

Contra Costa pension system earnings fall well below projections

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Contra Costa County's pension investments fared better than nearly every other California public retirement system portfolio last year, but the return rate still fell far below what is needed to pay the bills.

The \$5 billion Contra Costa County Employees Retirement Association reported Wednesday a 2.7 percent annual rate of return for 2011. That compares with 1.1 percent for the California Public Employees Retirement System and 2.3 percent for the California State Teachers Retirement System.

The gap between Contra Costa's projected earnings and market performance means its 18 member agencies will pay higher benefit bills out of their general purpose funds next year to cover the losses.

Like CalPERS, Contra Costa also assumes it will earn 7.75 percent per year on its investments despite critics' repeated objections that these portfolios will never meet the optimistic targets.

"For yet another year, the county fund has not earned its assumed rate of return, which means another hit on the county budget," said Contra Costa Supervisor and pension board trustee John Gioia. "This is a significant piece of information. There is a strong argument to be made that our assumed rate of return is too high and should be lowered."

The Contra Costa Retirement Association's annual earnings plummeted 26.5 percent into the red in 2008.

They rebounded 22 percent and 14 percent in 2009 and 2010, respectively, only to slow to 2.7 percent in 2011.

The association lowered its assumed rate of return in March 2010 from 7.8 to 7.75 percent. Its next scheduled rate review is set for early 2013, according to association director Marilyn Leedom.

Pension systems do adjust their rates from time to time, although not fast enough for pension reform advocates, who say 6 percent is a more realistic long-term estimate. The market decline prompted the California State Teachers Retirement System in early February to lower its investment return assumption rate from 7.75 to 7 percent.

Pension systems set the yearly contribution rates for their member public agencies and their workers based on the assumed rate of return as well as other factors.

The higher the returns, the lower the monthly payments charged to employees and their employers, including counties, cities and special districts.

But when the earnings fall short, the pension system accrues what is called an unfunded liability. In other words, the employees earned the benefits, but no one has yet paid for them.

Unlike ongoing annual costs, which are split between the workers and the employers at varying rates, the public agency must cover the entire unfunded liability amount with additional payments.

The association's unfunded liability was \$1.3 billion as of Dec. 31, 2010.

The Contra Costa retirement system manages benefits for nearly 19,000 workers and retirees of 18 public agencies, although the county itself comprises the bulk of the members.