



Pension and Health Benefits Committee Agenda Item 7

March 14, 2017

Item Name: Federal Retirement Security Priorities

Program: Legislation

Item Type: Action

Recommendation

California Public Employees' Retirement System (CalPERS) staff recommends that the Pension and Health Benefits Committee approve the proposed 115th Congress Federal Retirement Security Priorities for the 2017-18 congressional session, as identified in this agenda item.

Executive Summary

The Trump Administration and 115th Congress have shifted the dynamics of many policy issues at the federal level. As with any new administration, CalPERS will need to proactively advocate on federal legislative and regulatory issues that impact CalPERS benefits programs and services.

Accordingly, the CalPERS Board of Administration (Board) sets the policy direction for the legislative action, including advocating for and engaging in federal retirement security policy issues of relevance to CalPERS members and the CalPERS Trust. In response, CalPERS staff and our federal representatives, The Lussier Group and Williams & Jensen, have developed a broad set of policy priorities in the 2017-18 congressional session as follows:

- Protect defined benefit plans
- Advance retirement savings and security for all employees
- Ensure appropriate plan funding and accountability
- Evaluate federal tax reform proposals

Strategic Plan

This agenda item supports Goal 1, Fund Sustainability, Objectives 3 and 4 of the 2017-22 Strategic Plan, by focusing our staff and federal representatives in national policy development to enhance the long-term sustainability of the pension fund and keep our stakeholders engaged and educated about how we balance risks and mitigations to achieve this goal.

Background

This item follows a discussion at the January Offsite between the Board, CalPERS staff, and our federal representatives, to identify potential issues of relevance with regard to CalPERS' federal legislative priorities in the 115th Congress. The Board directed staff and the federal representatives to develop a list of priorities for review and approval by the Pension and Health Benefits Committee and Investment Committee at their March meetings.

The federal retirement security priorities provide a policy framework for CalPERS to engage in federal legislative, regulatory, and policy proposals consistent with the Board's existing beliefs, principles, and policies. They are developed from the CalPERS Strategic Plan, Investment Beliefs, Pension Beliefs, and Total Fund Investment Policy, along with input from the federal representatives' knowledge of issues likely to surface in the 115th Congress. They do not bind the Board in considering or adopting a position on any specific proposal, nor do they supersede or alter any existing policies, beliefs, or principles.

Analysis

Public employee defined benefit plans have come under scrutiny for a number of years for various reasons, generally due to constrained budgetary resources. Most notably, economic turmoil stemming from the dot com bust of 2001 followed by the Great Recession in 2008-09 have resulted in heightened inquiry on the viability of public pension plans. Much of the public debate focuses on the design and financing of defined benefit pension plans. Adding to the public debate are numerous studies published by academics, public policy think tanks, and media briefs that portray currently accepted pension accounting reporting standards, and actuarial valuations as misleading and unrealistic. This information is then used to pressure lawmakers to justify a need for greater reporting transparency, and in some cases, one-size-fits-all approaches to the calculation of pension costs and liabilities. Despite almost every state in the nation enacting a pension reform measure, efforts to undermine the retirement security of public sector employees continue. Therefore, it will be important to establish and maintain relationships with key members of the Administration, Congress, and regulatory agencies to create a channel of communication and education about the CalPERS benefits and programs.

The federal retirement security priorities seek to assist CalPERS in fostering an appropriate understanding among policymakers about CalPERS' benefits and programs, allow CalPERS staff and its federal representatives to address relevant retirement security policy issues on a proactive basis, and facilitate consensus building and alignment on those issues. CalPERS staff and our federal retirement security policy representatives, The Lussier Group, and Williams & Jensen, have drafted the proposed 115th Congress, 2017-18 Federal Retirement Security Priorities for the Board's consideration in key policy areas that include:

- Protect defined benefit plans.
 - Advocate against federal incentives or options to replace defined benefit pension plans.
 - Advocate against federal intervention in state and local pension plans.
- Advance retirement savings and security for all employees.
 - Evaluate Windfall Elimination Provision and Government Pension Offset reform proposals, and where appropriate develop strategies to actively engage in efforts that alleviate negative penalty implications for CalPERS members.
 - Advocate for proposals and policies that would extend the Social Security system's long-term solvency without reducing retirement security for CalPERS members.
- Ensure appropriate plan funding and accountability.
 - Advocate for transparent financial reporting using industry-recognized accounting and actuarial standards.
 - Advocate against retirement benefit plan changes that would result in an unfunded liability without proper actuarial funding to address the liability.
- Evaluate federal tax reform proposals, and where appropriate, develop strategies to actively engage with the Administration, Congress, and regulatory agencies.

As retirement security issues move through Congress and regulatory agencies, it will be important for CalPERS to act as a technical, objective, and responsive resource in legislative and regulatory matters. Having an established set of priorities allows CalPERS to maintain relationships with, and respond to members of Congress, their staff, and regulatory representatives in a timely manner.

Budget and Fiscal Impacts

Not applicable.

Benefits and Risks

- The benefit of adopting the 115th Congress, 2017-18 Federal Retirement Security Priorities is that it reinforces the Board's commitment to taking proactive positions to educate and/or influence federal policy discussions or federal legislative proposals having a direct impact on the CalPERS retirement benefits programs.
- There are no known risks associated with enacting this recommendation.

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