

**Comments to the  
Public Interest Committee  
of the  
American Academy of Actuaries  
by  
Henry Jones, Elected Member  
Board of Administration  
California Public Employees' Retirement System**

**August 29, 2008**

In 1998, I retired from the Los Angeles Unified School District. At the time of my retirement, I was the Chief Financial Officer of the school district with responsibility over a \$7 billion annual budget. In addition, I led the Annuity Reserve Fund Board overseeing the pension fund for 7,000 school teachers and administrators. During my career, I served as State Finance Chair for the Association of California Schools Administrators; Treasurer of the Council of Institutional Investors (CII) and Chairman of the Schools Federal Credit Union with assets of \$120 million. In each of these capacities, I have been responsible for maintaining the highest degree of accountability to the citizens of California and to the members of the various organizations that I have served. I am keenly aware of the need for accurate, understandable and useful financial documentation.

In December of last year, I was elected by the retired members of the California Public Employees' Retirement System (CalPERS) to serve as their representative on the CalPERS Board of Administration. CalPERS is the largest public pension system in the United States; responsible for the administration of retirement benefits for more than 1.5 million active and retired California public workers and their families. We actively manage retirement programs on behalf of 2,600 government employers throughout California. I am proud to serve as a representative of the System's nearly 450,000 retirees and am profoundly aware of my responsibility to ensure the plan's financial integrity and sustainability.

As a result of my background and current obligations, I have carefully reviewed the arguments on both sides of the question of whether it would be advisable for public pension plans to calculate and disclose the market value of liabilities (MVL). In doing so, I have considered the following fundamental questions:

- Is the calculation of the CalPERS MVL relevant to the management, funding and/or long-term security of the retirement system and to those commitments that our members and their families rely on?
- Does the disclosure of the CalPERS MVL add value to the general public's understanding of the obligations that the taxpayers of the State of California and our 2,614 participating local public agencies and school districts have to fully fund the benefits promised to our 1.5 million active and retired members and their beneficiaries?
- Would it be in the interest of our members and retirees, their employers, or the California taxpayers to abandon the investment strategy that has served CalPERS and all of our stakeholders so well in order to adopt a bond-like portfolio consistent with the MVL principles?

In each instance, I have concluded that the answer to these questions is no.

To state the obvious, the State of California is not going out of business and to calculate what some may construe as essentially a plan termination liability is not relevant to the management, funding or long-term security of CalPERS. A private enterprise is quite different – businesses are bought and sold and companies succeed and fail. As a result, it's clear that the retirement promises of private employers have an inherently different kind of risk associated with them than do those of a governmental unit. It's also clear that the profit-seeking goals and objectives of corporate stockholders and the obligations of their corporate management are fundamentally different than the obligations of public officials and taxpayers to provide public services, to compensate public workers and to prioritize what's in the best interest of our state, communities and school districts.

As a former chief financial officer, I believe in transparent and understandable financial documentation and therefore appreciate the value of your consideration of this question. However, I can also easily anticipate the enormous potential for the misinterpretation and misuse of data that is irrelevant to the bottom-line financial integrity of any public institution. The taxpayers of the State of California or those of any one of our participating governmental units could easily be confused and misled by a number that (1) anticipates a situation that will never occur at CalPERS (the sale or bankruptcy of the State of California) and (2) artificially and unnecessarily understates the investment income that can be prudently anticipated from a broadly diversified and professionally managed portfolio. From my perspective, to knowingly understate potential investment income is no less irresponsible than to overstate anticipated income in order to justify higher benefits or lower contributions. Rather, we have an obligation to utilize the historical experience of our plan to responsibly predict the future.

Given my experience as a member of the Council of Institutional Investors and as a trustee of the Annuity Reserve Fund for the LA Unified School District and CalPERS, it is inconceivable that we would willingly choose to abandon an investment strategy based in the theories of modern portfolio management that has a proven track record of benefiting our members, their employers and our taxpayers. Further, as CalPERS has documented in recent economic impact reports, the CalPERS investment portfolio has consistently served as a major force for economic growth and development throughout the State of California. Some would suggest that the calculation of MVL and the actual investment program are separate issues. However, it is absolutely clear that many of the major proponents of MVL are also equally committed to re-constituting the investment programs of public pension plans across America.

In conclusion, while I appreciate the American Academy of Actuaries' desire to fully consider the merits of this theory; I would respectfully suggest that this is a discussion that must be considered within the context of the unique characteristics of the public sector. And, I would suggest that you appreciate all of the consequence – including those that as actuaries you may not anticipate – that your actions may cause. You have an obligation to add valuable and relevant information to the public debate – from where I sit MVL does not meet that high standard.