SACRS magazine

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WINTER 2008

PENSION REFORM ROAD MAP?

THE PUBLIC EMPLOYEE POST-EMPLOYMENT BENEFITS COMMISSION

2007 FALL CONFERENCE: WHAT A DAY! THANK YOU LANCE!

LANCE ARMSTRONG AT SACRS
FALL 2007 CONFERENCE

SACRS WINTER 2008

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PENSION *reform* ROADMAP?

SHAWN TERRIS, SACRS PRESIDENT

California Governor Schwarzenegger created a bi-partisan Commission on Public Employee's Post-Employment Benefits in January 2007. This Commission was tasked with two things: (a) Identify the full amount of post-employment health care and dental benefits for which California governments are liable and which remain unfunded, and (b) Make recommendations to the Governor by January 2008 that address unfunded pensions and retiree health care obligations.

The Commission held 12 hearings in 11 different cities in California. They heard nearly 100 hours of testimony from SACRS, public pensions including CalPERS and CalSTRS, employers, labor unions, taxpayers, fiscal and actuarial experts, and national organizations. They submitted a 326-page report to the Governor on January 7, 2008, which can be found at www.pebc.ca.gov. If you are a Trustee or staff, I encourage you to read it. Some of you may consider this to be a road map for changes in the management of public pensions in California. The report also includes a history of pensions and OPEB benefits in California, how to read an actuarial valuation, and a review of OPEB funding options.

There are three things that I found noteworthy. First, all recommendations were reached unanimously by the 12 Commissioners. Second, all recommendations use the word "should" and not "shall", meaning the Commission is encouraging public pensions, plan sponsors and legislators to implement the recommendations and not mandating them. And third, on page 189 of the report it reads "The Commission strongly encourages agencies to not make changes which will have a detrimental effect on their retirees." Unfortunately, some 1937 Act plan sponsors have already made adverse changes which caused some of their retirees to come out of retirement and go back to work just so that they can pay for health care benefits.

To summarize the report, the Commissioners recommended to the Governor that public pension boards and employers strive to achieve the following goals:

- Identify and Pre-fund Financial Obligations
- Limit Contribution Volatility and Use Smoothing Methods Judiciously
- Increase Transparency and Accountability
- Improve Plan Design and Communication with Employees

- Provide an Independent Audit
- Strengthen Governance and Enhance Transparency
- Coordinate with Medicare
- Advocate Federal Tax Law Changes

The Commissioners proposed 34 recommendations in order to accomplish those goals. Each recommendation is followed by a "Rationale" section that explains the reasoning and provides examples. I want to highlight 8 of those recommendations because of their significance:

1. Pre-Funding: OPEB benefits should be pre-funded, just like pensions (Recommendation #1)
2. Asset Smoothing: Systems concerned with contribution rate volatility should consider longer asset smoothing periods (Recommendation #5)
3. Annual OPEB Report: Legislation should be enacted that directs the State Controller's office to develop a procedure to regularly collect and report OPEB data from all public agencies in California (Recommendation #9)
4. Benefit Changes: Legislation should be enacted to require that any pension and/or OPEB benefit changes (Recommendation #13):
   - Be publicly noticed and not placed on the consent calendar of a governing board's meeting
   - A presentation should be made in language understood by a layperson
   - An actuary should be available to answer the governing board's questions
   - Whoever has the responsibilities of a chief executive officer with the employer shall acknowledge in writing that s(he) understands the current and future cost of the benefit
5. Communication: Employers should provide timely notification to both active and retired employees when proposing a change in retiree health care benefits. Affected employees and retirees should have the time understand the impact of the benefit change, to review other options available to them, and to comment to the employer on the proposed changes (Recommendation #19)
6. State Actuarial Panel: Legislation should be enacted to create a California Actuarial Advisory Panel which would provide impartial and independent information on pensions, OPEBs, and best practices, and be available to provide a "second opinion" (Recommendation #22)
7. Audit Committee: Boards should establish a separate Audit Committee of trustees to oversee and participate in the opening, processing and closing of the annual audit report to the full Board (Recommendation #31)
8. Federal Tax Law Changes: The IRS should modify Revenue Ruling 81-100 to allow the commingling for investment purposes of OPEB funds with the retirement system funds; and, the IRS should interpret the law in the same manner for retiree health care benefits as it does for pensions and not tax health benefits which are collectively bargained (Recommendation #34)

It is important to note that the report also concluded that public pension systems in California, on average, are 89% funded as of 2005 and 2006, which is higher than they were in the 1990s. This fact is in dark contrast to what the media was portraying over the past few years.

The Commission presented its report to the Governor and State Legislature on January 7, 2008. The Commission's report will be presented to the California Assembly's Public Employees, Retirement and Social Security (PERSS) Committee on January 23, 2008.

So, how is your Retirement Board responding to the OPEB Commission's report? What recommendations are you going to implement, which ones are already in place, and which ones are you not going to implement and why?

PAST PRESIDENT'S MESSAGE

CASEY JONES, MARIN COUNTY

The cold and quiet days of winter have come and Mr. Frost brings shorter days, chilly nights and the promise of a new year.

There are always great expectations that come with the start of a new year. Out with the old and in with the new. 2008 is an election year that will change the future of many Americans. We will see a balance of ideas and thoughts from the best and the brightest. It is such a pleasure to watch the political debates and advertisements that permeate our airwaves. It makes me wish I owned a television so I could digest these great truths.

The United States is such a generous country; transferring the wealth of our rich nation to our global friends through the use of petro dollars. There is such a wonderful feeling to know that the security of our nation is being sold to our foreign friends so that they too can share in the American dream.

Sadly it is the end of football and betting season. Poor Las Vegas will have to rely on slots and craps to support the construction of new towering monoliths on the Strip. The good news is that baseball and spring training is just around the corner, which is always great for the fans and big Pharma.

Yes, 2008 promises to be a great year as the economy slows and the environment heals.

SACRS also issues in a new era of legislation, conferences and political events that will forge our future. I can hardly wait for the winter to be over so that we can spring forward. Always remember the words of that great athlete and football player, O.J. Simpson who said, "It's always hard to run to second base with one foot on first."

At SACRS, let's round the bases and head for home in all of our endeavors. God bless America and have a Happy New Year.

Casey Jones

Past President and a SACRS faithful

FROM THE EDITOR

SULEMA H. PETERSON, SACRS ADMINISTRATOR

SACRS Modern Investment Theory and Practice for Retirement Systems, UC Berkeley Haas School of Business

Last year SACRS ventured to create a new option for an Investment Educational Training Program in California. Simultaneously, the effort incorporated another level of involvement. Opportunity. Opportunity for new dialogue between prominent UC Professors and SACRS Members, each exchanging thought provoking ideas. The program created an opportunity to explore new innovations in retirement fund investing while addressing concerns shared amongst the 20 systems. The results of that effort one year later can now speak for themselves.

This year, our "Modern Investment Theory and Practice for Retirement Systems" program was designed around this same principle. Supporting and enhancing the role of education for our Trustees and Staff. SACRS mission began by offering Education; it's the cornerstone of our membership. By participating in this program, not only will you gain new insight & knowledge, you'll be helping to fortify the central strength of the organization – the diversity of expertise and perspective found among its members.

I hope we see you around campus in June…

Sulema

SACRS LEGISLATIVE REPORT

JIM LITES

JIM LITES, SCHOTT & LITES
SACRS LEGISLATIVE ADVOCATE

AB 246 (Torrico) 1937 Act Trustee Marketing Prohibition. This measure was signed into law on October 8, 2007 and effective January 1, 2008, prohibits a 1937 Act Trustee who is a financial services professional from marketing his or her company's products and services to the other 19 systems. The enforcement of this measure was a topic of the Administrator's Break-out at the November conference. Approaches were varied on active enforcement by a retirement system of one's own trustees and trustees of other systems who may violate the provisions of the new statute. The consensus was the bill created dilemmas for 37 Act systems since enforcement was intentionally omitted from the language and it remains unclear exactly how each 37 Act system will address implementation of the bill.

2008 SACRS-Sponsored Legislation

AB 1626 (Galgiani—D-Merced) Federal Pension Protection Act AB 1626 currently contains language that provides a safe harbor for counties to implement the federal Pension Protection Act and is in the Senate PERS Committee. We hope to amend this bill to contain the UC reciprocity proposal (see below) approved by SACRS for introduction in 2008.

At the November SACRS Conference, the body approved the introduction of five proposals.

- **UC Reciprocity**—Establish in statute reciprocity for both county and UC employees that work for a county or UC and continue their career with the other. UC does not expect to have objections to this proposal.
- **Deferred Bonus Compensation**—Like CalPERS, authorize 1937 Act systems to implement bonus compensation that is deferred and does not vest for three years. This proposal is intended to create compensation structures that allow retirement systems to compete with private sector employers but also creates an incentive to retain quality staff in retirement system employment due to the delayed timeframe for vesting of the bonus.
- **Domestic Partner Distributions**—This proposal will replace a 1937 Act code section related to distributions to survivors of domestic partners with a more recent Family Code section. The language will be prospective in order to accommodate Los Angeles, Mendocino and Ventura counties who have all adopted the existing 37 Act code section.
- **Service Purchase Distributions**—Current law authorizes Los Angeles and Santa Barbara counties to permit non-contributory plan members to purchase prior service credit and additional retirement credit. However, the law is silent as to the distribution of member contributions if the member dies or terminates while in service. This proposal creates new language that makes application of benefits more equitable for system members.
- **Omnibus Technical Proposal**—This proposal will contain several technical items submitted by various counties for statutory clean-up.

Other Retirement Legislation

The 2008 deadline to introduce legislation in February 22. At this time, the only retirement related legislation introduced for 2008 is ACR 79 (Anderson), which calls upon the UC Retirement System to divest from Iran.

Richman Initiative

The signature gathering efforts for this ballot initiative remains without meaningful funding and is not expected to be successful. This appears to be the case primarily as a result of labor approaching potential financial supporters and declaring their intent to fight the initiative with significant resources should major efforts be pursued to qualify the measure for the ballot. If sufficient signatures are not verified by the Secretary of State by January 24, 2008, the item will fail to qualify for the June 8, 2008 ballot.

OPEB Commission Update

The final OPEB Commission report was released on January 7. The report's central recommendation is for active pre-funding strategies for all public agencies. Among the recommendations is the introduction of legislation that will make fraudulent claims for retirement benefits criminal acts and require the Employment Development Department to cooperate with retirement agencies on fraudulent workers compensation claims.

RICHARD WHITE
OCERS
SACRS SECRETARY

ORANGE COUNTY HIRES A CHIEF EXECUTIVE OFFICER

The Orange County Employees Retirement System (OCERS) welcomed a new Chief Executive Officer (CEO) aboard at the beginning of January. Mr. Steve Delaney was hired by the OCERS Board of Retirement after a seven-month long nationwide search process that was conducted with the assistance of EFL Associates, a national executive search firm.

Steve comes to OCERS from the Oregon Public Employees Retirement System ($62 Billion fund with 330,000 members) where he last served as Deputy Director. He began his career at the public pension system in 1992 as a Retirement Counselor, going on to serve as Supervisor of the Employer Relations Unit (1994-1998) and Administrator of the Policy Planning and Legislative Analysis Division (1998-2004) before assuming the Deputy Director post in 2005.

At our December monthly meeting, the OCERS Board of Retirement expressed our gratitude and appreciation to Julie Wyne, OCERS General Counsel and Government Affairs Officer, for her service as the OCERS Interim CEO during the executive search process.

FIDUCIARY RESPONSIBILITY OF A PENSION FUND TRUSTEE

I read the recently distributed text of a speech by Arthur Levitt, former SEC chief and now with a private equity firm and was impressed with his perspective regarding the fiduciary role of public pension fund trustees. One thing which he said seemed to highlight one of the important roles of our SACRS association. Mr. Levitt said:

"I am concerned that trustees lack the necessary information and education to oversee their employees and advisors. It is unrealistic to expect that trustees drawn from the ranks of employees would be experts in pension finance and investing. But it is unfair to workers to put their retirements in the hands of a board that does not have the wherewithal to be true trustees. To boast the quality and competence of the board, there should be, at the very least, mandatory minimum annual educational requirements for all pension trustees."

Mr. Levitt's words resonate loud and clear as we look at the multitude of investment vehicles being offered for consideration to our respective county retirement boards, as one example. The complexities of investment choices and different approaches to institutional investing create for us a challenge to understand and then explain why we have (or don't have) various managers and strategies included in our respective asset allocations.

Mr. Levitt is certainly not a lone voice on the need for educated and informed public pension fund trustees!

The members of the Governor's Public Employee Post-Employment Benefits Commission had lengthy discussions about the fiduciary responsibilities of a pension board trustee that included the significant responsibility required of a board member and how the trustee must be educated and self-motivated to learn about their fiduciary duties.

In their recently released report, the PEPEB Commission included recommendations designed to "Strengthen Governance and Enhance Transparency" of our fund and our boards. Commission Recommendation 28 included language referencing the need for "continuous training" for board members in order for us to be effective fiduciaries.

This takes us back around to the mission of our SACRS organization—the mission to educate and inform the trustees, administrators and staff of our twenty county retirement systems on their roles and responsibilities as fiduciaries.

SACRS accomplishes this primarily through our annual conferences held once in the spring and again in the fall.

SACRS has also partnered with the faculty at the UC Berkeley Haas School of Business and developed an intensive week-long educational course dealing with the investment side of our trustee responsibilities. The Public Pension Investment Management Program will be offered again in June 2008.

Additionally, I have been working to define the various roles and responsibilities required of a public pension fund trustee. These "Core Competencies" would provide the foundation for trustees to use in deciding how best to fill the learning gap between what they know and what they need to know.

Examples of the Core Competencies needed to be an effective public pension fund trustee include the following:

- **Leadership and management**. Defined as having knowledge about leadership qualities and traits; ethics and values; effective communication; effective evaluation of staff and professionals; time management and team-building skills; goal setting.
- **Functions of a public pension system.** Defined as having knowledge in the areas of benefits administration; communication skills; knowledge of actuarial methods and principles; knowledge about institutional investment management; portfolio risks; legal issues; legislative areas; knowledge of disability retirement process and law; system operations.
- **Functions of a public pension board of retirement.** Defined as having knowledge about board governance; Robert's Rules of Order; the Brown Act; conflict of interest laws and rules; relationship with the executive staff; fiduciary roles of the trustees and governance issues.
- **Public pension fund organizations and available resources.** Defined as having knowledge about the role of SACRS and other pension fund organizations in developing effective trustees.

Certainly this list is not complete. This is where you come in!

I believe that each of us wants to be the best trustee possible in order to best fulfill our solemn fiduciary responsibility to the members and beneficiaries of our respective retirement systems. To accomplish this, it is important that we follow the recommendation of the PEPEB Commission and others to be in a continuous improvement mode.

Trustees are not required to be "experts" in every field related to the operation and administration of a retirement system, but we do need to have the expertise necessary to understand what our experts are telling us, be able to ask relevant questions of these experts and to discharge our duties with care, skill and prudence. (See Appendix 8 in the Commission report about the fiduciary responsibilities of public pension trustees). As one court put it recently, "the era of rubber stamp boards who accept proposals and recommendations without carefully evaluating and considering them is over!"

Knowing in advance what is expected of us as a public pension fund trustee with help chart a course towards maximum effectiveness. Identifying core competencies is much like drawing a blueprint or building a framework for our successful development as trustees.

I would like to hear from you! I welcome your suggestions and comments about this subject (or anything else that suits your fancy) and look forward to working with you on this important topic.

Please feel free to contact me over the telephone at (714) 538-9668 or via email at rawhite@ocsd.org.

CONCLUSION

I am looking forward to working together with all of you as we fulfill our mission at SACRS and rise to meet the opportunities presented us in the New Year. I look forward to seeing you at our Spring Conference and would like to extend my best wishes to you for a successful, safe and healthy 2008!

THE PUBLIC EMPLOYEE POST-EMPLOYMENT **BENEFITS COMMISSION**

AN INSIDER'S VIEWS ON A PROJECT TO ADDRESS THE FISCAL RESPONSIBILITIES OF POST-RETIREMENT BENEFITS

ROBERT PALMER
FORMER
SACRS PRESIDENT

So on the first day of my retirement, I was called to jury duty. On the second day, I got a call from the Governor's Office…a new project for me.

Providing retiree pension and other benefits, such as health care, has become a major concern in the private as well as the public sector of America. With people living longer, the desire to retire younger and the escalating costs of health care, the costs of retirement benefit obligations provided by the employer have escalated.

In the November 1992, the Financial Accounting Standards Board (FASB) initiated FASB 112. This statement required private sector companies to begin accounting for the employer costs of retiree health and other post-employment benefits by a pre-funded method. Prior to that date, firms were allowed to use a pay-as-you-go method. Subsequently, in 2004, the Governmental Accounting Standards Board (GASB) issued their own Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" (OPEB). Besides health, this group of post-employment benefits may also include other benefits provided to retirees such as dental, vision and life insurance. According to GASB, these retiree benefits are a form of deferred compensation, and therefore, subject to accounting rules that require benefits to be pre-funded.

In its explanation of the underlying concept in the new statement, the GASB stated they believe Other Post-Employment Benefits "are part of an exchange of salaries and benefits for employee services rendered." Further, from "an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided."

GASB believes that the reporting for the current pay-as-you-go financing practice fails to:

1) Recognize the cost of benefits in periods when the related services are received by the employer;
2) Provide information about the actuarial accrued liabilities for promised benefits associated with past services and

whether and to what extent those benefits have been funded; and

3) Provide information in assessing potential demands on employer's future cash flows.

The new standard requires public employers that provide OPEB benefits to their retirees to measure and disclose the annual OPEB costs. These disclosures are to cover the long-term obligations, i.e. the full value of pre-funding and what the Annual Required Contribution (ARC) will be. GASB does not mandate that employers fund these benefits on a pre-funding basis. But it is believed that will eventually become a requirement.

All California public agencies, which provide health care and other benefits to their retirees, are expected to calculate the costs of providing those benefits on a pre-funded basis. Public entities with an operating budget greater that $100 million were required to report their liabilities in 2007. Smaller agencies will report in 2008.

In late 2006, the financial magnitude of this new GASB Statement became of major concern to the Legislature and the Governor's Office. On December 28, 2006, Governor Arnold Schwarzenegger established, by Executive Order S-25-06, the Public Employee Post-Employment Benefits Commission to propose ways for addressing unfunded post-employment benefits. He set forth three missions for the commission to accomplish:

1) Identify the full amount of post-employment health care and dental benefits for which California governments are liable and which remain unfunded.
2) Evaluate and compare various approaches for addressing governments' unfunded retirement health care and pension obligations.
3) Propose a plan to address governments' unfunded retirement health care and pension obligations.

The Governor, the Assembly Speaker and the Senate Pro Tem made specific appointments to the commission. Altogether, 12 commissioner appointments were made. Each of the commissioners proved to be very knowledgeable of public sector fiscal and benefit programs that directly affect California public agencies. Composed of labor, management, investment and academic representatives, it turned out that each commissioner was a strong advocate for his or her position. If you attended one of the twelve hearings or logged into any of the web casts, (altogether exceeding over 100 hours) you heard this quite clearly. Yet they were able to come together and reach consensus on many recommendations that public employers, labor organizations, the state Legislature and the Governor's Office, should seriously consider.

The three missions of the commission were broader than just health care. The commission was expected to investigate retirement as well as retiree health care in California public agencies. The former, having a history of pre-funding benefits as far back as the 1930's for some systems. The latter, a major fiscal problem to covert a pay-as-you-go approach for retiree health care to a pre-funding approach.

The definition of "consensus" is "to reach general agreement". To reach consensus can be a real struggle to get diverse, opinionated individuals with their own points of view to reach "general agreement". But a consensus was what Mr. Gerald Parsky, the PEBC Commission Chair, set out to accomplish. With such a wide variety of commissioners strongly representing their specific constituencies, this was not going to be an easy task. If the final report was to be taken seriously, the commission needed to come together and act with one voice. Dissention or minority reports would not be in the best interests of any of the participants or to fairly address the issues of post-employment benefits.. Fragmentation would be seen as stonewalling or not taking the fiscal consequences of the new GASB standards seriously.

The Final Report speaks for itself…some 326 pages and can be found in its entirety at the PEBC Commission's website: www.pebc.ca.gov. The report is a treasure trove of concepts and possible approaches for dealing with defined benefit retirement programs and retiree health care.

The report represents a unanimous position by the 12 -member commission on 39 recommendations that are not only fiscally responsible but also farsighted in establishing a variety of frame works for both retirement and retiree health benefits. The commissioners were able to present their perspective views, appreciate the positions of their peers and work for consensus. There were a number if issues raised where consensus was not possible. Those were left on "the cutting room floor" for another time.

As the commission conducted twelve public hearings through out the state, various topics on retiree health care and defined retirement were presented by members of the public as well as invited speakers. Through these hearings, the commission and staff began to compile lists of issues that should be addressed.

As Chairman Parsky pointed out, a one-size-fits-all approach will not work. With over 3511 public agencies in the state, it is not realistic to expect the commission to recommend one solution or approach. The PEBC staff undertook a major project to develop case studies on the various approaches public employers were using to address health care funding for their retirees. Nineteen studies were developed from the cities, counties and special districts. Another eight case studies were written on the state's school districts. A quick read through the highlight section of each presented agency will show the variety of approaches to retiree health care found throughout the state. It really shows the resourcefulness of public agencies in dealing with a daunting task.

The Governor and Legislature should recognize Anne Sheehan, Chief Deputy Director for Policy, Department of Finance, and Executive Director for PEBC for her skill and talent in putting together a PEBC staff that was clearly up to the challenges presented. She assembled individuals with skills in project organization and operations, diverse experts in health care and pension operations, media relations, statistics, timeline management, proof reading and editing. She added actuaries and attorneys to the mix as well. Although independent thinkers, the staff realized that they must pull together if there was to be a meaningful product at the end of the process.

"Brainstorming Sessions" are defined as spontaneous group discussions to produce ideas and ways of solving problems. Seldom are such sessions really open and free from group dynamics and pressure. However, Ms. Sheehan made it happen. Ideas were presented, moved to concepts; debated and then as proposals, moved on to recommendations with detailed rationales. The commissioners were also actively involved providing initial input on various retirement and health care ideas.

To respond to the mission statements set out for the commission, the brainstorming topics focused on defined benefit pension, retiree health care funding as set forth by the Governmental Accounting Standards Board (GASB), and pondering the future of health care delivery systems.

Subject matter experts were invited to present to the commission. Other experts were requested to prepare discussion papers on the proposed topics. The PEBC staff had an opportunity to review, critique, offer other suggestions and even debate the topics. The opportunity to present a cutting-edge concept and have it fairly debated and refined does not come very often anymore. This is pretty heady stuff.

The PEBC agendas, minutes and testimony can be found for all twelve meetings on the PEBC website. Information on the various topics covered can be found at the site.

Beginning with the Commission hearings in Fresno, specific recommendations and their rational were introduced in public sessions where commissioners openly discussed the merits from their various points of view. The first concept raised was "A competitive, affordable benefits package serves the public good by enabling public employers to recruit and retain qualified public employees."

Therein, discussions at the hearing covered health care benefit eligibility and design; the relevancy of the "three-legged stool" analogy; "vesting" and health care; part-time employee access to health care; retiree access to health care risk pools and Medicare eligibility and coordination.

The following hearing in Oakland focused on the concept that "The costs of promised benefits should be fully identified, known, and paid for within the working career of those receiving the benefit. The processes for funding those benefits should be easily understood and actuarially sound."

Specific topics were presented by staff on mitigation of market volatility; federal tax issues; intergenerational cost shifting; pay-as-you-go verses pre-funding; funding mechanisms available; protecting OPEB funds and the impact of cost-containment strategies.

The commissioner's hearing in Sacramento took up the topic of "In order to build awareness, support, and trust with taxpayers, including the employees of public agencies, the process through which benefits are adopted, modified and/or paid for needs to be open, transparent, and defensible."

Topics for this hearing included developing an actuarial review panel; actuarial assumptions; the timeliness of reporting data for both public pensions and GASB 45; pension spiking; disability fraud; increasing the public's awareness of benefits; requiring actuarial review of proposed benefits; OPEB and retirement board's composition; and on-going education and operational/administrative governance.

Subsequent hearings in San Diego and Los Angeles were used to further refine and develop consensus on a series of recommendations. The final report lists 34 recommendations that were acceptable to all the commissioners. How public pensions and public agencies respond to these recommendations is still an open question.

The Final Report clearly recognizes just how well funded are the public retirement systems in California. The systems reported an overall funding ratio average of 89%. We should consider that high percentage to mean we are extremely well funded for open pension systems. The run-up of investment returns in the late '90's, the 36 month down turn in the early 2000's and again the market rise in the mid 2000's show that pre-funding through well-managed, diversified investment portfolios can meet long-term benefit goals.

The Final Report also points out that the statewide costs to pre-fund OPEB are approaching $114 billion. The move from pay-as-you-go to pre-funding will always be a costly change. From the data that was presented, it appears that the annual cost for a public agency to change from a pay/go to a pre-funding approach will be 40% or more. Where will the additional funding to cover these benefits come from? All agree that the initial costs are a significant increase. However, in the long run, with reasonable investment returns, the costs will actually be less to the employer. However, each dollar to pre-fund retiree health benefits is a dollar less for bargaining other benefits. It becomes a matter of priorities. For health care to continue for retires, the only real solutions must come through the bargaining process.

Media editorials reporting on the commission point out the most crucial recommendation made by the commission is for all public agencies to finance their health care benefits for retirees in the same manner as they do their retirement. That is, to begin to annually pre-funding the OPEB benefits. Such an approach allows for market investment returns to partially offset employer costs. During the year, the PEBC staff contacted local public agencies on their position with regard to implementation of GASB 43 & 45. Although not all of the agencies had conducted their OPEB studies at the time of the survey, none were refusing to conduct their studies or to develop a strategy to meet the retiree health care obligations.

Some are saying that the report was "tepid". If the commission had structured the report with majority and minority positions would it have been more forceful? I doubt it. The commission was a creation of both Governor and the Legislature because of their individual and joint concerns over the future costs of continuing post-employment benefits. California government was looking for recommendations and solutions. From the beginning, the Chair, Gerald Parsky, sought a buy-in from all the commissioners. Many of the commissioners were appointed on their background with major public labor organizations, others had a strong management background. A divided report would not get the careful consideration that a unanimous finding would. A bilateral report from both management and labor must be recognized as significant and responded to accordingly.

The Final Report has several major recommendations that should be implemented immediately. Will the state's budget crisis prove to be too much of a distraction for these ideas to move forward? I sure hope not…

Robert Palmer's tremendous contribution to the knowledge, understanding and administration of public pension plans in California through his sixteen years of exceptional service to SJCERA, San Joaquin County, the Statewide Association of County Retirement Systems, and the California Association of Public Retirement Systems is an enduring legacy that has enriched the lives of all who have known him as a colleague, mentor, leader, and friend. In March 2007 Bob received the Toigo Award from CALAPRS. He is only the third recipient of this distinguished award since it was established in 1992.

PRELIMINARY SCHEDULE OF **EVENTS***

TUESDAY, MAY 13	
3:00 pm–6:30 pm	Registration
3:00 pm–5:00 pm	Ethics Certification
	Board Chairperson
	Disability Retirement: Permanency
4:30 pm–5:30 pm	Select & Evaluate Technology Vendors
5:30 pm–6:30 pm	SACRS Welcome Reception

WEDNESDAY, MAY 14	
7:00 am–8:15 am	Breakfast
7:30 am–6:30 pm	Registration
8:00 am	**SACRS OFFICIAL OPENING**
8:30 am–9:30 am	General Session
9:30 am–10:30 am	General Session: Political Affairs
10:30 am–11:00 am	Networking Break
11:00 am–Noon	General Session: Investment Sovereign Wealth Funds—What it means to SACRS
Noon–1:15 pm	Lunch
1:30 pm–4:00 pm	Breakout Sessions: Administrator, Affiliate, Counsel, Investment, Ops and Benefits, Safety and Trustee
5:00 pm–6:30 pm	Nominating Committee Meeting
5:30 pm–6:30 pm	SACRS Reception

THURSDAY, MAY 15	
7:00 am–8:15 am	Breakfast
7:00 am–8:15 am	Legislative Committee Meeting
7:30 am–6:30 pm	Registration
8:15 am	**SACRS GENERAL SESSION**
8:30 am–9:30 am	General Session: Investment/Credit
9:30 am–10:30 am	General Session
10:30 am–11:00 am	Networking Break
11:00 am–Noon CONCURRENT SESSIONS	A. Gov. PEPBC Update
	B. Investment/Global Asset Allocation
Noon–1:15 pm	Lunch
1:30 pm–2:30 pm CONCURRENT SESSIONS	A. TBD
	B. Hedge Funds Class
2:30 pm–3:00 pm	Networking Break
3:00 pm–4:00 pm	Real Estate
3:00 pm–5:00 pm	SACRS Legislation 2008
4:00 pm–5:15 pm	Education Committee Feed Back Tabulating
5:30 pm–6:30 pm	SACRS Reception

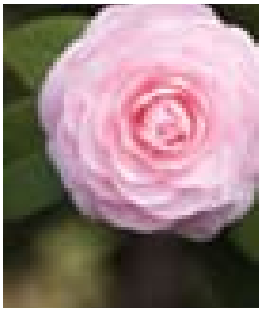
FRIDAY, MAY 16	
7:00 am–8:15 am	Breakfast
8:30 am–9:30 am	General Session: Corporate Governance
10:00 am–Adjournment	SACRS Business Meeting

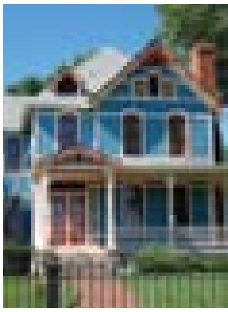
*SUBJECT TO CHANGE

SACRS SPRING CONFERENCE 2008

MAY 13–16, 2008

SHERATON GRAND HOTEL | SACRAMENTO





HOTEL INFORMATION

SHERATON GRAND HOTEL
1230 J Street
Sacramento, CA 95814
916-447-1700
Reservations: 1-800-325-3535
Rates: $189 (state and local tax not included)
Parking: Valet $21—Self $13

HYATT REGENCY SACRAMENTO AT CAPITOL PARK
1209 L Street
Sacramento, CA 95814
916-443-1234
Reservations:1-800-233-1234
Rates: $199 (State and local tax not included)
Parking: Valet $25—Self $17

UPDATES AND ANNOUNCEMENTS

SAN JOAQUIN CERA STAFF UPDATE

Gail Chun-DeDuonni joined SJCERA in September as the Assistant Retirement Administrator. Coming from the California State Teachers' Retirement System (CalSTRS), Ms. Chun-DeDuonni served the system as the Director of Disability Services and most recently as the Director of Service Retirement. She has a Bachelor of Arts in English from the University of California at Santa Barbara.

Nancy Calkins joined SJCERA in October as our Chief Investment Officer, a new position created by the Board this past year. With twenty-three years experience managing public pension assets, Ms. Calkins has managed investments for both the California Public Employees' Retirement System (CalPERS) and the Washington State Investment Board, where most recently she served as a Senior Investment Officer for Public Equity. She holds a Master of Arts in Economics from California State University, Sacramento.

Gail and Nancy bring a wealth of experience and knowledge to SJCERA. They both look forward to networking with their colleagues at SACRS member systems.

LIVE STRONG—PEDAL FAST!

"I KNOW THAT WE CAN MAKE A DIFFERENCE EVERY DAY"

SACRS would like to congratulate Lieutenant David Myers, San Diego County Sheriff's Department and SDCERA Board Member, for his courageous effort this past November! Lt. Myers biked his way from San Diego to Palm Springs as a grassroots fundraising effort for the Lance Armstrong Foundation. Great Job Dave!

IMPERIAL CERS STAFF UPDATE

After having completed a search throughout the state and beyond, the other Retirement Board members and I are delighted that the best qualified and experienced candidate, David H. Prince, has accepted our offer to assume the position of Retirement Administrator starting December 21, 2007.

Formally a part of management with our County's Sheriff Department, past ICERS Board Member and Chairman and currently serving as investment advisor for our Retirement System, David brings a wealth of previously proven knowledge and foresight that, with no doubt, will benefit our members, day to day operations and the Retirement Board. David's established rapport and reputation for ethical and responsible standards of conduct are well-known and his easy-going and approachable manner creates a very synergistic working atmosphere. In fact, he is already taking steps to facilitate the transition by familiarizing himself with his new environment and working closely with our Accounting Supervisor, Susie Martinez and Assistant Retirement Administrator, Barbara McFetridge, who both will retire after a combined 60+ years of invaluable service in January and March of 2008 respectively.

It will not take long for all CALAPRS and SACRS members as well as the investment professionals' community who are not yet familiar with David's expertise to appreciate the benefits and contributions he will provide.

I am excited to share this news with you and hope that you join me as we look forward to a new year with David at the forefront and also as we anticipate the fruition of our goals to relocate our operations center, implement a new computer system and cross train our staff for even better and more effective service to our members.

You can reach David via email at davidprince@imperialcounty.net or by phone at (760) 482-4660.

SACRS ECONOMIC IMPACT REPORT: UNDERSTANDING THE RESULTS

1/2 DAY EDUCATION TRAINING SEMINAR

DATES AND LOCATIONS:

Tuesday, March 25th, 2008

Orange CERS Board Room

2223 Wellington Avenue, Santa Ana, CA 92701

(714) 558-6200

Wednesday, March 26th 2008

Fresno CERS Board Room

1111 H Street, Fresno, CA 93721

(559) 457-0681

BOTH SESSIONS WILL BE HELD FROM:

8:30 am — 1:00 pm

TOPICS THAT WILL BE COVERED:

- What did we learn from the research and what does the report say?
- What is the context and/or purpose of the training?
- Who does your county want to reach with the information? How?
- How will your county and SACRS best explain retirement in the US, retirement for public employees and role of DB programs?
- How will your county and SACRS use the report to support those messages?
- Suggestions to assist your county and SACRS to develop proposed tactics/activities for a communication plan

REGISTRATION:

Enrollment is not madatory, but seating is limited.

Questions?
Feel free to contact SACRS at (916) 441-1850

MEET YOUR FELLOW SACRS MEMBERS

STAFF, TRUSTEES & AFFILIATES...OUR SUCCESS

KATHY FOSTER

ASSISTANT CHIEF EXECUTIVE OFFICER, BENEFITS, ACERA

Kathy was born in Martinez, California. She graduated from Alhambra High School in Martinez. As a sophomore in high school, she started working for Contra Costa County Employees' Retirement as a student worker. From a student worker, she began work in the Benefits Department as a clerk and then a Retirement Counselor. During her 18 years at CCCERA she provided member services, staff benefits administration training and conducted pre-retirement seminars. During her last years she earned an Award of Excellence for Leadership for Contra Costa County.

In 2001, Kathy was appointed as the Retirement Benefits Manager for the Alameda County Employees' Retirement Association (ACERA) and has since promoted to Assistant Chief Executive Officer over Benefits. She is responsible for managing the administration of retirement payroll, health, dental and vision plan benefits, disability benefits, and member services for over 19,000 active, deferred and retired members.

Kathy has moderated numerous Operations and Benefits Roundtables for SACRS and CALAPRS which afford her the opportunity to share her professional expertise in Benefits Administration.

She is currently Chairman of the SACRS Education Committee as well as a member of the SACRS Program Committee.

Kathy lives in Brentwood, California with her husband John, daughter Jaclyn, age 19 and son Travis, age 17. When she is not administering benefits for ACERA, she enjoys spending time with family and friends, painting, watching her daughter act in plays at the community theater, and listening to her son play the guitar.

STANISLAUS COUNTY EMPLOYEE'S RETIREMENT ASSOCIATION

WESLEY W. HALL

Mr. Wesley W. Hall was joined by family, friends and colleagues at a surprise dedication ceremony naming the Stanislaus County Employees' Retirement Association (StanCERA) Board Room in his honor on December 12, 2007. The "official" StanCERA Retirement Board resolution was read to Mr. Hall at the January 9, 2008 meeting of the Retirement Board. One framed resolution hangs in the Wesley W. Hall Board Room and one framed resolution was given to Mr. Hall at the January 22, 2008 Retirement Board meeting.

Mr. Hall is a native Californian, and served our country in the U.S. Army during World War II. After the war, Mr. Hall completed his education at College of the Pacific with a B.A. in Business Administration, graduating with Highest Honors. He married his lovely wife, Maureen, and served the citizens of Stanislaus County as the Scenic General Hospital Business Manager. Mr. and Mrs. Hall have three grown sons, nine grandchildren and six great-grandchildren.

In addition to his County service, Mr. Hall has diligently served 42 years (14 terms) on the StanCERA Retirement Board. His dedicated service began in 1965 when he was elected to the Board as a General Member Representative. Members' confidence in Mr. Hall was apparent as he was re-elected for five additional terms. Mr. Hall retired from County service in 1983. That same year, he was elected back on to the Retirement Board as the Retired Member Representative. He has continued to hold that seat for eight consecutive terms. During his tenure with the Retirement, Board Mr. Hall has served as Chairman of the Board in 1980, 1988, 1994, 2002 and 2007. He has also served on numerous Board Committees, most notably the Retiree Benefits Committee.

As the Retired Member Representative on the StanCERA Retirement Board, Mr. Hall also sits on the Board of Directors of the Retired Employees of Stanislaus County (RESCO) faithfully attending its meetings, preparing articles every quarter for the RESCO newsletter and tirelessly reporting on and answering questions about StanCERA Retirement Board business matters to RESCO members.

Mr. Hall brings to the StanCERA Retirement Board a wealth of knowledge in legislative and financial matters. His ability to flawlessly recite historical facts about StanCERA has proven to be as valuable as it is amazing. He has also selflessly devoted countless hours to Retirement Board matters including not only preparation and attendance at meetings of Committees and the full Board but in his furtherance of his education through attendance at statewide conferences and other educational venues.

Mr. Hall has been involved with the State Association of County Retirement Systems (SACRS) for over 40 years. He has served on both the Nominating and Bylaws committees of SACRS and holds the record of the most conferences attended. Mr. Hall has also regularly attended the California Retired County Employees' Association (CRCEA) statewide conferences as a delegate from RESCO.

The StanCERA Retirement Board and staff wish to extend our appreciation and gratitude to Mr. Hall for his dedication, commitment, knowledge, faithfulness and integrity in serving StanCERA members for over four decades. We look forward to his continued involvement and being a major factor in StanCERA's success past, present and future.

LAWRENCE REMSTEDT

AMERICAN CENTURY INVESTMENTS

I was honored when asked to participate in the affiliate highlight. While I was attending the Palm Springs conference, I caught up with one of our plan sponsor colleagues, and we realized that we have known each other for almost 20 years! Indeed, we belong to a community in which many of us have relationships that extend much longer than my mere 20 years. I joined the industry right after the '87 market crash, with Wilshire Associates, and that is when my education began.

While completing my MBA in Europe, I did extensive research on the Dutch and Swiss pension plans and I eventually worked in Europe covering the Northern European plan sponsors. I have been attending SACRS conferences since 1996, when I returned to California, and for the past five years, I have been with American Century Investments, responsible for our institutional relationships in California. I am a fifth generation Californian, and I am an avid outdoorsman, known to take my kids camping in the dead of winter. We ski, swim, bike, backpack…and we never tire of this amazing landscape.

We are in a community that has a far reaching social and economic impact, and I have always been proud to be a part of this industry. In November, I had the opportunity to introduce Lance Armstrong to SACRS. Lance is certainly inspiring, but everyone involved with SACRS is inspiring in their own way, dedicated to improving the social welfare of individuals.

As Robert Harkins, Affiliate Committee Chair, noted in his last article, we are in an interesting market environment in which we are truly feeling the effects of globalization. Rob briefly touched on China and India, which is a main topic for all of us involved in the markets. One thing that I love about my job is that the markets are always dynamic. While we are concerned about how and where we are going to get a return on our investment, I find that I am generally an optimist who believes that globalization will continue to fuel opportunities for investors. I can see parallels today that remind me of Japan when I first joined the industry, so I thought that I would put forward a few thoughts on Japan today that have been raised by our international team, which includes Mark On, our International Chief Investment Officer who lived in Asia for the past 8 years.

Today, we can see a bubble raising in the East, and like Japan in the mid '80s, and the tech sector in the mid '90's, we don't have a clear sign of when the expansion will turn to a correction. Though…the mortgage crisis, like the S&L crisis before it, may speed things up, and we may be in that correction as I type! The Sovereign Wealth funds of Asia and the Middle East are investing in infrastructure, land, and new ventures, capitalizing on the economic gains and sustaining growth. One thing is certain: the world has changed over the last 20 years. When analyzing Japan, the domestic economy is fraught with structural problems in the banking and service sectors, and an aging demographic. Yet, the Japanese exporters have been a force, and both American and European companies have studied their strategy to learn how to compete better in this global market.

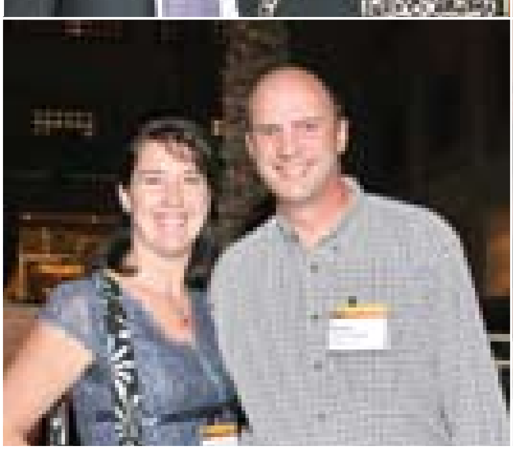
Japanese manufacturers are reaping increasing benefits from globalization, especially the rapidly growing intra-regional trade in Asia. And Japanese manufacturers' overseas production has been growing faster than its domestic production. Emerging economies' capital spending has become the main source of Japan's export growth. So they are less reliant on the US. Japanese corporations have been outsourcing for years to China, India, Malaysia, and Thailand, and corporations have set up production facilities in these emerging economies because of the cost benefit of manufacturing in markets where labor costs are cheaper.

The export-driven model has succeeded in Japan for 50 years. Japanese companies have had the ability to develop a longer-term perspective, have had a greater tolerance for losing money, and have had the luxury of being able to spend years developing cutting-edge technology and products. In the process, they learned the importance of creating original products, and Japanese manufacturers' research and development outlays expanded 140% between 1987 and 2003, compared with 50% for the US. This commitment by Japanese manufacturers to strategic R&D investment has contributed to their recent success. We believe that while Japan has adapted quite well to increasing competition from its new rivals, it will face an ongoing challenge to maintain its position as a leading exporter in global markets. In the meantime, however, we maintain significant exposure to the Japanese exporters who exhibit the kind of growth characteristics that we find rewarding.

From an investment perspective, the increased competition, new wealth, new capital, and new markets, will create opportunities for investment return. Of course, behavioral biases will lead to predictable irrational mistakes, and we will see market momentum and valuation corrections, and we will always be plagued with end-point sensitively when we analyze our liabilities or investment manager returns. Organizations with a global perspective of risk and return will be able to capitalize on a continued expansion with new sophisticated global strategies that include: long/short, opportunistic situations, private equity and venture capital, real assets, and traditional research driven portfolios that can identify the "best of class."

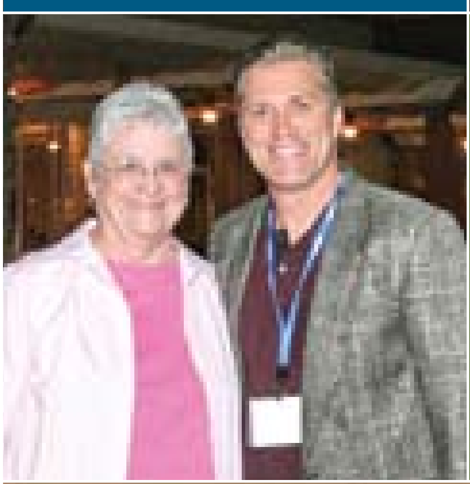
Although I don't think that my comments here are new to anyone at SACRS, I hope that they have prompted some new thoughts to fuel the intellectual discussions that make our industry challenging, interesting…and, dare I say it…fun. I look forward to visiting Sacramento in May. Best wishes in this New Year.

FALL 2007 CONFERENCE PHOTOS
RENAISSANCE ESMERALDA • INDIAN WELLS





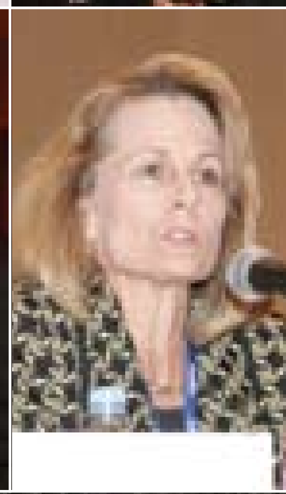




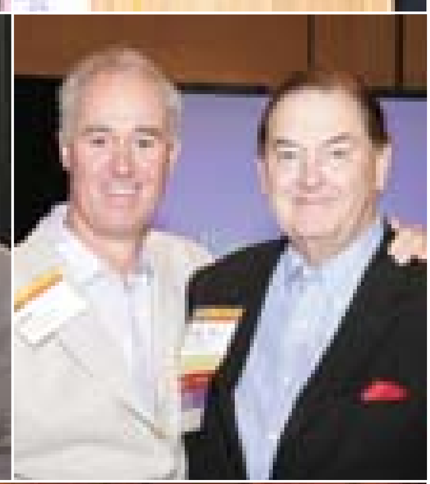


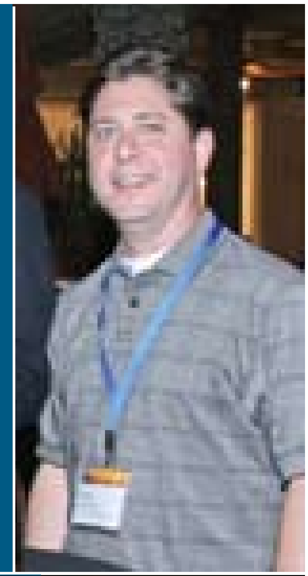


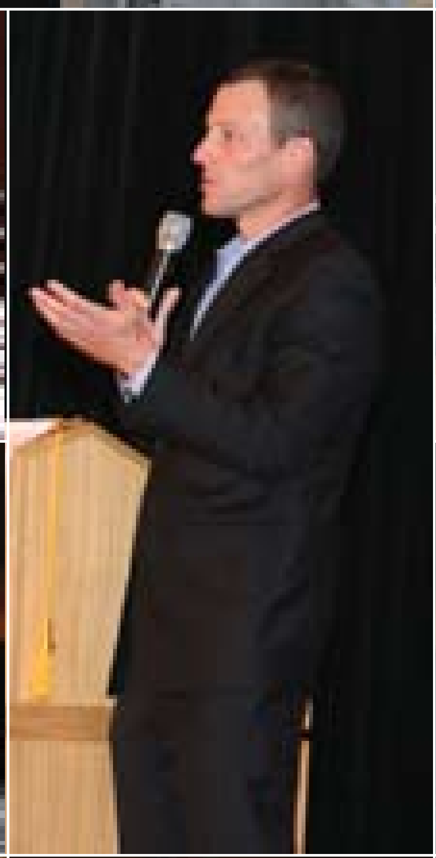


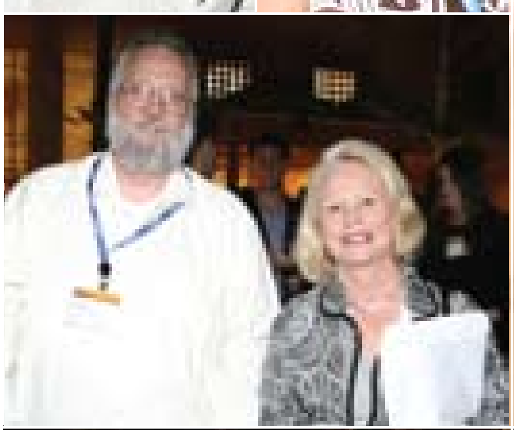


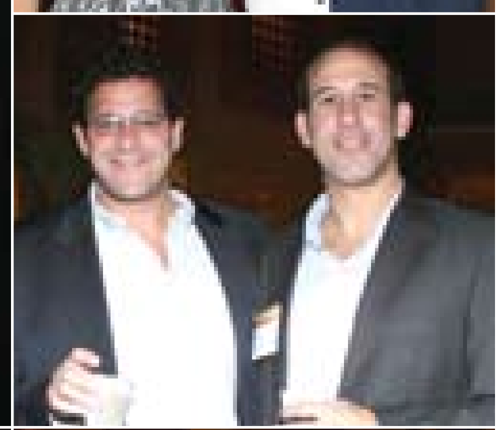


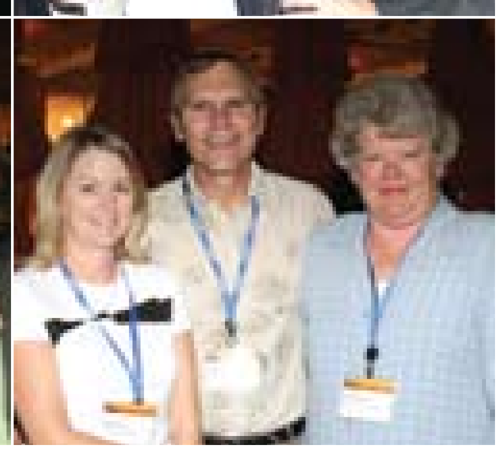












MODERN INVESTMENT THEORY AND PRACTICE FOR RETIREMENT SYSTEMS

SACRS PUBLIC PENSION INVESTMENT MANAGEMENT PROGRAM 2008

JUNE 16–18, 2008 | REGISTER ONLINE

UC BERKELEY, HAAS SCHOOL OF BUSINESS

CLAREMONT RESORT AND SPA | BERKELEY, CALIFORNIA

Class size is limited to one session. For more information contact SACRS at 916-441-1850 or sulema@sacrs.org.

MONDAY, JUNE 16, 2008	
8:30–8:45 am	**OPENING REMARKS**
8:45–10:00 am	**PRINCIPLES OF INSTITUTIONAL INVESTING**
10:00–10:30 am	**BREAK**
10:30–12:00 pm	**RETURN, RISK AND DIVERSIFICATION**
Noon–1:30 pm	**LUNCH**
1:30–3:00 pm	**INVESTMENT POLICY—THE DRIVING FACTORS**
3:00–3:30 pm	**BREAK**
3:30–5:00 pm	**THE TOTAL INVESTMENT PORTFOLIO**

TUESDAY, JUNE 17, 2008	
8:30–10:00 am	**ACTIVE AND PASSIVE MANAGEMENT, DERIVATIVES**
10:00–10:30 am	**BREAK**
10:30–12:00 pm	**BUILDING THE INVESTMENT PORTFOLIO**
Noon–1:30 pm	**LUNCH**
1:30–3:00 pm	**MEASURING AND ASSESSING INVESTMENT PERFORMANCE**
3:00–3:30 pm	**BREAK**
3:30–5:00 pm	**INNOVATION AND RETIREMENT FUND INVESTING**

WEDNESDAY, JUNE 18, 2008	
8:30–10:00 am	**ALTERNATIVE INVESTMENTS: ACADEMIC POINT OF VIEW**
10:00–10:30 am	**BREAK**
10:30–12:00 pm	**ALTERNATIVE INVESTMENTS: INVESTMENT POINT OF VIEW**
Noon–1:30 pm	**LUNCH**
1:30–3:00 pm	**BEHAVIORAL FINANCE: IMPLICATIONS FOR TRUSTEES**
3:00–3:30 pm	**BREAK**
3:30–5:00 pm	**SOCIAL AND ETHICAL INVESTMENT ISSUES**
5:00 pm	**CERTIFICATE OF COMPLETION WILL BE DISTRIBUTED UPON COMMENCEMENT OF CLASS**

BERKELEY EXEC DEV

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State Association of County Retirement Systems
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SACRS CONFERENCE SCHEDULE 2008–2012

SPRING 2008
May 13-16
Sheraton Grand Hotel
Sacramento, CA

FALL 2008
November 11-14
The Westin
South Coast Plaza
Costa Mesa, CA

SPRING 2009
May 12-15
Hyatt Regency
Embarcadero Center
San Francisco, CA

FALL 2009
November 10-13
The Westin
South Coast Plaza
Costa Mesa, CA

SPRING 2010
May 10-14
Marriott Newport Beach
Hotel & Spa
Newport Beach, CA

FALL 2010
November 9-12
Sheraton Universal
Universal City, CA

SPRING 2011
May 10-13
Fess Parker's
Doubletree Resort
Santa Barbara, CA

FALL 2011
November 8-11
The Westin
South Coast Plaza
Costa Mesa, CA

SPRING 2012
May 7-11
TBD

FALL 2012
November 12-16
TBD

JOIN US AT OUR SPRING CONFERENCE

MAY 13—16 | SHERATON GRAND HOTEL | SACRAMENTO

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