



California Public Employees' Retirement System
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Date: TBD

The Honorable Jerry Brown,
Governor of California
And
Honorable Members of the California Legislature

On behalf of the California Public Employees' Retirement System's (CalPERS) Board of Administration (Board), I am pleased to forward the audited Basic Financial Statements for the fiscal year ended June 30, 2012, as required by Government Code Section 20228.

The Basic Financial Statements received an unqualified opinion from the auditors. This opinion read in part:

"In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the fiduciary activities and the proprietary activities of the California Public Employees' Retirement System as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America."

The Board has again noted the lack of adequate funding of the Judges Retirement Fund (JRF), and requests your review of Note 5, JRF. Actual contributions made by the State to the JRF were significantly less than the actuarially determined annual required contribution. Because of the significance of the issue, the auditors included an explanatory paragraph in their opinion to emphasize the situation which reads:

"As discussed in Note 5 to the financial statements, actual contributions made by the State of California (State) to the Judges' Retirement Fund are made pursuant to State statute and were significantly less than the actuarially determined annual required contributions. State contributions were used to fund benefit payments of the current period. As such, the Judges' Retirement Fund does not retain the accumulated contributions of active members. Without the State contributions, the Judges Retirement Fund will not be able to pay accumulated benefit payments due in fiscal year 2013. Management and legal counsel believe the State is legally required to provide contributions to fund benefits when due."

California courts have held that members of a public pension plan have a contractual right to an actuarially-sound plan. The Board continues to be very concerned over the lack of

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adequate funding for the JRF. This inadequacy could threaten the financial security of the benefits promised under the JRF. Also, under the pay-as-you-go basis, the opportunity to significantly reduce the State's overall cost of funding the plan through investment earnings is eliminated. The Board is very interested in working with all interested parties to correct this situation.

If you or your staff have any questions or are interested in obtaining additional information on this matter, please contact Anne Stausboll, Chief Executive Officer at (916) 795-3825, or at the address noted above.

Respectfully,

Anne Stausboll
Chief Executive Officer

Enclosure

cc: Board of Administration Members
Mary Ann Burford
Robert Glazier, Deputy Executive officer
Cheryl Eason, Chief Financial Officer