Making every investment dollar count
Interview with Anne Stausboll, CEO of CalPERS

The issue of pensions has become prominent in local government over the last few years. Now, with the state facing budget troubles every year, the issues of funding pension obligations and pension reform are at the top of many legislators’ agendas and the subject of media and public scrutiny.

California Special District asked Anne Stausboll, CEO of CalPERS to explain the challenges facing CalPERS and pensions now, how those challenges are being addressed and what the future of California’s pension system looks like.

What did you do before taking on your current position as Chief Executive Officer of CalPERS? How does your past job experience aid you in leading the organization?

The majority of my career has been spent at CalPERS so I believe I have an appreciation and clear understanding of the needs of our members and employers. Before I became CEO, I served as the Chief Operating Investment Officer for the pension fund helping to implement strategies for our investment portfolios and represented CalPERS on investment-related legislation at both the State and federal level. I also served as the Interim Chief Investment Officer twice. In addition to CalPERS, I had an opportunity to work for California’s State Treasurer leading a team on national corporate reform, a position that provided me insight into the important role good governance, transparency and accountability play in our financial markets and government.

What challenges has CalPERS faced in the last several years with the declining economy?

The downturn in the global financial markets had a significant impact on our fund. Our investment portfolio declined by more than $100 billion. Now we’re coming back. We’ve gained $50 billion since the recession low point and our current holdings exceed $205 billion. We are focused on repositioning our assets for long-term growth, taking advantage
of buying opportunities, restructur-
ing our investment partnerships
and continuing to advocate market
reforms. I recognize that it has also
been a difficult time for our employ-
ers as the economy and our losses
have caused pension costs to rise.
We are focused on providing relief
to our employers where we can and
looking for long-term solutions to
moderate the cost of pensions while
still providing security for public
employees. We are also working
hard to maintain affordable, quality
health care.

How has the troubled state budget affected
CalPERS?
The main impact of the budget crisis
on CalPERS is felt at the staff level.
CalPERS employees have been hard
hit, both professionally and personal-
ally. They are losing three days a
month to unpaid furloughs as a
result of the State financial crisis,
a reduction of more than 14 percent
of their pay, a percentage cut few
families can afford. This loss has
resources has a direct impact on our
ability to serve our members and
employers. While CalPERS is not a
General Fund agency and receives
continuous appropriation, we are
sustaining a loss through the fur-
loughs that does nothing to improve
the financial position of the State.

What plans does CalPERS have to help
recover the losses it suffered the last few
years?
As I pointed out earlier, we have
made great strides in recovering our
assets. Going forward, we are in a
process of constant self-examination. We are engaged in
a comprehensive review of our asset allocation to make
sure our investments are in the right places. We are also
evaluating our 7.75 percent assumed rate of return. We
want to be as thoughtful as we can possibly be when we
consider what the longer term investment environment
is going to be like and how we want to position our
portfolio. We also want to be as open and as transpar-
ent as we can, to challenge our assumptions, to listen
to contrasting views and to apply the lessons we have
learned so we can arrive at well-considered decisions.

What is the relationship between local government pension plans
and CalPERS and state government plans? In what ways are
the liabilities and obligations shared or separated?
For all employers participating in CalPERS, including
local agencies, the State and school districts, the assets are
commingled for investment purposes. In fact, CalPERS is
like a large mutual fund where each employer owns a share
of it. CalPERS administers one large risk pool for all school
districts and 10 other risk pools for small local agencies.
All local agencies with less than 100 members are required
to participate in a risk pool. Those in a risk pool, the assets
and liabilities are commingled for all employers in that risk
pool. CalPERS administers about 2,000 separate pension
plans for local agencies. About 1,500 of these plans partici-
ate in one of the 10 risk pools. The other 500 local agency
plans that do not participate in risk pools have their assets
and liabilities kept separate. For the State, CalPERS
administers five different pension plans based on the category
of employment. These five plans also have their assets and
liabilities kept separate.

Pension costs are taking up a growing share of state and local
government budgets. What options do these governments have in
addressing this issue?
Pensions are a shared responsibility. Today, 63 cents of
every pension dollar is paid through our investments,
while employers pay 22 cents on the dollar and 15 cents
is paid directly from the employees’ paycheck. Generally
speaking, employer costs rise when our investments are
down. Conversely, in good times the costs can be reduced.
There are number of options for employers to reduce
pension costs including lowering pension formulas for new hires and
requiring employees to contribute more from their paychecks. This is
occurring in many local governments across California. CalPERS role as the
administrator of retirement benefits is to be the honest broker of informa-
tion so that policymakers and local governments can make well-informed
decisions for the long term.

A Stanford study recently reported a $500 billion unfunded state pension liability.
What does CalPERS estimate its unfunded liability to be and how does it plan to ad-
dress that liability?
The study completed by graduate students at Stanford University has
conjured up a half trillion dollar liability and the falsehood that
CalPERS and other pension funds are hiding trillions of dollars of
liabilities. These conclusions are not supported by the facts. For 78
years, CalPERS has been using an accounting method that adheres to
governmental accounting standards and is consistent with actuarial best
practices. We assume an average annual investment return of 7.75 percent,
a target that has been achieved over the last 20 years despite two
crises. Today, we estimate that we are approximately 60 percent
funded to meet our retirement obligations. Our work on our asset allocation and investment return
assumptions will go far in helping
us improve our funded status for the future.

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Anne Stausboll [continued]

What roles should local government play?
Local governments must sort out the long-term level of benefits they will provide and their ability to sustain the necessary contributions. CalPERS is here to help local decision-makers understand the specifics of the pension funding equation so that they can make sound decisions that make sense for their jurisdictions and circumstances.

Governor Schwarzenegger has declared that he will not sign a budget without pension reform. What pension reforms do you believe are most necessary?
It’s important to remember that CalPERS is the administrator of retirement benefits. The decision about current and future benefits should occur between policymakers and employees and their unions at the negotiation table. Our goal is to be a broker of quality, honest information and to provide timely and accurate technical expertise.

What actions has CalPERS taken to curb “pension spiking”?
A CalPERS sponsored law, Senate Bill 53, was enacted in 1993. The law instituted tough anti-spiking measures for CalPERS-administered retirement plans and redefined and provided specifics as to what compensation could be reportable for pension purposes. We regularly conduct employer audits to review compensation reported to us that exceeds audit parameters. We also work individually with our employers to ensure they fully understand the rules around compensation and provide classes at our annual Employer Educational Forum to reinforce compliance.

CalPERS has taken a “support” position on Senate Bill 1425 (SimiH, which would prohibit local governments from hiring retired annuitants within 180 days of their employment. Why does CalPERS support this aspect of SB 1425?
Provisions of SB 1425 are aimed at preventing retiring employees from “gaming” the system by retiring one day and immediately returning as a part time employee who collects retirement benefits. It also establishes tougher anti-spiking standards for the dozens of independent city and county retirement systems in California that are not administered by CalPERS.

CSDA is supporting CalPERS sponsored legislation to regulate “placement agents,” Assembly Bill 1743 (Hernandez). What are placement agents and why is this legislation necessary?
Placement agents have functioned as middle-men in presenting investment opportunities to CalPERS and other pension funds on behalf of external managers. The Hernandez bill, sponsored by CalPERS, would require placement agents to register and be regulated by the Fair Political Practices Commission (FPPC) in the same way lobbyists are regulated. This is important because it will help ensure full transparency and accountability when it comes to our investment decisions. The bill would also curb the excessive contingency fees paid to placement agents. CalPERS Board has also taken a number of aggressive steps to implement policies and reforms around the disclosure and regulation of placement agents. And we have undertaken our own special review of the fees paid by our external managers to placement agents to ensure our members and employers were not victimized in any way.

What long-term goals do you have for CalPERS? What does the future look like?
I’m confident that it is a new day at CalPERS. We are working hard to make every investment dollar count, keep health care premiums low and minimize costs to our public employers. We are also on the verge of launching innovative programs like myCalPERS to improve the service we provide employers and members. We recently undertook a reorganization initiative to improve our customer service, ensure we have a risk-intelligent and compliance-based organization, and become more nimble in the changing environment. Our challenges are far from over, but I’m reminded that CalPERS was created in the depths of the Great Depression. We have weathered a number of challenges and have always emerged stronger. I know we will do the same again.