CONCORD -- Following a statewide trend, the Contra Costa County Employees Retirement Association on Wednesday lowered its expectations on how much the $5 billion pension fund will earn from its holdings such as stocks, bonds and real estate.

The trustees reduced the pension fund's annual assumed rate of return by one half a percentage point from 7.75 percent to 7.25 percent.

As a result, it and Orange County now have the lowest rates in the state among the 19 counties with independent retirement systems.

CalPERS and CalSTRS, two of the state's largest pension funds, recently dropped their rates one-quarter of a percent to 7.5 percent, but a majority of Contra Costa's pension board members said that wasn't enough.

"Following CalPERS with 7.5 percent down the rabbit hole in a child's fantasy movie is not the direction we should be going," board member Deborah Allen told her colleagues. "We should start living in the real world and look at the reality of what we have before us."

Contra Costa County is the association's largest member. Others include the Contra Costa Central Sanitary District and the Contra Costa, East Contra Costa, Moraga-Orinda and San Ramon Valley fire districts.

The annual assumed rate of return is what the pension managers estimate the fund will earn from its stocks, bonds and other assets after subtracting expenses.

The lower return rate means the association's 17 employers and 8,700 employees will have to pay more toward their retirement plans each year.
In return, proponents argue, putting more cash into the pension system will stem growth in its mounting unfunded liability and shift a more equitable share of the financial burden onto employees.

The system's agencies are currently paying off a nearly $1.9 billion unfunded liability, the shortfall between the current value of the benefits workers have already earned and the retirement systems' assets.

While employers and employees split the annual contributions to the retirement system, the taxpayer-funded public agencies pay 100 percent of the shortfall.

"A half a percent drop is pretty significant and it will result in major cost increases that I don't look forward to and others don't look forward to," said board member and Contra Costa County Supervisor John Gioia. "But on balance, I'm prepared to support it."

Despite the demonstrated financial benefits, Contra Costa pension system's rate change only narrowly passed with a minimum number of votes. Labor representatives had argued against such a large drop.

Pension board chairwoman Maria Viramontes of Richmond, who is up for reappointment by the board of supervisors in June, cast the swing fifth vote. Her vote came as a surprise since she argued against the lower rate and consistently sides with labor.

Joining Viramontes and Gioia was Contra Costa Treasurer-Tax Collector Russell Watts and supervisor appointees Deborah Allen and John Phillips.

Voting no were retiree representative Sharon Naramore, public safety representative Terry Buck and elected member-at-large and deputy District Attorney Brian Nast. Labor leader and general member representative Richard Cabral abstained.

Higher contribution rates will hurt already struggling public agencies and their workers, Cabral argued.

"We should not take a penny more or less than what we need," Cabral said.

Under the pension board's usual schedule, the drop in the assumed rate of return would trigger increases in the contribution rates paid by workers and government agencies starting July 1, 2014.

However, Cabral persuaded his colleagues to consider at the pension board's March meeting a plan to spread out the contribution rate increases over three years.

Gioia said he would vigorously oppose such a move, saying it would undermine the financial gains accrued through lowering the rate of return.
The pension board estimates the lower rate will boost annual contribution rates for employers by an estimated 5.6 cents for every dollar of payroll and the workers will have to pay an additional penny.

The increase is significant.

Contra Costa County, for example, estimates it will spend $234.5 million on pension contributions this fiscal year.

If the assumed rate of return had been lowered a year ago and the contribution increase went into effect, the county would have had to pay another $13 million, a figure three times than what it estimates its entire general purpose revenues fund will grow next fiscal year.