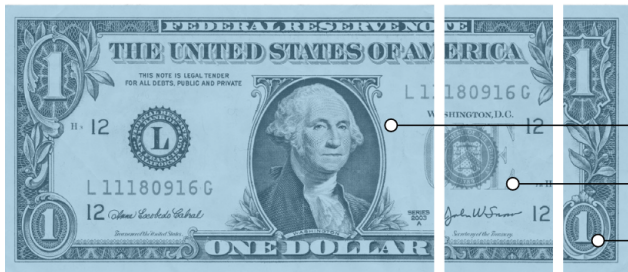


Action lacking to overhaul Calif. pension fund



Every dollar paid to CalPERS retirees comes from three sources:

- 67¢ Investment Earnings
- 21¢ CalPERS Employers
- 12¢ CalPERS Members

Source: CalPERS, Income over the last 20 years as of June 2014. Figures are updated following the close of each fiscal year.

Source: CalPERS

By Kathryn Reed

“CalPERS is about people. It is about the dedicated individuals who serve, or have served, the state of California through a career in public service. For more than eight decades, CalPERS has built retirement and health security for these public servants. As the nation’s largest public pension fund, we ensure that our members’ benefits and earned retirements are as enduring as the state they maintain.”

That is how the California Public Employees’ Retirement System describes itself on its website. If one were to take the last sentence literally, everyone in California should be worried. This is because the earnings are dismal. And this is at a time when the stock market is soaring.

The Dow Jones Industrial Average on March 1 hit a record high of 21,115.55. On May 16 it closed at 20,979.75. The S&P 500 hit its record high on May 15 at 2,402.32. The Nasdaq hit record highs on Monday and Tuesday, with the latter finishing at 6,169.87.

The S&P 500 in the last five years has increased 15 percent, while CalPERS in that same period has averaged a 6 percent gain. CalPERS reported a 0.61 percent net return on investments for the 12-month period that ended June 30, 2016. CalPERS spends millions of dollars every year on investment management fees. Someone is getting wealthy at taxpayers' expense.

Political and social issues play into what it will invest in. It divested from RJ Reynolds not for monetary reasons, but because of political pressure. And, yet, the only reason CalPERS exists is to make money.

This is a huge organization with nearly 3,000 employees.

FY 2016-17 CalPERS Total Budget (in millions)

	FY 2015-16 Approved Budget ¹	FY 2015-16 Forecast	FY 2016-17 Approved Budget	FY 2017-18 Projection	Budget to Budget	
					\$ Change increase/ (decrease)	% Change increase/ (decrease)
Administrative Operating Costs	\$444.7	\$431.1	\$455.8	\$465.3	\$11.1	2.5%
Investment Operating Costs ²	83.0	83.0	90.5	90.5	7.6	9.1%
SUBTOTAL	527.7	514.1	546.3	555.8	18.7	3.6%
Investment External Management Fees	930.7	930.7	896.7	896.7	(34.1)	(3.7%)
SUBTOTAL: OPERATING COSTS	\$1,458.4	\$1,444.8	\$1,443.0	\$1,452.5	(\$15.4)	(1.1%)
Enterprise Projects Costs	\$37.5	\$35.6	\$41.4	\$17.6	\$3.9	10.3%
Headquarters Building Costs	30.3	28.4	31.3	31.3	.9	3.1%
Third-Party Administrator Fees	281.4	278.4	272.8	272.9	(8.6)	(3.0%)
CalPERS TOTAL BUDGET	\$1,807.6	\$1,787.2	\$1,788.5	\$1,774.3	(\$19.1)	(1.1%)
TOTAL POSITIONS	2,765.0		2,872.0		107.0	3.9%

¹ FY 2015-16 Mid-Year Budget approved by CalPERS Board of Administration on December 15, 2015.

² Investment operating expenses are not part of CalPERS Administrative Operating Costs and therefore should not be included in CalPERS pro-rata assessment.

Source: CalPERS

CalPERS with its current total market value of \$321.83 billion isn't making enough money to pay all of the retirees. It has a shortfall of more than \$200 billion based on everyone in the

system retiring at their retirement age.

The deficit isn't completely the fault of poor investment choices. The agency along with state and local lawmakers share a tremendous amount of burden.

At what is now known as the apex of the funding level in 1997 CalPERS told everyone it was superfunded. This meant it had 120 percent of the money it needed to pay all the retirees/employees at that time. This was assuming nothing changed.

But things did change – some deliberate, some beyond most people's control. The deliberate actions were to reduce the minimum age at which people could retire. Payments were even made retroactively. The percentage retirees would be paid also increased. Then investments went south with the dot com collapse. Also needing to be factored in is that people are living longer today compared to when CalPERS started in the 1930s, so those guaranteed paychecks keep being written.



History of CalPERS:

- 1932 – CalPERS was established as the State Employees' Retirement System (SERS).
- 1939 – The state Legislature passed a bill that allowed counties, cities, and school

districts to participate in SERS.

- 1962 – Health insurance began for SERS members with the passage of a law that was later amended to become the Public Employees' Medical and Hospital Care Act.

- 1986 – The headquarters building now called Lincoln Plaza North was completed in Sacramento.

- 1992 – To avoid confusion with retirement systems in other states, the organization's name was changed to California Public Employees' Retirement System (CalPERS).

- 2005 – CalPERS expanded its headquarters to include the Lincoln Plaza East and West buildings, which achieved a gold LEED rating.

- 2013 – CalPERS board adopted set of Investment Beliefs to help guide investment strategy.

- 2014 – CalPERS surpassed \$300 billion in total fund market value.

- 2014 – CalPERS board adopted set of Pension Beliefs to guide pension fund practices and decisions.

Source: *CalPERS*

The above combination was a recipe for disaster. It's as though these factors have been percolating on some back burner and it's just now that the pot is boiling over to the point no one is immune from the blistering effects.

According to the California Department of Finance, in 2016 taxpayers paid \$5.4 billion for state employee pensions. CalPERS says this is 30 times more than what was paid before the pension law changes took effect in 2000.

It's not the retirees or current employees' fault this is happening. But it's also not the taxpayers' fault either, and they are the ones left footing the bill, which in turn means fewer tangible benefits – like improved roads, better facilities and lower fees.

The retirement agency likes to paint itself as this great organization. It sends out mailers to members about how everything is rosy. Those who pay into CalPERS or are drawing on their retirement all got a letter this spring saying things are just fine. What wasn't included was a copy of the letter sent to their employers with the forecast saying that their contribution is going to double in five years.

Corruption is part of CalPERS' legacy. It wasn't that many years ago that the headlines were all about the financial scandal within the organization. One-time Stateline resident Alfred Villalobos conveniently killed himself in January 2015 just weeks before his federal trial on bribery and fraud charges was to start. He had been a deputy mayor in Los Angeles, and then was a CalPERS board member from 1993-95. Villalobos reportedly earned \$50 million between 2005-09 as a middleman between CalPERS and private equity clients.

In May 2016, Federico Buenrostro Jr. was sentenced to 4½ years in prison for accepting more than \$200,000 in bribes and

trying to steer investments to help an associate. He did so while he was CEO of CalPERS from 2002-08.

CalPERS at the May 16 South Lake Tahoe City Council meeting was called "inept" by Austin Sass. And while the council as a whole is not thrilled with the bleak financial picture, only Brooke Laine said it might be time to get their butts down to Sacramento and give CalPERS an earful.

After the meeting *Lake Tahoe News* asked Sass and Wendy David: "Does the council intend to engage CalPERS in any way or any elected officials who might have some ability to address the CalPERS dilemma?" No response.

CalPERS says the responsibilities of its 13-member board "include setting employer contribution rates, determining investment asset allocations, providing actuarial valuations, and much more. However, the board does not have the authority to add, change, or delete benefits without the concurrence of the Legislature."

The South Lake Tahoe council hasn't written any letters to its state representatives or tried to engage them in any manner.

Why any member agency would enter into a contract it can't change or back out of can only be answered by those who made the decision at that time.

CalPERS for the most part is run by former government employees who collect a CalPERS check. They have zero incentive to make changes even though their member agencies could eventually go bankrupt. It's like the fox is protecting the hen house.

CalPERS issues a bill that has to be paid or else pensions are cut. It's a non-negotiable contract. CalPERS would come collecting even if it meant a lawsuit.