

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

**August 29, 2008**

For nearly two decades, I have dedicated myself to protecting the retirement security of California's public workers and their families. I am currently serving my fifth term as an elected member of the Board of Administration of the California Public Employees' Retirement System (CalPERS) and I feel a unique bond with each of our 1.5 million active and retired members. I have a clear and unambiguous commitment to fight for the rights and benefits of every member and a legal obligation to insure that our retirement system is financially sound and fully accountable to every member and to every taxpayer.

As an elected trustee of CalPERS and as a former president of the California School Employees Association, I feel like I am fully qualified to speak to your committee as a true stakeholder in the discussion in which you are currently engaged. I would suggest to you that my voice and the voices of many other representatives of public pension plans from throughout America must be considered as you evaluate the merits of the arguments advanced by proponents of the calculation and disclosure of the market value of liabilities (MVL).

I'm certainly not a pension actuary and it's not my intent to question the motives of MVL proponents or to challenge the intellectual underpinnings of the theory or to evaluate the applicability of the theory to private sector pension plans. However, I do consider myself an expert on what happens in the public discourse when advocates with a particular political agenda utilize inaccurate or irrelevant information to advance their goals.

In recent years, we in California have had to fight to preserve the defined benefit retirement model that has clearly served the state, our local and school employers and our members so well over so many years. Over and over, we have been forced to correct misinformation – to set the record straight and to document the facts regarding the strength and financial stability of CalPERS and other public pension plans. We have frequently needed to confront the willingness of our adversaries to recklessly use information to mislead and frighten California taxpayers to advance an ideological agenda that would be disastrous for California.

Public pension systems have been very active in corporate governance and there are those who, because of the corporate governance activity, are opposed to public sector defined benefit plans. Further, there are those who believe that public sector defined benefit plans are inherently evil – perhaps because they fear how the economic clout of

government controlled entities will be used. For whatever reason, there are those who are opposed to public sector defined benefit plans in general.

It is my opinion, based firmly in my experience, that the MVL calculation will be used by those who are opposed to public sector defined benefit plans, to mislead California taxpayers. They will advocate for “reforms” that will undermine the retirement security of hard-working teachers, fire fighters, school employees, police officers, correction officers, public health officials, nurses and countless other public workers. While I absolutely believe that the American Academy of Actuaries would never intentionally add fuel to such a political agenda, I assure you that such a reality will be an inevitable consequence of the introduction of MVL in the public sector. No one who has walked in our shoes would dispute the threat that this theory poses to responsible decision-making in the public arena.

At the same time, I want to be clear about the fact that I’ve never been afraid to disclose critical and relevant information about any aspect of CalPERS, its assets or its liabilities. No one should question the commitment of any CalPERS trustee to transparency and to accountability. We demand it from the companies in which we invest and we hold ourselves to the same high standards.

In our country, it’s illegal to falsely shout “fire” in a crowded theater. It’s illegal because it will result in actions and behavior that threaten the common good – it frightens people and causes them to act in a manner that puts themselves and their neighbors at an unnecessary risk. From my perspective, it’s equally irresponsible to establish and publish a public liability that our history and financial experience simply doesn’t support. To provide a number that plays no role in the management and funding of our retirement system – which overstates the cost of our benefits and falsely calls for inflated and unnecessary contributions – is neither responsible nor necessary.

As an elected advocate for the members of our retirement system, I assure you that I have a fundamental commitment to fully and responsibly fund every commitment that has been made to every member of this retirement system. If I believed that the MVL calculation would increase the sustainability of our system, would enhance the retirement security of my fellow public workers, or would enlighten the public about our retirement program, I would support this disclosure. Since MVL does not add value in any of those ways, I do not believe that it has any relevant application in the public sector.

Finally, from my perspective, I cannot overstate my belief that this is not simply an academic exercise. It is not about possibly adding one new number to a financial statement. It’s about the future of public sector retirement benefits. It’s about unintended consequences. It’s about the fundamental differences between the public sector and private pension plans. It’s about the retirement security of millions of Americans.

I trust that you will act in a manner that fully appreciates the significance of your actions.