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February 6, 2018

Ms. Priya Mathur
President, CalPERS Board of Administration
CalPERS Headquarters
400 Q Street
Sacramento, CA 95811

RE: Proposed Changes to the Amortization Policy
Hearing Date: February 13, 2018 – Finance and Administration Committee

Dear President Mathur:

The California State Association of Counties (CSAC) appreciates the opportunity to engage with CalPERS staff, Committees and Board on the proposed changes to the amortization policy. The CalPERS team has diligently explored a variety of solutions expected to strengthen the health and stability of the Public Employees' Retirement Fund (PERF) and we appreciate the concern over how these policy changes would impact employers as well as the CalPERS members.

The current proposal to shorten the amortization schedule from 30 years to 20 years is predicated on three goals: benefit security, intergenerational equity, and contribution stability. Counties undeniably support these aims; however, it is important to bear in mind the significant strains this policy could place on local agency budgets in the event investment returns fall well below estimates. To that end, we respectfully request consideration of the following points as the proposed changes are brought before the Finance and Administration Committee and Board.

Implementation Timing: Fiscal Year 2016-17 yielded an 11.2 percent return and current reports from CalPERS investment officers show continued strength in the market. We understand part of the implementation proposal, should the staff recommendation be adopted, would delay implementation so that it would not take effect for public agency employers until 2021-22. This was thoughtfully offered to offset the step-down in the discount rate and avoid additional cost pressures on employer contributions. However, this could place employers and members at a disadvantage and represent a lost opportunity. It may be more prudent to make the change earlier since the healthy market conditions could still be advantageous. The Committee and Board may wish to allow employers an option to begin the 20 year amortization for new unfunded accrued liability as early as feasible.

Safety Net: The overall change from a 30 year to a 20 year amortization period could expose the PERF to greater volatility – volatility that is ultimately borne by the employer agencies. We do not disagree that the trade-offs of reduced employer contributions could warrant the greater potential risk. It may be appropriate to consider clarifying or specific language related to the Board's authority to make necessary adjustments, should there be a sharp decline in returns, like was done following the 2008-09 downturn.

In closing, CSAC looks forward to our continued partnership on this matter and appreciates the Board and staff's attention to stakeholder feedback. Please do not hesitate to contact me at (916) 650-8133 if you have any questions

Sincerely,

Dorothy Johnson

Dorothy Johnson
Legislative Representative

cc: Members, CalPERS Board of Administration
Chair and Members, CalPERS Finance and Administration Committee
Marcie Frost, CalPERS Chief Executive Officer
Scott Terando, CalPERS Chief Actuary
Brad Pacheco, CalPERS Deputy Executive Officer, Communications and Stakeholder Relations
Tom Dyer, Chief Deputy Legislative Secretary, Office of Governor Edmund G. Brown Jr.
Michael Cohen, Director, California Department of Finance