

CAPITOL OFFICE  
STATE CAPITOL  
SACRAMENTO, CA 95814  
(916) 651-4037

DISTRICT OFFICE  
940 SOUTH COAST DR.  
SUITE 185  
COSTA MESA, CA 92626  
(714) 662-6050

# California State Senate



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BUDGET & FISCAL REVIEW  
GOVERNANCE & FINANCE

SENATOR

**JOHN M. W. MOORLACH**

THIRTY-SEVENTH SENATE DISTRICT

July 7, 2017

To: Richard Costigan

Chair, Finance & Administration Committee, California Public Employees Retirement System (CalPERS) Board of Directors

From: John M. W. Moorlach, California State Senator 37<sup>th</sup> District

Member, Senate Committee on Public Employment and Retirement

**Re: Inquiry for potential cost savings for local agencies regarding classic active members**

Dear Chair Costigan,

The CalPERS Board's recent and prudent actions to lower the assumed rate of return will further compound cash flow concerns for local governments. According to a January 19, 2017, CalPERS Circular Letter (CL#200-004-17), it is projected that as the phasing in of the discount rate reduction begins, local agencies will see unfunded actuarial accrued liability (UAAL) payments **increase** by as much as 30-40 percent of total payroll for both miscellaneous and public safety employees by fiscal year 2022-23. The rising costs of public employee pensions have and will continue to put a significant strain on all Californians. Accordingly, the State Legislature approved a component in Governor Brown's May Budget Revise which allocates a onetime \$6 billion supplemental payment to CalPERS through a loan from the Surplus Money Investment Fund.

This pension funding maneuver confirms that Sacramento is recognizing the rapidly growing unfunded liabilities. This is a step in the right direction. Unfortunately, the Capitol has consistently left local governments, whose budgetary constraints are significant, with limited options to address their own pension liabilities. Over the next decade local agencies will undoubtedly struggle to meet their obligations.

The Governor and State Treasurer have touted the use of the Surplus Money Investment Fund to cover the state's liabilities in an effort to save money long-term but local governments may not necessarily share this same borrowing privilege.

As such, local agencies from my District and across the state are very much engaged, trying to find unique ways to address what, for some, will be financially unsustainable times ahead as more of the limited local resources will be required to pay for these increases.

As a sitting member of the Senate Committee on Public Employment and Retirement, I'm committed to exploring best-practices to mitigate/manage the imminent cost increases and

budgetary pressures facing our local governments. You observed that from my inquiries at the Joint Informational Hearing last Wednesday morning. I would like to request your assistance.

Considering that the purpose of the Public Employees' Pension Reform Act of 2013 (PEPRA) was to modify new retirement formulas (capping benefits for public employees first hired on or after January 1, 2013 by public employers offering a defined benefit pension plan), perhaps it is time to see how these changes would impact plan sponsors if current employees in "Classic" active categories (e.g. public safety and miscellaneous) were moved from their current tiers to a PEPRA tier on a going-forward basis. Therefore, I respectfully ask that the CalPERS Finance and Administrative Committee and staff analyze the impacts of such a move. Such an action would not affect current retirees nor would it affect public employees for the time they have worked under their classic tier. An analysis should reflect the potential 'normal' cost savings, 'unfunded accrued liability' cost-savings, the impacts to the overall funded status of the system and any other relevant data sets the committee and staff feel appropriate to ensure fiscal health and long-term sustainability of the fund.

We are here to serve all Californians. It is our responsibility to explore any and all options within reason to assist our counties, cities, and school and special districts through these financially uncertain times. What's most important is that we work *together* to ensure the long term health and sustainability of CalPERS. I am hopeful that the committee and staff will provide the potential cost savings projections to my office in a timely manner.

Very truly yours,



John M. W. Moonlach

CC: Members, CalPERS Finance & Administration Committee  
Members, CalPERS Board of Directors  
Marcie Frost, Chief Executive Officer, CalPERS  
Scott Terando, Chief Actuary, CalPERS