

## An Ugly, Awful Mess

California is slated to run out of cash in weeks, which leaves many panicked about their jobs, credit ratings, and their state tax refunds. At the local level, the uncertainty as to how the State will ultimately solve its deficit problems has left many local agencies struggling to make cuts necessary to live within their own declining revenues. What if the State decides to cut or borrow local funds to balance the budget? Don't locals have to possibly plan for that? And the State's dismal credit scoring has a trickle down effect on local agencies, who find that their own ability to sell locally-approved bonds may be impacted by the concern of bond houses as to the State's credit-worthiness. In fact, the economic crisis has already hit some of our own: the City of Vallejo filed for Chapter 7 bankruptcy late last year, while the towns of Rio Vista and Isleton are teetering near the same action. When will this bleeding stop? The State should be leading by example by passing a budget quickly so we all don't break off from the rest of the country and

fall into the sea. (Yes, a bit of dramatic flair is needed for this discussion). It appears as if everyone knows we are headed for the iceberg, but no

we have covered the details of the State's cash position and the need to get something done. In this month's edition, we want to spend some time spelling out the way these negotiations have been going so you can see for yourself why we are still without a budget.



### The Governor as the Hero?

The Governor is required to submit a balanced budget to the Legislature by January 10th of each year, after which the Legislature examines, changes, and debates the January version throughout the first half of the year. In May, the Governor then is required to issue a May Revise, which takes into consideration the revenue streams that the State has realized over the past few months. Then, two-thirds of the Legislature (three Republicans from each house along with every Democrat) must agree by voting "aye" on a budget deal and present it to the Governor for his approval. All of this must be done by the Constitutional deadline of June 15th. But as you know, this deadline is rarely met.

one seems to want to turn the ship around. So, who's fault is this budget disaster anyway?

We believe that playing the blame game is highly ineffective and counterproductive, but to look at how these budget negotiations have been playing out between the legislative leaders and the Governor, or what most call the "Big Five" may shed some insight into what is really going on.

Due to the warnings by the State Controller, the State Treasurer, the Legislative Analyst and the State's Finance Director, if the Legislature and Governor don't act now, we are out of cash by the beginning of February. Now, in the past three issues,

This year, however, is obviously different. Because of the state's fiscal crisis, the Governor, through the Department of Finance, released his budget on January 1, 2009 - 10 days earlier than his deadline. What a proactive guy, getting a budget going early so we can fix our immediate problems and move on to long-term

*Continued page 3*

In This Issue	
Ugly, Awful Mess.....	1
Dear Editor .....	2
Battle to Retain Pension.....	5
Efficiency, Where Art Thou? .....	8
Governor Ditching PEMHCA....	10
First Female CEO.....	12

January 2009

## The Journal

### OWNER/PUBLISHER

Amy Brown

### CONTRIBUTING WRITER

Dora Noegel

### LOWLY PROOF READER

Tom Branran

**GOAL:** To provide our readers with current information and analysis concerning the events, ideas and people shaping public retirement in California.

### THE JOURNAL

is published 12 times a year by

### DVBSR, LLC.

Subscription price is  
\$195 per year.

© Copyright, 2008 by  
**The Journal.**

Material may be reproduced in whole or in part with permission and proper attribution.

Readers—please direct all subscription correspondence to

### The Journal

925 L Street, #850  
Sacramento, CA 95814  
(916) 341-0848  
Fax (916) 341-0849

To submit articles or other information, write to the above address or e-mail to [abrown@lawpolicy.com](mailto:abrown@lawpolicy.com)

The OWNER of **The Public Retirement Journal** does not provide the information in this publication as individual retirement counseling or advice.

*The information contained in the Journal is obtained from third party sources and is thought to be, but not guaranteed to be, accurate.*

# Dear PRJ.....

**Do you have a story to tell? A question to ask? A statement to make? The Public Retirement Journal is now taking letters to the editor. We will print those letters we find most interesting in each edition. Please submit your letters to [abrown@lawpolicy.com](mailto:abrown@lawpolicy.com) or mail to 925 L Street, Suite 850, Sacramento, CA 95814. We will keep those letters confidential unless you state otherwise. Oh, and the statements made by the people who write in do not necessarily reflect the opinions of the PRJ. They certainly may, in some cases, but you'll never know.**

*A word of explanation is in order here. Over the years, due to their fear of retribution by various unnamed – hopefully unarmed – forces, many of our readers have been reluctant to put their concerns into print and to sign them. Recently, we changed our policy on this matter and now withhold names on letters if the writer so requests. And, to answer the question of one reader...no, we **don't** make them up! - Editors.*

## Dear PRJ:

This letter is written to urge the Assembly and Senate retirement committees to take advantage of this “Bush moment” in our economy to highlight the shortcomings of defined contribution savings plans when used as a substitute for a retirement plan.

As we all know, when the economy and stock market are booming, the supporters of DC plans seem to be everywhere - simultaneously trumpeting both the “wastefulness” of defined benefit plans and the “generosity” of defined contribution plans.

So, where are they now?

Supporters of DB plans have long been too passive in this debate, most often just defending those retirement plans when they are under attack, rather than actively publicizing the shortcomings of DC plans.

Now is the time for the two retirement committees to hold public hearings which can compare and publicize the relative states of those California retirees who depend on DC and those who have DB plans.

Sincerely,  
Tom Branran  
PERS Retiree

strategies. But what no one seems to be asking is how many legislators support his budget. We know the answer: Try zero. The Big Five and the Governor have been negotiating as far back as a couple of weeks after the 2008-09 budget was signed – in September. In fact, they never really stopped negotiating. And up to this point, they haven't agreed on much. The Governor has traveled throughout California calling for budget reform and pointing fingers at legislators.

### **The Dems Get Tricky**

In last month's **Journal**, we outlined the Democrats' plan, the Republicans' plan and the Governor's Plan – and noted just how incredibly far apart they were. The Democrats were so frustrated by this breakdown in communication, that they ran their own package of budget bills that only required a majority vote. The bills provided about \$18 billion in solutions – about \$23 billion shy of a balanced budget – but the Dems say that these bills would prevent a “fiscal Armageddon”. One of the largest concerns on everyone's mind is the major construction projects that the State is currently funding – all of those infrastructure projects passed in 2006 and earlier. The State has already halted about two-thirds of those projects. If your local agency is in the middle of one of those transportation projects or housing projects, you may want to check to see if your project has been stalled.

So, how did the Dems pass a series of budget bills without the two-thirds voting requirement? The Legislature's Counsel indicated that if the proposed set of budget reforms “do not create a net revenue increase, it can be approved by a majority vote.

In other words, no Republicans needed.

For instance, the Dem's plan involved raising sales taxes by 3/4 cent on the dollar, an income surtax increase of 2.5 percent and an oil severance tax. Two gas levies would be eliminated – the 18 cents per gallon excise tax and the State's 5-cent share on the sales tax. These tax increases and reductions would be perceived as a wash.

Here's the trick: the State would replenish the gas taxes with a new 39 cent per gallon “fee” on motorists. (This is about 13 cents more than what they pay now). The operative

*“But what no one seems to be asking is how many legislators support his budget. We know the answer: Try zero.”*

word here is “fee” because according to the law, if the fee is tied to a specific service (this one is called the highway user fee), then it requires only a majority vote. Under the Dem's plan the State would also require independent contractors to withhold 3 percent income tax when they paid for work.

Overall, the Dem's plan calls for \$9.3 billion in tax hikes over 18 months, along with \$7.3 billion in cuts to education, health care, prisons, welfare, and the poor and disabled. There are a few other “shifts” in funding that make up the \$18 billion total.

Now, you have to hand it to the Dems here. One of the biggest complaints that the Governor has had up

to this point is why can't the Republicans come to the table with some revenue increases? Why does it have to all be in cuts? Most folks saw the Dem's plan as a good interim solution – especially considering they compromised so much on the cuts to education and health care, which hasn't made them very popular with teachers' unions, SEIU, and other powerful labor groups.

To sweeten the pot, the Dems also passed a series of bills that outlined an economic stimulus package, which is what the Governor has been vying for ever since he was elected: jobs, jobs, jobs! The Dem bills included acceleration of funds for construction projects, authority to enter into new “public-private partnerships” and “design-build” contracts for construction (not favorite programs among labor groups – it essentially opens up projects to more privatization), and modifications to environmental laws to speed up road construction. (Modifications in this sense means going easy on some of the environmental requirements – you guessed it, heartburn for the enviros!). According to the Dems, this stimulus package could create up to 367,000 jobs.

In a transmittal letter from Senate President Darrell Steinberg and Speaker Karen Bass to the Governor, they indicated that, “It is important to note that you have expressed a willingness to sign the tax measures in this package, and all of the budget cuts originated with your own budget proposals.”

But, as you guessed, the Governor vetoed all 15 bills that the Dems sent to him. Why? Well, this may surprise you (probably not), but the Governor's demands had very little to do with the budget and more to do with many statutes that deal with labor agreements and environmental law.

*Continued page 4*

*Continued from page 3*

First, he wants to pull state employees out of the PERS health care program and put them into a self-insured or private health care retiree program (see article on page 10). Second, he wants to change state statutes to limit overtime, limit use of sick leave and eliminate two holidays for state workers. He also proposed two unpaid furlough days per month. Now, obviously these changes would save the State money, but changing statute means that those changes would be here to stay. He doesn't address the question of what happens when the State is facing a budget surplus. Do those employees get those benefits back?

On the environmental front, the Governor claims that the Dems didn't go far enough on their California Environmental Quality Act (CEQA) leniencies. He said that he wants a more "expedited environmental review process", which means be lax on some of the requirements. He even proposed exempting the sale of state property from CEQA. We just have to point something out here: this is a Governor who is not only marked as the Green Governor but has even been considered as the head of the Federal Environmental Protection Agency (not seriously, we hope). He signed AB 32 two years ago, the biggest gas emissions reductions legislation in the country. And just two years later, he wants to significantly relax environmental law? Explain that one to us.

### **Still No Budget – So What?**

As of this writing, the State is still without a budget. What does that mean specifically for you? Aside from the poor credit rating, the hold on infrastructure funding, and the IOUs on state tax returns, operating

without a state budget will limit local agencies from continuing state and federally required services when the State runs out of cash. Locals are also unable to access the credit markets to maintain the flow of funds to ensure various government services are uninterrupted and construction can continue – this really holds true for counties as they are required to execute those services that the State subsidizes such as In-Home-Support-Services. The fact remains – the sky is falling and these decision makers in Sacramento need to do something fast before it lands on all of our heads.

*“He signed AB 32  
two years ago, the  
biggest gas emissions  
reductions legislation  
in the country.  
And just two years  
later, he wants to  
significantly relax  
environmental law?  
Explain that one  
to us.”*

### **But Wait, There's More**

As of early January, Senate President Steinberg indicated that Democrats were willing to make permanent reductions to state employee benefits. How far are they willing to go? They say that they are willing to go along with a reduction as long as the Governor's administration and unions negotiate "in good faith" for 30 days first.

Steinberg said that the Governor's administration must negotiate with the unions before imposing furloughs or asking lawmakers to make permanent changes to employees' benefits. Steinberg noted that state employee contracts have expired .... and said "there has not been any effort by the administration to negotiate successor contracts."

And what if those talks broke down? Steinberg said that the Dems would support the permanent changes the governor seeks. He said lawmakers have an interest in finding savings in the state workforce because if they don't, "that's going to mean deeper cuts to health and human services or some other area."

### **ACA 4**

Both Dem leaders – Steinberg and Bass – along with the help of their fellow Dem colleagues, introduced ACA 4 which would amend the State Constitution to let voters decide whether or not to allow passage of a state budget by a majority vote rather than the existing two-thirds vote that is needed. The irony is, though, that the Legislature has to pass ACA 4 by two-thirds vote. We can just see it now, a Republican voting "aye" on ACA 4 to eliminate his own party's power.



# They won't let facts get in their way!

by Richard White, Sergeant, OCSD  
Safety Member, OCERS Board of Retirement  
Summer 2008, AOCDS The Courier Magazine



**They won't let facts get in their way!**

*"Public safety officials in Orange County can retire at age 50 after 30 years of work with 90 percent or more of their final*

*year's pay. Taxpayers pay the full costs of these retirement benefits."* [Editorial: *If you have to pay, you should get a say*, The Orange County Register, July 31, 2008]

The quote from the editorial in our local newspaper is misleading at best and wrong at worst.

We know that the battle to retain our pension benefits is far from over. Politicians, special interest groups and others will continue their efforts to portray public safety employees as the bad guys simply because we want the promise of retirement benefits kept! These same pension antagonists frequently use inflammatory language and misstate information in their efforts to make their case.

One recent example in our local newspaper illustrates this and in this article, I will try and shed some daylight onto the points made, and maybe be able to set our record straight.

**Most OC cops use a three-year average for final compensation.**

*"Public safety officials in Orange County can retire .....with 90 percent or more of their final year's pay."*

Pension benefits are based upon an

average of final salary that is based on either a one year or three year measuring period. Right off the bat, the aforementioned citation that we can retire with "90 percent or more of their final year's pay" is an incomplete statement which is apparently intended to mislead the reader to think that all of us get this benefit. It's misleading for the editorial writer to exclude the fact that not everyone in Orange County uses the single final year of pay for their benefit calculation.

What is well known is that those in our system allowed to use their highest single year of earnings as the basis for their pension are designated as "Tier One" employees.

All other employees in our system are designated as "Tier Two" and these employees use a three-year average to determine their final compensation figure.

It is not inconsequential to note that the change over from Tier One to Tier Two took place on **September 21, 1979**. Everyone hired after this date is Tier Two. Since this change took place nearly 30 years ago, it is quite evident that the number of active Tier One members in our department is small – as in 33!

The three-year average of final compensation is an important distinction to make and keep track of because it is a primary way to eliminate so-called pension spiking which according to Mr. Stephen Greenhut (OC Register) and others is a problem created by us that takes place in our "last year of work."

Perhaps it does, BUT less than 2 percent of the active law enforcement group uses the "last year of work" as the basis for our pension benefit calculation. The majority of O.C. law enforcement uses a 3-year final average salary – which virtually makes it impossible to spike our salary

and we have done this for a long, long time.

**Taxpayer contributions pay only a part of our pension.**

*"Taxpayers pay the full costs of these retirement benefits."*

Well, not even close.

This statement is an example of the misinformation given to the public about the cost

of our pension benefits and it is so wrong that it must be viewed as an intentional misrepresentation. Some in the media and others in the public eye want to give taxpayers the impression that they would save a



*Continued page 6*

bundle if our pensions were eliminated and apparently they feel they must lie to do it.

Nothing's free – obviously! There is a cost involved with the funding of our pension benefits just as there is a cost in the payment of current salary. **BUT taxpayers are not** the sole source in the funding of pension benefits provided through a defined benefit plan like OCERS.

One of the overwhelming benefits of a defined benefit pension plan is that it is an efficient way to accumulate current contributions and distribute payments to retirees and beneficiaries. There really isn't a better model to do this. There are many reports and studies that describe the problems with defined contribution plans as retirement vehicles. Plans such as 401(k)'s are really designed to supplement defined benefit plans rather than replace them.

Some of the reasons why defined benefit plans work really well is because the participation in them is mandatory, withdrawals are difficult or impossible to get and contributions into them are **mandatory for both the employer and employee**.

Defined benefit plans are able to generate far greater investment returns for the participants with far less investment risk and at significantly less cost than any DC plan. DB plans get more bang for their buck.

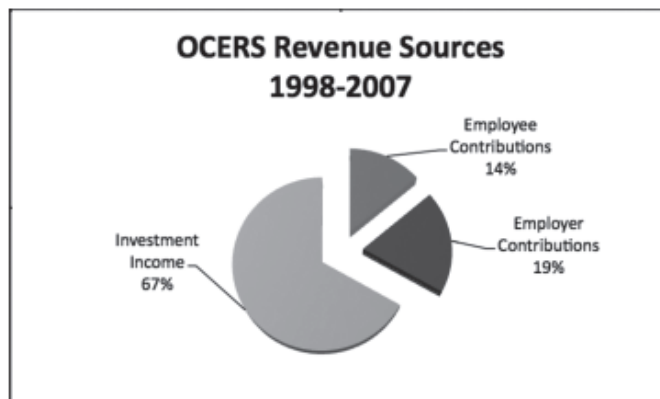
The design of a defined pension plan (like ours) is based upon a well-known formula (easily discerned through only a small amount of effort) which is that contributions and investment earnings pro-

vide the income used to pay the expenses and pension benefits of the plan.

OCERS, like any DB plan, is "pre-funded" through the contributions from the employer (such as the County of Orange) and the active employees in the plan. These contributions are collected every pay period by the retirement system and are then invested in a well diversified portfolio through the use of professional investment management firms at the direction and control of the Board of Retirement.

A recent study by Sacramento State University showed that California public pension plans pay nearly three-fourths of retiree benefits with the income generated by their investment portfolios. Similar numbers were shown in another nationwide survey.

The chart below shows OCERS data from the most recent **ten-year period** which shows that 67 percent of retiree benefits are paid with the income generated by our investments. The remaining amount used for benefit payments comes from the contributions made by the employer and employee. Active employees in OCERS contributed 14 percent of the monies used to pay benefits and employers contributed 19 percent during this time period.



What this means is that for every dollar paid out to a retiree \$0.19 was taxpayer money. The rest came from the employee contributions and investment income.

**Most of us start our career in the mid-twenties.**

*"Public safety officials in Orange County can retire at age 50 after 30 years of work ....."*

This is accurate. **BUT**, most of us don't start this young. Our monthly benefit reflects the career in law enforcement that it took us to earn it. The editorial snip quoted above would only be accurate **IF** the deputy started his or her career at age 20. Start at age 20 – work 30 years and retire at age 50.

According to information from OCERS, the average retirement age for OC law enforcement was 54.6 years, which represented an average career of 25.62 years of service. This would make age 29 as the average age at entry. These are average numbers – but they aren't really close to the 20 year old used in the incomplete statement made in this editorial.

**Define "rich."**

*"Retired government workers are twice as likely to get a pension as their counterparts in the private sector, and the typical benefit is far more generous." [USA*

*Today report cited in "Servants become the Masters" by Steven Greenhut in The Orange County Register, May 13, 2007]*

To start with, I think it is critical to emphasize that retirement benefits (pension and other post-employment benefits) are only one part of the compensation package paid to employees. To "isolate"

Continued page 7

our retirement benefits as being too generous is to ignore one of the reasons they exist, which is to compensate us for our work, but to delay the payment of this compensation until after our active service.

In our case, there are 821 retired county law enforcement officers in OCERS as of August 1, 2008.

There are 484 deputies who retired under the old pension formula (2 percent at 50) and they receive an average monthly benefit of \$3,680. Those who retired under the current 3 percent at 50 formula were 337 in number and their average monthly benefit was \$5,978.

#### Conclusion.

*"Government workers live in a different world." ["Government Workers Immune from Economic Realities", by Stephen Greenhut in Pajamas Media, August 21, 2008]*

Certainly we all live in a different world than the one described by this guy!

1,920 active OC law enforcement members cannot spike their pensions based on a one-year measuring period because we use a two-tiered system here and have for nearly thirty years!

The taxpayer contribution to our pension benefit is a smaller percentage than the investment earnings generated by our pension trust fund and contributions to fund our pension benefits come from both taxpayers and employees.

OC Deputy Sheriffs work in a county that had a per capita income which was higher than the state and national averages, a cost of living index that is "the second highest out of the 300

metro areas" and is described as one of the most expensive places in the nation to live. Our salary and pension benefit reflect what it takes to live and work in the OC!

I could assume that IF any journalist cared more about informing a reader rather than being a cheerleader, he or she could find this stuff out in less time than it takes for me to eat my donut on my coffee break!

#### What else is new?

As one of twenty county retirement systems that all operate under the

*"I could assume that  
IF any journalist  
cared more about  
informing a reader  
rather than being a  
cheerleader he or she  
could find this stuff  
out in less time than  
it takes for me to  
eat my donut on my  
coffee break! "*

1937 Act, OCERS is a member of the State Association of County Retirement Systems (SACRS) that is a non-profit association organized for the purposes of exchanging information relevant to public pension systems and to provide education for trustees and others about their duties and responsibilities.

An overarching goal of SACRS is to promote the good governance of our retirement systems and that requires

trustees, administrators, staff and affiliates to be informed and educated on the various components of our fiduciary responsibilities. The analysis of legislation is an important mission of SACRS and one that is most effective when all twenty systems agree to support or oppose legislation.

At our recent spring business meeting, I was privileged to be elected to the position of President of the SACRS Board of Directors. In this role, I will be involved in the leadership of the organization of these twenty county systems that represent trust fund assets in excess of \$100 billion and which provide retirement benefits to over 400,000 active members, retirees and beneficiaries.

Additional information on the SACRS organization is available on the website at [www.sacrs.org](http://www.sacrs.org).

The Board of Retirement meets in public session on a monthly basis at the OCERS building located in Santa Ana. The current agenda and the minutes of past meetings are posted on the OCERS website at [www.ocers.org](http://www.ocers.org).

I'm always available to answer your questions and I welcome your comments! I can be reached at the Regional Training Academy at (714) 566-2700 or via e-mail at [rawhite@ocsd.org](mailto:rawhite@ocsd.org).



## Efficiency, Efficiency... Where art thou, efficiency?

In this difficult economic environment, you might hear a business leader saying something like, "We need a paradigm shift, so that we can think outside the box to find the tools necessary to right-size (translation: downsize) our company." The lingo is a bit different in Sacramento. In the halls of the Capitol, you might hear a legislator saying, "We need an efficient government in order to avoid the need for revenue enhancements (tax increases) that would affect the good people (the few that actually vote) of my district." You might also hear state leaders using 'efficiency' in a sentence as though it were an object; such as, "Look around people! There have got to be more efficiencies around here somewhere!"

That's just our cynical way of introducing you to the Senate's latest contribution to solving the State's fiscal woes: Project Efficiency. Senate President Darryl Steinberg recently announced that he's created the Senate Office of Oversight and Outcomes, with a staff of three. He says it won't cost the taxpayers extra money because it's being funded by moving resources around within the Senate's existing budget. "It's the Legislature's responsibility to provide oversight over the executive branch and its agencies – that's our job, and that muscle has not been flexed in any kind of ongoing way for a long time," Steinberg told the **Sacramento Bee**.

You might be wondering... Isn't agency oversight the responsibility of the policy committee with jurisdiction over the relevant state agency? Shouldn't the budget committees be

looking at efficiency when deciding whether a state agency is getting the right amount of dough?

Well, yes, but the unfortunate reality is that in a term-limited Legislature, legislators face a huge learning curve.



*Note: These two people are not legislators.*

A good legislator takes the time to learn about the issues which underlie pending legislation on which he or she is required to vote (some just vote however his or her staff or party recommends, rather than learning the

issues). Asking any more of a legislator who might have three new policy committees in any given year seems to be just a bit too much. And as for the budget committees, they rarely seem to get their job done by the start of the fiscal year as it is.

The administrative branch of state government is made up of over 150 agencies and departments, with a total budget exceeding \$100 billion (for now) and about 200,000 employees. Senator Steinberg is hoping that his staff of three will succeed where other efforts have failed. And while his 'where other efforts have failed' reference probably wasn't a direct finger at Governor Schwarzenegger's mammoth California Performance Review project, the shoe does seem to fit. Remember that? In 2004, the Governor stole several hundred state employees to create a grand plan outlining all the ways to streamline state government. It's since become an expensive 2,500 page doorstopper in many state and legislative offices.

According to the **Sacramento Bee**, two of the three people Steinberg hired for the effort are former newspaper reporters. Dorothy Korber, formerly of the **Bee**, was the reporter who put "Chief's Disease" on the map (referring to CHP officials who were retiring for disability at the end of their careers and then

*Continued page 9*

pursuing similar private sector jobs). The other, Nancy Vogel, formerly of the **Los Angeles Times**, published articles about then-Assembly Speaker Nuñez using campaign funds for international travel and trinkets purchased at “high end” retailers. The third staff member is John Adkisson, a law school classmate of Steinberg, whom the senator has reportedly called “the most talented investigative lawyer that I’ve ever met.” (Adkisson also happens to be married to the new PERS CEO, Anne Stausboll.)

Steinberg says that his team will focus on measuring program outcomes rather than looking at process efficiencies, as other oversight efforts have done. In other words, what are Californians getting from their taxpayer dollars?

The framework for his agenda comes from the work performed by California Forward, a group we told you about in April. Five foundations donated a total of nearly \$16 million to fund a three-year effort to find ways to improve the political and government systems in Sacramento, and then to sell their ideas to politicians and voters. California Forward is headed up by Leon Panetta, a former Democratic congressman from Monterey and chief of staff for President Clinton (who is now heading up the CIA), and by Thomas McKernan, a leading Republican fundraiser and CEO of the Automobile Club of Southern California. The foundation created for this effort boasts a high-powered leadership team from both sides of the aisle. (If you’re interested in learning more, the group has an interesting website at [www.caforward.org](http://www.caforward.org).)

In a similar vein, Assembly Speaker Karen Bass has formed a new legislative committee, the Assembly Accountability and Administrative Review Committee, to examine the functions of various departments. The Chair, Assembly Member De La Torre, will be leading efforts to see if there are programs duplicated by various agencies or inefficient contracts on the books, for example. Hopefully they’ll be working closely with Steinberg’s tam.

*“The third staff member is John Adkisson, a law school classmate of Steinberg, whom the senator has reportedly called ‘the most talented investigative lawyer that I’ve ever met.’ (Adkisson also happens to be married to the new PERS CEO, Anne Stausboll.)”*

Republicans have apparently embraced this whole idea. They wasted no time in seizing the opportunity to help form the agenda of these new efficiency committees. Senate Republican leader Dave Cogdill and Assembly Republican leader Mike Villines sent a letter to Steinberg and Bass requesting that work begin with a review of the state’s fastest growing programs.

Namely, the four programs fingered by Republicans – in-home support services for low-income disabled folks; supplemental security income for low-income elderly, blind and disabled; Medi-Cal; and developmental services – make up a huge chunk of the social services safety net created and protected by the Democrats. The GOP letter reportedly states, “If we are not able to rein in the cost of these expensive and ever-growing programs, we will either have to eliminate funding for other important programs or increase the tax burden on our state’s already-overburdened taxpayers to pay for them.”

We’ll have to wait and see who or what will ultimately be driving the agenda of the committees’ probes, and whether they are able to succeed where many, many others have failed. And while their efforts certainly won’t solve the state budget crisis, every penny certainly helps.



# Governor Ditching PEMHCA for State Employees?

While unveiling Schwarzenegger's newest budget proposal, state Finance Director Mike Genest announced that the Governor wants to pull state employees out of PEMHCA (the unwieldy acronym for the PERS health care program). Never mind that PEMHCA was originally created for state employees; if the Governor were to have his way, PEMHCA would be reduced to a purchasing pool just for schools and local public agencies.

The 2009-10 Governor's Budget proposes savings of \$180.1 million from employee health care expenses (\$132.2 million from the General Fund and \$47.9 million from special funds) beginning January 2010 by "contracting for lower cost health care coverage directly from an insurer rather than through CalPERS." Beginning in 2010-11, any savings would be used to prefund OPEB expenses. (At least OPEB prefunding hasn't disappeared completely from the radar.)

So what makes this particularly interesting? There seems to be no consensus in the Governor's office about what this proposal would actually do. Some are under the impression that the state would directly contract for a health plan, which would then be administered by PERS and made available only to those employees whose bargaining units agreed to offer it. Others, like the Director of Finance, think that all state employees would be leaving PEMHCA – an entirely different interpretation with vastly different consequences. But let's back up a step...

## How did we get here?

For years, the state employer (the Department of Personnel Administration, known as DPA) has been asking PERS to provide options for a lower cost health plan, whether through a

lower benefit structure or a higher deductible amount. In particular, high deductible health plans with an accompanying medical savings account have become a popular insurance product over the past five years or so, and the State wants to have this type of plan as an option at the bargaining table.

The last time this issue was visited in depth, the PERS Board decided to table it indefinitely. Specifically,

*"In particular, high deductible health plans with an accompanying medical savings account have become a popular insurance product over the past five years or so, and the State wants to have this type of plan as an option at the bargaining table."*

staff analyzed the option of providing a high deductible/medical savings account combo as an additional option in its health plan lineup. The Board had a great deal of concern about the potential adverse selection that would result for the other health plans. High deductible plans typically attract the young and healthy, which would leave the older, sicker folks driving up costs for existing health plans.

That was the practical reason for tabling the issue, but we're willing to bet that the political reasons for tabling the issues may have weighed a little more heavily in the minds of Board members. And who would be the primary opponent of a lower cost health plan for active employees? Why, state retirees, of course! Huh? Have you heard of the "100/90 formula"? Understanding this formula is a necessary first step in decoding half of the health care politics at PERS.

The "100/90 formula" refers to the amount the State pays towards retiree health care – 100 percent of premiums for the retiree and 90 percent of the additional premium amount required for dependents. In a program with multiple health plan options, 100 percent of which premium becomes the underlying question. PEMHCA law stipulates that the weighted-average premium for the four largest health plans, based on state active employee enrollment, is the basis for the retiree contribution formula.<sup>1</sup> Thus, whenever PERS or the State wants to change something for active employees, the state retiree group comes unhinged. It's definitely a recipe for perverse incentives and politicking.

So when the PERS Board started tossing around the idea of a high deductible health plan option, several labor groups were opposed to the idea, which eliminated a couple of Board votes. And when the retiree groups saw that the high deductible health plan would most certainly become one of the four largest health plans used in calculating their 100/90 formula, they started weighing in (which is a big understatement). Their advocacy took away any remaining Board resolve to try out this newfangled (at the time) health plan option.

*Continued page 11*

**So back to the story...**

Meanwhile, while the PERS Board might feel that the issue of high deductible health plans has been resolved, the State has never lost its interest. Perhaps that message was never communicated with adequate strength, because it certainly seems that PERS was caught off-guard by the Governor's latest proposal.

Of course, the PERS Board is not the final authority on its health care program. The Legislature could have mandated years ago that PERS include a lower cost health plan option, and at least one Republican member or another has introduced a bill each year to do just that. Democratic legislators, however, don't seem to be willing to pick up this hot-potato issue for the same reason that the PERS Board set it aside.

As rumor would have it, when at least one state employee union expressed a willingness to have a high deductible health plan on the table as a potential bargaining issue, the State finally drew the line. Since PERS won't provide a high deductible health plan, the State wants the ability to directly contract for such an option. So what started as the State's desire for additional health plan options somehow morphed into a declaration by the Director of Finance that state employees are getting out of PEMHCA. And what did the Governor truly mean in his budget proposal? Nobody seems to know.

It's not clear whether the Governor or his Finance Director understand that in order to execute this threat, they'd have to write a whole new body of law to replace PEMHCA and create a duplicate bureaucratic wheel to administer it. (We doubt that that cost was factored into the budget savings.) Not to mention that state employee MOUs stipulate that coverage will be provided under PEMHCA (even though all but one contract has expired).

When this idea finally percolates into a legislative proposal, it will be very interesting to see what the bill actually says. Sometimes issues take on a life of their own.

**How were savings calculated?**

If PERS were to offer a high deductible health plan (or all state employees were taken out of PEMHCA – however you wish to interpret it), the State estimated total savings in employer contributions of \$180.1 million. How did they come up with this figure?

The State offers its active employees a set dollar amount per month, which

*“Perhaps that message was never communicated with adequate strength, because it certainly seems that PERS was caught off-guard by the Governor's latest proposal.”*

is inadequate to cover the premiums of any available health plan without an additional contribution by the employee. Even if a high deductible plan was 15 percent cheaper than the lowest cost HMO, the employer contribution still wouldn't be adequate to cover that premium amount. In other words, the State won't save any money in the employer contributions simply by putting a lower cost plan on the table.

However, according to state bargaining agreements, the monthly employer contribution amount is determined

by.... (You guessed it!) a formula. The active employee formula is calculated in exactly the same manner as the 100/90 formula except that it pays less. (While the MOUs differ, most state employees receive 80 percent of the weighted average health plan premium for the single-party rate, plus 80 percent of the additional amount required for dependent enrollment.) The important part is that the formula relies on the premiums of the four largest health plans, so the State is evidently assuming that the new high deductible health plan would become part of this formula determination. (It just so happens that the plan that would be knocked out of the formula is the most expensive plan that PERS offers – the Cadillac PPO, PERS Care.) Thus, by reducing the basis of the formula, there would be savings in active employee costs and also potential savings in retiree costs.

It's not clear how the State specifically calculated its savings, but the projected amount equates to a 9.3 percent reduction in the State's contribution towards active employees<sup>2</sup> or a 6.2 percent savings in its overall health care spending (including retiree contributions)<sup>3</sup>.

Given the state's other budget priorities, it's not clear whether the Governor has the will or the resources to wage the battle necessary to succeed in taking state employees out of PEMHCA. Regardless, it will be fun to watch this one unfold. Game on!



<sup>1</sup> Only fully vested employees get the entire amount determined by the 100/90 formula. Others get some fraction of that amount.

<sup>2</sup> It's projected that the state will spend \$1.933 billion in employer contributions for active employee health benefits during 2009.

<sup>3</sup> The state will contribute approximately \$.982 billion in employer contributions for retiree health benefits during 2009, for total health care spending of \$2.915 billion.

# First Female CEO: Anne Stausboll

After conducting an interview process in mid-December, the PERS Board announced its selection of internal candidate Anne Stausboll as the next CEO of the state's largest pension fund. For the past four years, Stausboll has served as the Chief Operating Officer of the PERS Investment Office. And since the Chief Investment Officer (CIO) left in April 2007, Stausboll has also been serving in her second job as the Interim CIO (in addition to her normal job duties). Trying to serve in two huge roles is a monumental task under any circumstances, but given the performance in the financial markets since June, you've got to wonder how she's managed. (We're guessing sleep deprivation may have been involved.)

Stausboll will be the first female CEO in the fund's 77-year history. She officially took the helm on January 12th, taking over for Ken Marzion, who has been serving as the Interim CEO since Fred Buenrostro left the system in June. As CEO, Stausboll will oversee all of PERS' operations, which includes 2,300 employees, a budget of over \$332 million, and countless daily headaches. On the topic of Stausboll's selection, Board President Rob Feckner said, "Anne is a stellar public servant and natural leader for our fund. Her leadership and government policy experience in all facets of her career will serve our members, employers, and staff very well."

The field of competition reportedly came down to two standout contenders, Stausboll and an unnamed external candidate. Some Board members may have thought twice about promoting Anne to the top spot since it means that two positions will now be vacated behind her. While the

Board's recruitment process for a CIO is ongoing, it will still be several months until a successor is in place.

Stausboll brings more than just investment experience to the table. In a prior life, Stausboll paid her dues in the PERS legal office where she worked her way up to Deputy General Counsel. (Did we mention that she's also an attorney?) In that capacity, she was exposed to the full range of pension fund issues. She left PERS to become General Counsel for State Treasurer Phil Angelides, and was later appointed Chief Deputy State Treasurer. In that role, she had responsibility for overseeing the policies, programs, and operations of the Treasurer's Office, which controls the public investment and cash management functions for the State.

Since joining the PERS Investment Office, Stausboll has done a remarkable job of bridging communications between investment staff and the PERS Board, no doubt soothing lots of egos in the process and some-

how always remaining above the fray. Trust us...this is no small feat in the politically charged environment that the PERS boardroom can become.



You might just be surprised by how much PERS can quietly accomplish with this smooth operator at the helm. And under Stausboll's leadership, the PERS Board and its staff might finally begin operating from the same playbook once again. What a novel strategy!



## Fax or Mail This Card

### Subscribe Now!!

There will be articles of interest to you each month in  
**The Public Retirement Journal – Subscribe Now!**

For more information, call (916) 341-0848.

12 issues/year \_\_\_\_\_ Payment enclosed

\$195 per year \_\_\_\_\_ Bill me

Name \_\_\_\_\_ Title \_\_\_\_\_

Agency \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Telephone # \_\_\_\_\_

Email \_\_\_\_\_

Fax (916) 341-0849

925 L Street #850 • Sacramento, California • 95814

or go to [www.publicretirementjournal.org](http://www.publicretirementjournal.org)