



February 14, 2013

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The Honorable Loretta Sanchez  
1114 Longworth House Office Building  
Washington, DC 20515

Dear Representative Sanchez:

On behalf of the California State Association of Counties (CSAC), I am writing to thank you for re-introducing bipartisan legislation (HR 205) that would clarify the authority of local governments to propose and implement creative solutions to rising pension costs. HR 205 provides counties with the flexibility to negotiate local solutions to responsibly address long-term pension liabilities.

As you know, Orange County and its largest union, the Orange County Employees Association (OCEA), negotiated a new pension package in 2009 in response to mounting pension obligations. The package offered new employees the choice between a traditional defined benefit plan and a new hybrid plan that provides a lower defined benefit in conjunction with participation in a defined contribution plan, similar to that of a 401(k).

In addition, County officials wanted to give existing employees a one-time, irrevocable choice of switching to the hybrid plan. Regrettably, the Internal Revenue Service (IRS) objected, citing a 2006 ruling (Revenue Ruling 2006-43) that outlines the actions required for a local government employer to "pick up" employee pension plan contributions on a tax-deferred basis. Consequently, the loss of "picked up" status could expose *all* Orange County employees - whether or not they opted into the new plan - to federal taxes on their pension contributions.

Revenue Ruling 2006-43 is a barrier to any public agency negotiating similar contracts with its employees. HR 205 would remove this regulatory roadblock, allowing local governments and their employees to work collaboratively to propose and implement local solutions, without the threat of severe consequences.

Thank you again for your leadership on this issue. We look forward to working with you to advance this important legislation.

Sincerely,

A handwritten signature in blue ink that reads "Matt Cate".

Matt Cate  
CSAC Executive Director

cc: The Honorable Dave Camp, Chair, House Committee on Ways and Means  
The Honorable Sander Levin, Ranking Member, House Committee on Ways and Means  
The Honorable John Campbell, Member of Congress  
The Honorable Ed Royce, Member of Congress