162 million more than it needed to cover all benefits earned by members.

That kind of money in the system was tantalizing. Months earlier, Gov. Gray Davis had signed a bill authorizing counties to boost pension perks for public safety workers. County managers asked the Board of Supervisors to approve the change, assuring board members that more than enough money was available to cover the \$22.5-million annual cost.

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**La Opinión**

"It was a great idea at the time," board Chairman Tom Wilson said this week. "We approved it with assurances from Human Resources that the money was available Hindsight is always 20-20."

The board voted unanimously in December 2001 to boost benefits for 2,000 sheriff's deputies and firefighters. The sweetened perk allowed them to retire with 30 years of service at age 50 with annual payments for life equaling 90% of their last year of pay.

By that time, however, the retirement system had suffered the fate of so many other stock-market investors, losing nearly \$420 million in value. But neither a financial analysis provided to supervisors nor a four-page staff report mentioned the effect of the slipping economy on the retirement system and the county's ability to cover its retirement payments.

Supervisors are now in a bind as they consider the county's 2003-04 budget. Retirement costs have climbed from \$38.3 million in 2001-02 to an estimated \$134 million for the coming fiscal year. The extra cost means possible layoffs, the elimination of programs and service cutbacks as supervisors enter a week's worth of budget hearings next month.

"On the surface, [the pension hike] sounded good, but I can see now that we didn't have the financial analysis we should have had," Wilson said. "There was no stamp of approval from our chief financial officer. From now on, I'm going to have to see the CFO sign off so we're not put in this same position."

State law requires counties to cover the cost of benefits for current employees, plus make payments toward its pension system's long-term needs. That can be done in a lump sum, through a pension bond, for example, or through payments calculated much like a 30-year mortgage.

Orange County isn't alone. The state is facing a \$3-billion shortfall just for payments required next year into the California Public Employees Retirement System. That is 10 times what state analysts estimated as a worst-case scenario when the Legislature boosted pensions for state workers in 1999.

Last month, the Orange County Grand Jury criticized the human resources department for failing to thoroughly analyze the future effect of an extra \$75 million in benefits, including the public-safety retirement, a 2% bonus program for workers and allowing employees to merge sick leave and vacation time each year.

"Salary and employee benefit increases have been generously distributed with little regard to impacts on county budgets or taxpayer interests," wrote the grand jury, which acts as a watchdog of local government. The panel suggested that the county's auditor and chief financial officer review all wage and benefit proposals before they are taken to the Board of Supervisors for approval.

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