Here are the news clips for RPEA

MEMORANDUM
May 15, 2019

TO: RPEA

FROM: Marketplace Communications

RE: Daily Media Clips

Following are today's news clips:

DATE	PUBLICATION	TITLE & LINK	AUTHOR
05.15.2019	Chief Investment Officer	**After a Two-Year Search, CalPERS Finally Hires Private Equity Head** https://www.ai-cio.com/news/two-year-search-calpers-finally-hires-private-equity-head/	Chris Butera
05.15.2019	The Sacramento Bee	**CalPERS projecting health insurance increases. One plan could rise 24 percent** https://www.sacbee.com/news/politics-government/the-state-worker/article230409809.html	Wes Venteicher
05.14.2019	Calpensions	**Governor boosts school pension cost relief plan** https://calpensions.com/2019/05/13/governor-boosts-school-pension-cost-relief-plan/	Ed Mendel
05.10.2019	The Heartland Institute	**California Supreme Court Upholds Pension Reforms, But Problems Remain** https://www.heartland.org/news-opinion/news/california-supreme-court-upholds-pension-reforms-but-problems-remain	Joe Barnett

After a Two-Year Search, CalPERS Finally Hires Private Equity Head

Greg Ruiz, who has family ties to the fund, will take over from interim Sarah Corr.

The California Public Employee Retirement System (CalPERS) concluded a two-year search at its Monday board meeting when Chief Investment Officer Ben Meng announced it had hired Greg Ruiz to lead the $360 billion pension organization's private equity division.

Ruiz, a private equity lifer, previously worked at Palo Alto-based Altamont Capital Partners. He started at Goldman Sachs, later moving to FFL Partners. He is a principal at Altamont, specializing in consumer, business services, and tech investments.

Ruiz's hiring is to replace Real Desrochers, who left the fund in 2017 to join Chinese bank CITIC. Sarah Corr had been filling the role in the interim since Desrochers' departure.

Ruiz joins as CIO Meng is looking to accelerate the fund's direct investment strategy for its private equity business. The pension plan wants to bring more staff in-house and harness more assets while cutting back on manager fees (it paid more than $700 million in fiscal 2018). At its March board meeting, the fund approved plans to create two private equity organizations, Innovation and Horizon, in which it would invest up to $20 billion.

Private equity is the fund's best-performing portfolio, having returned 10.5% annually over the past 20 years. It currently makes up 7.6% of the fund's assets, but Meng wants more, especially since it has shrunk from 2013, when the PE portfolio was about 12% of CalPERS's assets.

Meng said Ruiz has a "keen understanding" of what successful private equity demands are. But there's another affinity he has with CalPERS, other than his investment background.

He has family in the pension system.

At the plan's Monday investment meeting, Meng said this fun fact further incentivizes Ruiz as "his commitment to our mission is already very strong."

Meng added that coming to CalPERS is "just like coming home" for Ruiz, who the CIO said grew up "just down the street" in Davis.

Meng also praised Corr for her work as interim head.

"Her leadership and skills have been essential to the success [of the] asset class and I cannot thank her [enough] for all she has done," he said.

Ruiz will start sometime in the summer. He was unable to be reached for comment.

CalPERS projecting health insurance increases. One plan could rise 24 percent

BY WES VENTEICHER
MAY 15, 2019 12:01 AM

CalPERS, California Public Employees Retirement System, aims to build retirement and health security for state workers. Here's a quick look at the retirement system. BY DAVID CARACCIO

The premiums state workers and retired public employees pay for CalPERS health insurance are projected to go up 7.2 percent on average next year, with premiums for specific plans increasing as much as 24 percent, according to preliminary estimates published Tuesday.

The estimated increases, presented at a CalPERS board meeting, were the first public glimpse of the 2020 premiums, which take effect Jan. 1. The board approves final 2020 rates in June.

"This is the first time the health plans see each others' rates, which leads to some healthy negotiations," CalPERS division chief Kim Malm told the board, suggesting companies might lower rates for competitive reasons after seeing the figures presented in public this week.

The California Public Employees' Retirement System provides health insurance to about 1.5 million people, including current and retired state workers and their dependent family members. The fund also provides health insurance to workers and families of some other public agencies and schools around the state.

The most popular CalPERS plan, an HMO offered by Kaiser Permanente, would go up about 6 percent, according to the estimates. HMO plans typically have smaller networks of doctors and specialists than the more traditional paid provider organization plans, or PPOs, and are cheaper. HMOs often also require more approvals to visit specialists.

That plan's premium would reach $751 per month in 2020 for an individual, according to the estimates. The premium for a family with two children would be more than twice that. The second most popular plan, a PPO called PERS Choice, would increase about 5 percent, to $801 for an individual, according to the estimates.

State employees pay a share of that monthly premium based on their bargaining unit's contract. For individual plans in 2019, the state contributed $583 to $668, depending on the bargaining unit, according to CalPERS figures. The state contributed $1,518 to $1,673 for family plans.

The state's contributions increase when premiums go up based on contract language.

Medicare plans for retirees generally are projected to see lower rate increases.

In general, the increases stem from the costs of medical care exceeding premium revenue from year to year, health staffers told the CalPERS board Tuesday.

Radiology tests, walk-in surgeries and office visits all increased among policyholders in 2018, the last full year of data, according to a CalPERS analysis. Meanwhile prices increased for prescription drugs, lab tests and emergency room visits.

The largest projected increase, of 24 percent, is for an HMO called Health Net Smart Care. That jump resulted from the plan taking on about 10,000 new Bay Area policyholders after Blue Shield left the region, where medical care is expensive, Malm told the board.

Board members expressed frustration at the rising premiums after agreeing to spend $44 million in reserves to limit premium increases for a popular PPO plan with rich benefits called PERS Care. The infusion limits the estimated increase to about 9 percent, from a projected 24 percent.

"We need to go back and continue to negotiate … Even the single-digit increases are relatively high compared to what we've seen before," board member Theresa Taylor said.

Board member Rob Feckner, who represents schools on the CalPERS board, noted that some non-state employers who offer CalPERS insurance have caps on how much they will contribute toward premiums, leaving employees to bear the full brunt of increases.

"Our members will at some point start shifting to the lowest-cost plan they can find," Feckner said. "At the end of the day it comes down to their pocketbook."

Policyholders may switch plans during an open enrollment period from Sept. 9 through Oct. 4.

Governor boosts school pension cost relief plan

School districts, some saying CalSTRS rates are forcing cuts in programs and teacher pay, would get more pension cost relief under a revised state budget proposed last week by Gov. Newsom.

The governor's $700 million plan to lower school pension costs during the last two years of a seven-year CalSTRS rate increase would get an additional $150 million, if approved by the Legislature.

In addition to using non-Proposition 98 state money to pay part of school rates, the governor's plan would spend $2.3 billion over four years to pay down the school district share of CalSTRS debt, saving more than $7 billion over three decades.

With state aid to get over the hump of the last two years of rising CalSTRS rates, struggling school districts would then face rates, under current projections, that drop slightly and remain stable for more than two decades. (see chart)

Of course, that assumes investment earnings, expected to pay about 60 percent of future pension costs, will average 7 percent, which critics say is too optimistic. But in the complicated CalSTRS system, school districts have some rate protection.

"The employer contribution rate is minimally impacted by investment performance, and when impacted, it generally moves in the opposite direction of the state contribution rate," a draft report to the Legislature on the 2014 plan said last week.

Unlike other public pension systems, the California State Teachers Retirement System gets funding from the state, not just employers and employees, and has lacked the sweeping power to raise employer rates, needing legislation instead.

The 2014 legislation gave CalSTRS limited rate power, protecting employers. After scheduled rate increases end in 2021 at 19.1 percent of pay, the CalSTRS board can raise employer rates up to 1 percent a year, but no higher than 20.25 percent of pay.

If investment earnings fall below the 7 percent target, most of the cost will be borne by the state. The CalSTRS board can raise the state rate up to 0.5 percent of pay each year until the funding plan expires in 2046.

For nearly three decades school districts had been paying the same CalSTRS rate, 8.25 percent of pay since 1986. Then the funding plan legislation in 2014 more than doubled their rates over seven years to 19.1 percent.

Total school district CalSTRS pension costs are expected to nearly triple over the seven years, going from $2.3 billion a year to about $6.8 billion, a Legislative Analyst's office report estimated in March.

School district payments to the California Public Employees Retirement System for the pensions of non-teaching employees also may nearly triple during the seven years, going from $1.17 billion a year to well over $3 billion.

A major increase in state school funding, up 37 percent since the beginning of the rate increase, has helped schools absorb higher pension costs. Inflation-adjusted school funding per pupil is at an all-time high.

But now state funding growth is leveling off, while pension costs continue to rise. Many schools are losing enrollment and per-pupil funding. Some have little or no financial reserves, and thus no cushion if an economic downturn lowers state funding.

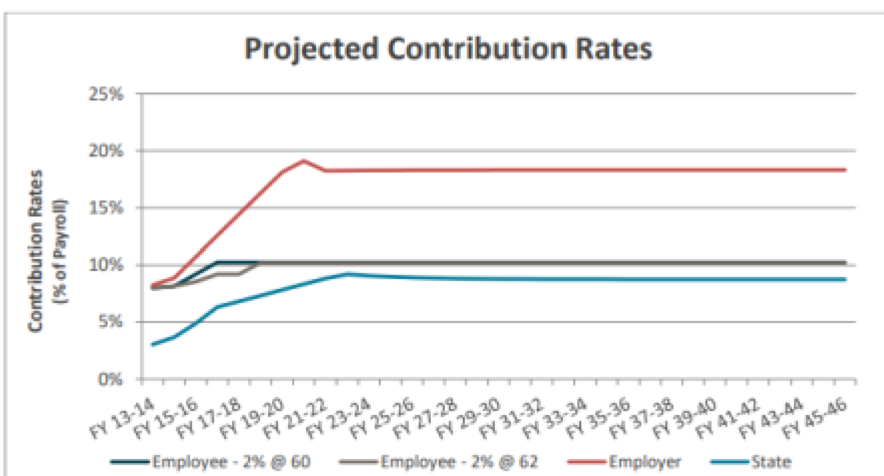
Strained school budgets are in the spotlight because of several well-publicized teacher strikes and the struggles of a large urban school district, Sacramento Unified, to avoid a state takeover.

A report last month from Pivot Learning, a nonprofit consultant, used a survey, a decade of budget data, and interviews and focus groups to show the impact of "The Big Squeeze" of rising pension costs on school programs and teacher pay.

Responding to pleas from school groups, the $700 million relief plan the governor proposed in January would have lowered CalSTRS school district rates from 18.13 percent of teacher pay to 17.1 percent in the new fiscal year beginning July 1.

With the $150 million increase proposed last week, the new rate in July would drop to 16.7 percent of pay — a reduction of 1.43 percent of pay instead of 1 percent as originally proposed.

There would be no change in the original 1 percent of pay reduction in the CalSTRS school district rate for the following fiscal year beginning July 1, 2020, which drops from 19.1 percent of pay to 18.1 percent.



CalSTRS remains on a path to reach 100 percent funding by 2046, a new annual valuation showed last week, a total turnaround from projections before the rate increase that had CalSTRS running out of money by then.

But it's a mountain to climb. The new actuary report also shows that CalSTRS only had 64 percent of the projected assets needed to pay future pensions as of last June 30 and a debt or "unfunded liability" of $107 billion.

Like many public pension systems, CalSTRS funding did not recover from huge investment losses during the financial crisis and deep recession a decade ago, despite a bull stock market of record length.

When the investment fund plunged from $180 billion in October 2007 to $112 billion in March 2009, CalSTRS funding fell from about 89 percent to 60 percent. As of March 31 this year, the investment fund was valued at $228 billion.

Low funding not only creates a need for higher contribution rates, but it also makes CalSTRS more vulnerable to another market crash or a long period of stagnant investment earnings.

Experts have told CalSTRS and CalPERS that falling below 50 percent funded is a red line, a potentially crippling blow that can make returning to 100 percent funded very difficult if not impossible.

The new actuarial report from Milliman shows a low chance for another CalSTRS funding nose dive. The projection that CalSTRS funding will only reach a little below 80 percent by 2046 is in the 25th percentile, while 100 percent funding is in the 50th percentile.

Some have argued in the past that 80 percent funding is an acceptable goal for pension systems. It's enough to provide a cushion against dropping below 50 percent funded, but not enough to be regarded as full funding or a "surplus" that can pay for increased pensions.

Because of the complicated CalSTRS funding system, the annual actuarial report makes a calculation of what the funding level would be, 86 percent last year, if there had been no change in pension benefits since 1990.

Although not as well publicized as the contribution cuts and pension increases (SB 400 and AB 616) pushed by CalPERS when it had a surplus around 2000, much smaller pension increases and contribution cuts were made for CalSTRS when it had a brief surplus then.

Notable among a half dozen bills was the diversion for a decade of a quarter of the 8 percent of pay pension contribution from teachers (2 percent of pay) into a new Defined Benefit Supplement, giving teachers a lump sum or annuity in addition to their pensions.

"No (state) general fund effect and no effect to the solvency of STRS," said the legislative analyses of AB 1509 in 2000, unusually brief for legislation shifting billions of dollars. "The STRS surplus will absorb the cost of DBSP (Defined Benefit Supplement Program)."

An ongoing diversion of CalSTRS pension funding is an annual state payment, 2.5 percent of teacher pay, that goes into a separate fund, the Supplemental Benefit Maintenance Account, that keeps retiree pensions from dropping below 85 percent of their original value.

Pension funding is usually based on money expected to be received in the future from employer-employee contributions and investment earnings. But the unique SBMA is based on keeping enough money on hand to pay expected future costs.

In the last biennial report, the little-known SBMA had a $9.8 billion surplus and had only been spending around $165 million a year for three decades. The annual state payment into the fund two years ago was $699 million. (See details here.)

There has never been an analysis to see if money could be saved, perhaps billions, by switching the SBMA to traditional pension funding. That's the way CalPERS funds a similar program that keeps its pensions at 75 or 80 percent of their original purchasing power.

Last week, the CalSTRS board elected a new chair, Sharon Hendricks, a Los Angeles City College communications instructor. She succeeds Dana Dillon, who did not run for re-election to the board.

California Supreme Court Upholds Pension Reforms, But Problems Remain

MAY 8, 2019

By Joe Barnett

The court upheld reform that curtailed employees purchasing service credits to increase their pensions.

The California Supreme Court upheld reforms to the state's pension plans for public employees, which will save taxpayers billions of dollars but leave the system with hundreds of billions of dollars in unfunded obligations.

The court's March 4 ruling upheld Gov. Jerry Brown's 2012 reform that curtailed the practice of allowing employees to purchase service creditss in order to increase their pensions. Brown also raised the amount employees must contribute to retiree health care coverage. The changes will save $29 billion to $38 billion over the next 30 years, reports the nonprofit news service CALmatters.

California has two state retirement systems: one providing pension incomes and health benefits for local and state government employees, and one for public school teachers. The systems have total estimated unfunded future obligations of $400 billion, based on 2016 data, CALmatters reports.

Nationwide, the unfunded liabilities of state and local public employee pension plans total about $4.4 trillion, according to Moody's Investor Service.

Lower Expectations for Returns

The reason public pension systems in California and other states are underfunded is that pension fund managers make overly optimistic assumptions about the rate of return on investments, says Olivia S. Mitchell, a professor of business economics and public policy at the University of Pennsylvania's Wharton School of Business.

"Public pensions should use a discount rate consistent with the public sector's cost of borrowing money," said Mitchell.

"So, for instance, instead of the far-too-high 7.5 percent to 8 percent current rates, they should be closer to 4.5 percent to 5 percent," Mitchell said. "Of course, this change would massively blow up funding costs, but this is a fairer picture of what is actually owed to public employees."

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