PROFESSIONAL ENGINEERS
IN CALIFORNIA GOVERNMENT

RETIREMENT AND DEFERRED COMPENSATION COMMITTEE

February 17, 2017

TO: PECG Board of Directors and Section Presidents

FROM: Tim Sharp, Akbar "Nick" Afshinnik, Mark Daneshi, Edgar "Ed" Pausanos, John "Jack" Roberts, Jagannath "Jag" Sarkar, Sharon Stewart, Brian Young

SUBJECT: March 2017 Quarterly Report.

CalPERS long-term care lawsuit.

CalPERS loses key court decision over long-term care.
By Jon Ortiz in the Sacramento Bee on February 6, 2016.

The decision by Los Angeles Superior Court Judge Jane L. Johnson concluded that those purchasers' concerns are best handled as a class-action matter that pools legal resources and lumps all the plaintiffs together. Read the article at this website.
http://www.sacbee.com/news/politics-government/the-state-worker/article59381353.html

January 2017 litigation update from the law firm serving the plaintiffs:
The Towers Watson defendants ("Towers"), recently filed a Motion for Summary Judgment that seeks to have the claims against it dismissed. This motion is currently set for hearing on March 8, 2017.
Towers was the actuary firm hired by CalPERS in or around 1992 to help it establish the initial premiums for the LTC Program. In our case, we allege that Towers breached its duty of care to policyholders by negligently performing the actuary work for the program. Specifically, the plaintiffs assert that Towers failed to incorporate appropriate reserves into its pricing structure for the program and used an unrealistic investment rate of return assumption, which forced CalPERS to invest a significant amount of the LTC Fund in the stock market. Plaintiffs further assert that these mistakes were concealed and lead to the 85% rate increase that was announced in 2013.
Towers' motion argues that the claims against it should be dismissed for two reasons. First, it claims it owed no duty to the class since it was CalPERS that hired it to perform services; not individual policyholders. As such, only CalPERS can pursue claims against it, which it has declined to do. Second, Towers argues that the claims should be dismissed because they are barred by the 2 year statute of limitations that applies to claims of professional negligence. Towers asserts that when CalPERS first raised rates in 2003, class members should have had a reasonable suspicion that it made mistakes in structuring the premiums back in 1995 and that the statute of limitations on plaintiffs'

claims started running at that time. Therefore, this case, which was not filed until 10 years later, is time barred by the 2 year statute of limitations.

The plaintiffs have filed an opposition to Towers' motion and do not believe it has merit. First, plaintiffs contend that Towers did owe a duty to class members since it was foreseeable they would be harmed if Towers negligently performed its duties. Second, plaintiffs contend that the statute of limitations on their claims has not run since the 85% rate increase that is the subject of this action did not actually happen until 2013. Since plaintiffs would not have been able to sue for a rate increase that had not even yet occurred, there is no way the statute of limitations on this claim has run.

The hearing on the motion is set for March 8, 2017 and the court will likely rule on this motion at the hearing

Class counsel have also been busy working on a number of issues. We have continued to seek discovery from CalPERS and other entities connected with the Long Term Care ("LTC") Program. For instance, in November and/or December we deposed several witnesses from United Health Actuarial Services, including the consulting actuaries who were primarily responsible for preparing the valuation reports for the CalPERS LTC Program during the relevant time period. The motion was filed November 15, 2016, opposed by Plaintiffs on January 6, 2017 and heard by the Court on February 3, 2017. The schedule has the motions being filed in March 2017 and heard by the Court in June 2017.

October 2016 litigation update from the law firm serving the plaintiffs:

The class notice process is nearly complete and we are pleased to report that things have gone very smoothly. To recap, we began sending out notice on July 8, 2016 and—over the following 6-8 weeks—notices were sent to 122,767 class members via email (if we had an email address) and by regular mail. Since that date, we have also received and responded to more than 500 calls from class members with questions, address updates, etc. The deadline to request exclusion was Friday, October 14, 2016, and so far we have only received 145 opt-out requests. This means that approximately 99.9% of the class has chosen to participate, which demonstrates the overwhelming support for this case.

July 2016 litigation update from the law firm serving the plaintiffs:

The content of the class notice was approved by the Court on June 21, 2016. We will begin sending out notice on or around July 5, 2016. Importantly, because there are over 122,000 potential class members. These are CalPERS Long Term Care policy holders from 1995 to 2004. Recipients can "opt-out" to exclude themselves from the lawsuit by October 14, 2016. The class notices are being mailed in groups of about 20,000 each mailing. This process will take several weeks to complete, so please be patient if you do not receive your class notice immediately. We will provide an update on this website once mailing is completed. If you have not received a notice by that time, you can contact us at 1-877-959-1926.

April 2016 litigation update from the law firm serving the plaintiffs:

The parties appeared at a case management conference before the Court on Monday, March 28, 2016. The Court addressed several issues including the status of class notice and the case schedule. CalPERS has provided the class list, which identifies and provides contact information for nearly 122,500 class members. However, the parties have not reached agreement on the form of the class notice. It is estimated that notice will be sent out soon. The Court schedule of case dates are September 18, 2017 for Trial Readiness Conference and a Trial date on October 2, 2017.

If you would like to view the class notice, please read it at this website.
http://www.calpersltcclassaction.com/

Here's some history on this lawsuit:
On August 6, 2013 a class action lawsuit was filed in an effort to obtain relief for individuals who purchased certain Long Term Care (LTC) insurance policies through CalPERS. Information on this article can be found at this website.
http://wwwcalpersclassactionlawsuit.com
This website is designed to answer many of the questions that have been raised by members of the class action lawsuit.

CalPERS' responded to this long-term care lawsuit by asking a judge to throw out the lawsuit that's alleging that the fund and individual board members, among other things, failed to watch out for members' best interests when the fund increased rates on long-term care insurance plans.

Some additional history that preceded this lawsuit was that CalPERS reopened the insurance to new applicants, ending a five-year hiatus marked by heavy financial losses and the announcement of the significant rate increases. The fund said, back in February 2014, its taking applications, for a series of new LTC insurance plans designed to be affordable. "None of the older plans that were offered in the past are available anymore" said CalPERS spokeswoman Jeanie Esajian. Read the article at this website.
http://www.sacbee.com/2014/02/06/6134703/calpers-reopens-long-term-care.html##storylink=cpy

This was the first time the CalPERS Long-Term Care Program was open to new applicants since 2008, and the first time the application period will be continuous. The CalPERS fourth generation of long-term care insurance (LTC4) has new benefit design plans which may be reviewed at this website.
http://www.calpers.ca.gov/index.jsp?be=/member/ltc/open-app.xml

New allegations about CalPERS long-term care management surfaced in an article by Jon Ortiz in the Sacramento Bee on 9/29/15.
Lawyers representing a class action lawsuit said the private-sector business partner of CalPERS marketed the program on commission.
Actuaries cautioned CalPERS nearly 20 years ago that its new long-term care insurance fund was set up for failure, an attorney suing on behalf of policyholders says, but officials ignored the warning. Read the article at this website. http://sacb.ee/4kCf

CalPERS approved an 85% premium increase, on October 17, 2012, for early purchasers of its LTC insurance program policies. CalPERS said the increase, to be spread over two years, is being implemented to help stabilize the Programs underlying LTC fund and did take effect July 2015. Since 1995 the increased premiums have been 30% in 2003, 43.8% in 2007, 22% in 2009 and 5% annually since 2010. An Assembly hearing took place with The Aging and Long-Term Care Committee on May 7, 2013 in the State Capitol. The hearing was attended by LTC fund officials, industry experts, policyholders and retirees. It was heated and emotional at times, some calling for the fund to be brought under the authority of the state Department of Insurance.

CalPERS Long-Term Care (LTC) insurance has over 148,000 policyholders in its program. Some policyholders saw a 5% increase annually since 2010, while most saw the bigger 85% increase in July last year. The 85% increase primarily affects about 110,000 people who purchased CalPERS LTC from 1995 to 2004 that provided lifetime 5% compound inflation benefits.

Court of Appeal ruling impacts the "California Rule"

On August 17, 2016 the First District Court of Appeal released a published opinion in *Marin Association of Public Employees v. Marin County Employees' Assn.* The lawsuit brought by Marin public employees challenged the application of the Governor's 2013 Public Employees' Pension Reform Act of 2013 (PEPRA).

Following the passage of PEPRA, Marin County decided to exclude standby pay, callback pay, cash payments for waiving health insurance and other items from the calculation of retirement benefits for employees effective January 1, 2013. In other words – for employees retiring December 31, 2012 – there would be no changes. For employees retiring after January 1, 2013, they still could have their retirement calculations based on these payments in 2012 and before, but only if they were part of their final compensation (highest three years for example) for retirement calculations.

Employees sued saying that inclusion of these items into pay for retirement purposes was a vested pension right and the new practice of excluding them impaired employees' vested pension rights. The appellate court ruled that while employees have a vested right to a pension, the pension can change – even for existing employees. This directly challenges the "California Rule" which essentially says you can't change the terms of the pension for an existing employee for future work without an offset of a comparable new advantage.

In this case the court held that employees only have a right to a "substantial or reasonable" pension and reasonable modifications can encompass reductions in promised benefits. Applying that standard, the court ruled that eliminating the pay at issue here from retirement calculations was a "reasonable" modification to promised benefits, presumably in part because of the financial condition of the Marin pension system - "projected to plunge into a fiscal and actuarial abyss."

While emphasizing the "limited nature" of the holding, this is a direct challenge to the longstanding principle that employees have vested rights and changes to pensions are constitutionally protected. The problem is that the question of whether the changes are "reasonable" would never be asked if the California Rule were adhered to – the changes in retirement calculations would be deemed unconstitutional.

The parties (and others) will no doubt petition the State Supreme Court to review the case. Because the appellate decision is a big public policy deal, and because it questions what the State Supreme Court decisions really mean, it is the kind of case the State Supreme Court would hear.

If the decision stands, possible changes in pensions for existing employees will undergo a new test to see if they are "reasonable" given all the factual circumstances.

Pensions & Investments
https://www.pionline.com/
Second California appeals court rules pension benefits can be reduced.

Case involves 2013 pension reform that eliminated CalPERS participants' right to buy retirement credits

BY RANDY DIAMOND | JANUARY 3, 2017 4:20 PM | UPDATED 10:42 AM

A second California appeals court panel has said that vested pension rights can be reduced or eliminated in California as long as employees still receive a pension that is "substantial" and "reasonable," court filings show.

The Dec. 30 decision by a three-member panel in San Francisco affirmed a state pension reform law that went into effect in 2013 and eliminated the right of participants of the $302.4 billion California Public Employees' Retirement System, Sacramento, to enhance their pension by buying retirement credits. A lower court in Alameda County in 2015 had ruled that the pension enhancement benefits could be eliminated.

The enhanced benefit, known as an airtime service credit, allowed CalPERS participants to increase their retirement benefit by up to five years by making additional contributions from their salary.

The panel cited another state appeals court's decision in August, which said the $2.1 billion Marin County Employees' Retirement Association, San Rafael, did not have to count pay given to employees for being on an on-call status toward retirement benefits. That decision also cited the 2013 pension reform law, which applies not only to CalPERS but to most other public pension systems in California.

The law put in place anti-spiking provisions that prevent pension benefit increases from unused vacation and leave, bonuses, terminal pay, among other things.

These “anti-spiking” provisions apply to current workers.

“While a public employee does have a 'vested right' to a pension, that right is only to a 'reasonable' pension — not an immutable entitlement to the most optimal formula of calculating the pension,” the appeals panel wrote in August.

That decision put into question the so-called California rule, which held for five decades that pension benefits could not be cut.

The California Supreme Court has agreed to hear an appeal on the Marin County case, although no schedule has yet been set for oral arguments.

The latest case was filed by firefighter union Local 2281, which represents 6,000 firefighters across California.

Attorney Gregg McLean Adam, who represented the firefighters, said he believes there is a “strong basis” for the Supreme Court to also hear the retirement credit case.

But Mr. Adam said no decision has been made as to whether an appeal will be made.

CalPERS spokesman Wayne Davis said the pension fund would have no comment on the decision.

PECG Weekly Update   December 8, 2016

Public employee **pensions** continue in the news. Four years ago, the City of San Bernardino declared bankruptcy. A U.S. Bankruptcy Court has just approved the City’s plan to emerge from bankruptcy. The pension benefits for the City’s employees and retirees will not be affected.

Last month we reported on a Court of Appeal decision addressing which compensation items (such as callback pay and standby pay for local agencies) could be included in the calculation of compensation for retirement purposes. The decision also addressed a long-standing series of rulings by the Supreme Court and lower courts that public employee pensions cannot be reduced below the formula in place when the employees were hired. In other words, employees have a vested contractual right to those benefits. As the Appellate Court ruling called that principle into question, PECG and others urged the state Supreme Court to review the ruling and reaffirm its position.

The Supreme Court has agreed to review the case but will await an Appellate Court ruling in a different pension lawsuit, presumably so the high court could consider both cases at once.

PECG Weekly Update   November 1, 2016:

PECG has asked the California Supreme Court to review a Court of Appeal decision which calls into question the long-standing principle that public employees have a vested contractual right to their **pension benefits**. The Supreme Court has consistently ruled that any modification of pension rights which "result in disadvantage to employees must be accompanied by comparable new advantages." The Appellate Court ruling would appear to substantially weaken this principle. Thus, PECG and several other public employee organizations and unions have asked the Supreme Court to review the decision and reaffirm its long-standing ruling.

Thanks to Gerald James for this important information on the potential impact that this ruling may have on our pensions.

PECG Weekly Update   September 30, 2016:

Governor Brown has signed legislation which will implement a **retirement savings plan** for up to 7 million **private sector workers** in California. 2012 legislation created a California Secure Choice Retirement Savings Investment Board to study the feasibility of such a plan. This week, Governor Brown signed Senate Bill 1234 which creates a Savings Trust. Beginning in 2018, employees without a retirement plan will begin contributing 3% of their salary into the Trust, which would invest the money in low-risk and long-term investments. Over the years, the contributions will increase to 8% of salary, but the employees can increase, reduce, or opt out of the plan at any time. When the employee retires, he/she can take the money out or convert it to monthly income. The state will pay at least the initial costs of administering the program and investing the funds. No employer contribution is required.

California State Retirees.

This is the largest, most experienced organization exclusively representing state retirees. Read "Legislative Watch" with Ted Toppin in the monthly newspaper publication "California State Retiree".
www.californiastateretirees.org

Jerry Brown to Congress: Protect California's private retirement program.

BY CHRISTOPHER CADELAGO   2/15/2017

ccadelago@sacbee.com

Gov. Jerry Brown, in a letter to the state's congressional delegation, pushed back against a Republican-led repeal of federal labor regulations allowing California to create state-run investment accounts for millions of private-sector workers without retirement plans.

Brown, who signed legislation last year establishing the "Secure Choice" program, called the retirement savings opportunity modest, but important.

He said the labor department issued its rule to ensure the retirement schemes were financially and legally sound.

Efforts to wipe away the Obama administration regulations could spur legal challenges to state programs like the one in California, and imperil future moves to enact the benefit in other states.

"I understand that Wall Street institutions strongly object to California and other states setting up such systems," Brown wrote in the Tuesday letter, which was released Wednesday.

"They think the dollars that move into Secure Choice should instead flow into their own products. I consider this a feature, not a defect, of Secure Choice. Indeed, we hope to enroll those who historically (have) not been served by the savings industry."

Brown concluded: "I urge you to oppose this resolution, so states can continue to create innovative programs like this one – and enable more people to live with dignity in their retirement years."

The Democratic governor joins a bipartisan group of elected leaders working to protect the program, including Treasurer John Chiang.

Last week, Senate President Pro Tem Kevin de León, D-Los Angeles, and Republican Sen. Anthony Cannella of Ceres sent a letter to House Majority Leader Kevin McCarthy of Bakersfield in support of Secure Choice. De León said his office was exploring all options – including a potential statewide ballot measure.

The link to the article can be found here. http://sacb.ee/8TCY

Read more here: http://www.sacbee.com/news/politics-government/capitol-alert/article132862844.html#storylink=cpy

CalPERS dates for benefits education events and classes.

Members that are close to retirement might consider signing up for a CalPERS retirement education class. To log in, click on to **my |** CalPERS box to schedule your appointment.

Upcoming events:
March 3, 4. Westin San Francisco Airport Hotel, Millbrae, CA 94030
March 17, 18. Fess Parker DoubleTree, Santa Barbara, CA 93103
April 28, 29. Radisson Hotel Fresno Conference Center, Fresno, CA 93721
May 19, 20. Red Lion Hotel Eureka, Eureka, CA 95501
July 21, 22. Santa Clara Marriott, Santa Clara, CA 95054
August 18, 19. Hilton Pasadena, Pasadena, CA 91101
September 15, 16. Hyatt Regency Orange County, Garden Grove, CA 92840

CalPERS online and instructor-led classes are based on career stage and are hosted by our eight Regional Offices throughout the state. To view class dates and locations, log in to **my |** CalPERS and select the **Education** tab. You can also enroll for classes in **my |** CalPERS or by calling the CalPERS Customer Contact Center at 888 CalPERS or 888-225-7377.
Classes:

- Benefits Basics
- New CalPERS Members
- Continuing CalPERS Members
- Planning Your Retirement
- Completing Your Retirement Application
- Completing Your Disability Retirement Application
- Retired CalPERS Members

CalPERS retirement options simplification proposal.

On February 18, 2015 CalPERS purposed Retirement Options Simplification.
A number of PECG members have raised some concern over the possibility of CalPERS reducing the retirement options for simplification.
CalPERS staff recommended the Pension & Health Benefits Committee (PHBC) approve condensing the number of retirement payment options from 13 to 5. While the overall options would be reduced, the remaining options available to members would include a combination of existing and modified choices.
On February 17, 2016 sponsor legislation to condense the number of retirement payment options currently in statute and regulations from 13 to 5 for the members of CalPERS, the Judges' Retirement System and the Judges' Retirement System II, that retire for the first time on or after January 1, 2018.

CalPERS has moved forward with the proposal to simplify retirement options. AB 2404 (Cooley) passed the Legislature on August 26th and is expected to be signed by the Governor. The bill streamlines the CalPERS plan design by consolidating redundant retirement options for those retiring on or after January 1, 2018. In addition to removing redundant options, the legislation removes options that are infrequently chosen by members and may be potentially disadvantageous to retiring members.

Thanks to Gerald James for this update on AB 2404.

We also want to thank Paul Milkey, Linda Lee and others for their attention on this issue. For a summary of this retirement options simplification go to the following websites.
http://www.calpers.ca.gov/docs/board-agendas/201510/pension/item-5.pdf
http://www.calpers.ca.gov/docs/board-agendas/201510/pension/item-5-attach-1.pdf
http://www.calpers.ca.gov/docs/board-agendas/201510/pension/item-5-attach-2-pdf
http://www.calpers.ca.gov/docs/board-agendas/201510/pension/item-5-attach-3-pdf

Once again, Sharon Stewart would like to remind you to be aware of your options when filling out your paperwork for retirement.

Deferred Compensation information.

Jag has some basic information to share with you.

Savings Plus program has 401 (K) and 457 (b) plans that has both Traditional and Roth option to choose from. It allows employees to put aside money from their pay check towards retirement. Employees can evaluate for themselves how much they need for their retirement to supplement their pension and social security.

Deferred Compensation Plans have low investment cost. The record of Index Funds over time is good, and it improves quality of life during our retirement time.

Contact for Deferred Compensation Plan:
https://www.**savingsplusnow**.com/
OR call 1-855-616-4776

Jack has collected the following articles and links that we hope you will find helpful.

Section 457 Deferred Compensation Plans of state and local government and tax-exempt employers after The Small Business Job Protection Act Of 1996 and The Taxpayers Relief Act Of 1997.
http://www.irs.gov/pub/irs-tege/eotopici99.pdf
Public Pensions: Section 457 plans posed greater risk than other supplemental plans (Chapter Report, 04/30/96, GAO/HEHS-96-38).
http://www.gpo.gov/fdsys/pkg/GAOREPORTS-HEHS-96-38/html/GAOREPORTS-HEHS-96-38.htm

Pros and Cons of 457 plan.
http://money.cnn.com/2000/03/23/pensions/q_retire_457/
About.com – Retirement Planning.
http://retireplan.about.com/lw/Business-Finance/Personal-finance/What-is-a457-b-plan-.htm
Perks of a government retirement plan.
http://www.bankrate.com/finance/retirement/perks-government-retirement-plan-1.aspx
How to cash out a 457(b) plan.
http://www.ehow.com/how_7405387_cash-out-457b-plan.html
Valuing and dividing 457, 401(k)s, ESOPs, and profit sharing plans for divorce.
http://www.vecon.com/article/457.htm
What is the difference between-401(k) plan and 457(b) plan.
http://www.investopedia.com/sak/answers/100314/what-difference-between-401k-plan-and-457-plan.asp
CalHR - Saving Plus.
http://www.calhr.ca.gov/employees/pages/savings-plus.aspx
IRS issues more guidance on 457(b) corrections.
http://www.employmentmattersblog.com/2014/03/irs-issues-more-guidance-on-457b-plan-corrections/
Thinking about retirement and your psychological portfolio.
http://www.apa.org/research/action/retire.aspx
Retiring minds want to know.
http://www.apa.org/monitor/2014/01/retiring-minds.aspx

PECG members' retirement certificate and gift.

The Committee wants to properly recognize PECG members upon their retirement from State service. We do this for those who have at least five consecutive years as a PECG member at retirement. Since obtaining lists of outgoing members is easier said than done, we would like the assistance of our members to notify PECG headquarters in Sacramento at least a month before retirement.

With the assistance of the Sacramento staff, retiring members are presented with a framed certificate and laser inscribed crystal cube in appreciation of their years of dedicated State service.

Again, if you are retiring or know someone who is, please notify PECG headquarters a minimum of a month before the gift and certificate are needed.

Sacramento area monthly PECG retiree meeting.

Brian Young wants to remind those in the greater Sacramento area that for the past 14 years PECG retirees have been meeting on the first Thursday of each month at 8:00am for a breakfast meeting at Sacramento Café and Brew (formerly Denny's and Perko's), at 3rd and J St. in Sacramento.

Guest speakers:

12/1/16 Bruce Blanning – PECG Executive Director
2/2/17 Henry Jones – Vice-President of the CalPERS Board of Administration.

The following notes were taken at the December meeting:

On December 1, 2016 "Bill Kodani" <bkodani@omsoft.com> wrote:

Hi Brian; following below are the notes that I jotted down during the December 1, 2016 PECG retiree meeting.

The presentation was given by Bruce Blanning, PECG Executive Director.

I. Bruce said PECG has been looking into 'who' is in President-Elect Trump's transition team. And, even though Trump had said
he was going to 'drain the swamp', Bruce said a lot of the names in the transition team are well known in Washington DC.

II. About Infrastructure Spending - Trump has said he is planning to spend $1 Trillion dollars nationally on Infrastructure
improvement. But the funding details are raising questions. Portions of the Program are still in flux, but some of what is
known is that the Trump administration is going to provide about $167 Million in tax credits to infrastructure project
investors to help fund the $1 Trillion program. Much of the remainder of the $1 Trillion funding is expected to come from
increased tax revenues from labor wages from workers who work on the infrastructure projects and from taxes on
business profits from companies working on the infrastructure projects.

III. First 100 days - Bruce said that according to a NY Times article, Trump said that infrastructure will be a priority in his first
100 days in office. But Bruce said that Trump has also softened or changed his position on other campaign issues, so we'll
just have to wait and see how infrastructure is handled.

IV. The new Secretary of Transportation is Elaine Chao, an experienced person who knows about labor and has been in government
before. She is married to Senator Mitch McConnell, the majority leader.

V. Bruce made an observation that many of the names proposed to be in the new administration are very right leaning.

The following notes where taken at the February meeting:

On February 2, 2017 "Bill Kodani" <bkodani@omsoft.com> wrote:

Hi Brian; following below are my notes that I jotted down during the Feb 2, 2017 PECG retiree meeting.

The presentation was given by Henry Jones, Vice-President of the CalPERS Board of Administration

1. Henry reported that Chief actuary Allen Milligan retired. And at last months meeting the CalPERS Bd. elected deputy Scott Terando as the new Chief actuary.

2. Health Program topics
   - For problems with CalPERS health plans, call (888) 225-7377.
   - OptumRx has replaced CVS as prescription plan administrator for all health plans, except for Kaiser and Blue Shield. OptumRx offers more retail stores to get your prescriptions filled at than CVS. Contact phone number for OptumRx are: for Medicare members (855) 505-8106, for basic members (855) 505-8110.
   - Questions (Q) or Comments(C) from the floor (PECG members).
     a. C: United Healthcare has a gym membership fee reimbursement program called 'Silver Sneakers' for those on Medicare.
     b. Q: Before going on Medicare, Orthotics were covered by health plans. After Medicare, Orthotics were no longer covered. Why?
        A. Henry said he would investigate and have CalPERS staff reply to Brian Young.

3. Investment topics
   - The Discount Rate is the 'yardstick' that is used to estimate future investment returns.
   - Investment returns pay for two-thirds of retirement costs.
   - CalPERS is lowering the expected rate of return over the next 3 years from 7.5% to 7%.
   - To make up for the lowered expected returns, employers and and those employees hired after 2013 will have to make up the loss in investment returns.
   - Some CalPERS critics are falsely saying that the lowered expected rate of return is an indication that CalPERS is going from a defined benefit plan (pension) to a defined contribution plan (e.g. 401(k)).This is not true.
   - Currently CalPERS has $14 Billion in inflows and $19 Billion in outflows. Investment returns is providing the difference. If the returns are expected to be lower in the future, it's important to recognize it now and plan for it.
   - Impact of Tobacco investment divestiture. In 2000, the CalPERS

Board told staff to stop investing in tobacco. The Board realized it would take time to sell off it's tobacco investments, to avoid depressing tobacco stock prices. The tobacco divestment did not initially include external fund managers under contract to CalPERS, but later they were included too. CalPERS estimates the divestiture cost CalPERS about $3 Billion.

- Questions (Q)/comments(C) from the floor (PECG members)
  a. Q: How did staff determine that 7% is the right number?
     A: Actually, it was widely debated over the past year. The CalPERS staff ran up to 5,000 different financial simulations for the Board. The simulations included different mixes of investments in stocks, real estate, bonds, etc. After review of staff work there were many differing opinions on the Board, but the Board voted that 7% will be used.
  b. Q: Aren't some local governments having problems meeting their retirement contribution obligations?
     A: Yes, the city of Loyalton is not able to pay their portion of pension contributions. Loyalton only has a few retirees in CalPERS, but their pensioners have had their pension benefits cut about 60%.
  c. Q: Has Long Term Care (LTC) premiums stabilized?
     A: LTC is now in better shape. It is currently funded over 100%. There are no additional expected premium increases in the near future. Risks in the investment portfolio have been reduced.
  d. Q: Last year the return on CalPERS investments was about 1%. Is there a primary reason why the return was low compared to other investment managers?
     A: The return last year was actually only 0.6%. The most likely reason that other investment managers made more last year is because they took more risks that worked out successfully.

The Retirement and Deferred Compensation Committee appreciates your comments and suggestions.