



# Finance and Administration Committee Agenda Item 10a

February 14, 2017

**Item Name:** Quarterly Collections & Termination Report

**Program:** Pension Contract Management Services

**Item Type:** Information

### **Executive Summary**

This information item addresses the Board's comments received in the November 2016 Finance and Administration Committee ("FAC") asking staff to consider potential legislative changes for voluntary terminations, improve transparency of reporting of delinquent agencies, and provide an update on work done to improve notifications to members.

### **Strategic Plan**

This Agenda Item supports Goal A of the CalPERS 2012-17 Strategic Plan, which aims to improve long-term pension and health benefit sustainability. Pension and health funding are considered a strategic risk to the organization, and proper management of employer contracts and collection of payments are critical to ensuring the long-term sustainability of the system.

### **Background**

In September 2016, staff presented an information item updating the FAC on the status of three contracting agencies that were significantly delinquent in payment of obligations to the California Public Employees' Retirement System ("CalPERS" or "System"). Then, in November 2016, staff provided the FAC with an overview of the processes for collections and contract terminations. This information item provides an update on improvements to the collection and termination processes for public agencies, and a report on the status of agencies experiencing a financial hardship.

Attachment 1 highlights the improvements, which include:

- Providing preventive education to employers regarding the contract termination process, the unfunded liability responsibilities, and consequences of failure to pay amounts owed.
- Assisting employers experiencing hardship with communication to their members regarding agency status and potential impacts if an agency fails to pay its pension obligations.
- Providing quarterly updates to the Board on agencies experiencing hardships as well as agencies seeking to terminate their contracts.
- Centralized control of the contract and collection functions to improve services to employers and mitigate the risk of nonpayment.
- Enhanced cross-division coordination using a team approach in regards to contract compliance, identifying responsible parties, performing financial assessments, repayment options, and service delivery.

- Continued efforts to improve oversight and monitoring of end-to-end contract management processes.

### **Analysis**

Information included in PowerPoint update.

### **Budget and Fiscal Impacts**

This is an information item, and it does not create any budget impact at this time.

### **Benefits and Risks**

Having clearly defined and rigorous processes for collections, contract terminations, and potential reductions in retiree pension benefits provides certain benefits, including the following:

- Ensures timely resolution of routine collections issues.
- Ensures that serious collections issues receive timely attention from the proper levels of management within CalPERS.
- Strengthens overall pension funding by eliminating the unfunded liabilities of employers, who cannot or will not pay their unfunded liabilities at termination, through a corresponding reduction in benefits.

Risks include the following:

- Benefit reductions could trigger potential litigation against CalPERS.
- While employers are contractually obligated to pay their required contributions, contract terminations with a reduction in benefits exposes CalPERS to reputational risk.

### **Attachments**

Attachment 1 – Employer Partner Financial Health-Presentation

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