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Inside this issue:

CalPERS Earned 0.6% Last Year -- Should We Be Worried?

By John G. Kilgour, CSU East Bay

On July 18, 2016, CalPERS announced that it had earned only 0.61% on its $297 billion in assets in FY 2016 (ending June 30, 2016).

Since then, asset values have increased to $301 billion, about where they were a year ago. Ted Eliopoulous, Chief Investment Officer, explained that it was a rough year and assured the readers that CalPERS had plenty of money to meet its benefit obligations.

Actually, no major public pension plan has reported a "return on investment" (ROI) of more than 1.5% in FY 2016. For CalPERS, this was the second bad year in a row. In FY 2015, it earned only 2.4%.

Table 1 (page 7) reports the "funded ratio" (percent funded) of all state and local plans tracked by the Center for Retirement Research at Boston College (N= 150), CalPERS, CalSTRS and the University of California Retirement Plan for 2000 – 2015. The data are weighted averages of all plans or components. The CalPERS experience is rather typical compared to that of other public employee pension plans.

One reason for the meager returns was the bad economic news coming out of China. Another was UK vote to leave the EU. Both cast a pall of uncertainty over

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Legislative Report: Political Overkill?

By Alan Wade, CSU-ERFA Legislative Director

Those who try to pay even casual attention to politics today are in overkill mode. Still, rather than giving in to the temptation to throw up our hands and give it up as "sound and fury signifying nothing," a brief overview of some of the highlights of the just-ended legislative session could help make sense of the current apparent chaos.

By the closing date of the two-year legislative session on August 31, more than 3,100 bills will have been introduced. Most of those that have cleared the legislative process will be dead by session's end. The process has already required more than 1,800 committee votes through the end of August. While the Democrats are clearly in control of the legislature, serious conflicts remain within the majority party and between the always contentious Assembly and Senate.

Still, the current session ends with some landmark successes. Certainly most important among these is S.B. 32, California's signature clean air bill. Its importance can be judged in part by the fact that it terrifies the oil industry, which fought it since its introduction by a Republican governor, Arnold Schwarzenegger. Notable is the regression of Republican lawmakers—the current bill was opposed by all but one. There seems little doubt that the bill will be signed by the governor, in spite of his own entanglements with Big Oil.

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From the President...

Dear Colleagues,

Staffing. I want to begin with a few comments regarding the changes in CSU-ERFA staffing. After ending his teaching career, Don Cameron flunked retirement (like yours truly) and served for more than eight years as executive director of our organization. As a number of you who interacted with him have emphasized, he did a marvelous job and helped expand and strengthen CSU-ERFA. Now he is fully retired and moved to University Village in Thousand Oaks. I am familiar with that complex since I have a relative and a friend who live there, and we visit them occasionally. Now Don can spend more time on the golf course and traveling. I wish him well and plan to share a meal with him when I visit the village. We are extremely fortunate to have Harold Goldwhite assume the executive director's position as of July 1st. Harold and Don worked together closely to ease the transition. Given Harold's background and knowledge of the CSU, I am confident that the future of our group is bright.

We also have a new office manager, Melanie Mamakos. Though we no longer have a student intern, Melanie has very ably assumed the daily operational duties of the office. She just completed her probationary period and was highly recommended by Don for permanent status. What a team we have at CSUN!

Executive Committee Meeting. Our leadership team met on August 13th. In addition to the usual reports on our finances (which continue to be stable and healthy), we were informed that our website is frequently visited. Mark Shapiro does an excellent job of keeping it current and informative. Our Legislative Affairs Committee, after reviewing the many initiatives that will be on the California ballot in November, recommended that CSU-ERFA not take positions on any of them at this time. Leni Cook, our new co-chair of the committee, summarized a number of the complex items for us. I encourage all of you to study the propositions carefully, consider the positions of the groups whose opinions you respect, and, most importantly, get out and vote in this critical election. We also discussed plans for the next state council meeting on October 22nd at Cal Poly Pomona. Tom Donahue, chair of the pre- and post- retirement committee, told us that they are considering revisions of the Survivor's Guide. If you or your colleagues have any suggestions, please forward them to Tom at donahue_thomas@ymail.com

Archivist. Judson Grenier has served as the CSU-ERFA archivist since the creation of this valuable historical resource in 2006. He has done a remarkable job of maintaining systematic records of our nefarious operations. My Dominguez Hills colleague of almost half a century has requested a replacement. Since the archives for the entire system as well as CSU-ERFA are housed at our campus, we sought a successor from one of the So Cal campuses. A emeritus colleague from the DH library, Joanna Dunklee, has agreed to succeed Judd. They will work together to make this transition transparent as well. Thanks again Judd, and welcome Joanna.

CSU-ERFA E-Magazine. Our Vice President, Barry Pasternack, suggested that we develop an electronic magazine for our members. He presented a number of ideas regarding content and distribution. The executive committee was very enthusiastic about this 21st century communications tool and urged him to present it to our publications committee. Stay tuned.

CSU's Lagging 4-year Graduation Rates. The initial sentence of the August 29th front-page article in my local newspaper (*The Daily Breeze*) regarding this issue stated: "The concept of a "four-year university," at least at Cal State University campuses, has long been something of a polite fiction for many students." This condescending and ill-informed opinion needs clarification. The article mentioned that there has been some improvement; less than 10% of first-time freshmen managed to graduate in four years in the 1980's and early 1990's. Currently about 19% do so. Some of the CSU's efforts to further improve the four and six-year graduation rates were described. However, the underlying causes of these rates were not cited.

When most of us were undergraduates, the four-year college degree timespan was taken for granted. A great deal has changed since then. The authors of the article did not understand that the CSU educates many first-generation college

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Legislative Report

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Another of the "Bigs" – Pharma – showed its muscle earlier in the session by defeating S.B. 1010, a modest step toward controlling drug prices by requiring transparency in price increases. The measure failed in the Assembly Ways and Means Committee, despite support from all major health care providers.

Yet another "Big" – Agriculture – has for many years opposed the idea of overtime pay for farmworkers. In the waning days of the session, A.B. 1066 (Gonzalez, D-San Diego) finally passed. An amended version of a similar bill that failed in June, it certainly will come to be regarded as landmark legislation in the state's halting pursuit of a level playing field for agricultural workers. As expected, Big Ag paints a doomsday scenario, predicting lost jobs and higher consumer prices through lost crop production. The governor's signature is less certain on this one.

In part because of most Californians' historic distrust of the legislative process, we love our ballot initiative process. We've got a lot to love confronting us on November 8 – seventeen (17) ballot measures, numbered 51 through 66. We will hear lots of hot discussion about a few of these before November. Some, like Prop. 64 legalizing the recreational use of marijuana, will be thoroughly vetted in the media as election day approaches. Few of the seventeen seem to directly affect our interests as retirees, with the exception of Prop. 61, imposing price controls on state drug purchases. Big Pharma sees it as such a threat that it promises to spend up to $100 million to stop it. I recommend a resounding "yes" on 61.

CSU-ERFA's legislative committee will pay close attention to this and other ballot propositions in the next couple of months and will offer some advice on key propositions. Whether we will take positions on any of them is uncertain at this time.

As you study the seventeen, pay special attention to the money behind them – likely to be more informative than all the words in the initiatives themselves.

We are interested in knowing what you think about any of the 17 ballot propositions. Which do you plan to vote for or against and why? Which should CSU-ERFA pay attention to, if any? Write via email to Alan Wade, CSU-ERFA Legislative Director, at alanwd9@gmail.com or Ted Anagnoson, Editor, at anag999@silcom.com Thank you.

Seniors Continue to Lag in Online Access

According to a new statewide Field Poll, 84% of California households now have access to highspeed Internet at home. This proportion is up nine points from 2014.

Most of the increase in broadband Internet connectivity is due to the growing popularity of mobile, smart phone devices. There has been a near doubling – from 8% to 14% – in the proportion of Californians who access the Internet at home only through a smart phone. While this is enabling more to get online, these users have more limited functionality when connecting to the Internet than those connecting from a desktop, laptop or tablet computer. In addition, some smart phone users face limitations in data access based on their monthly cell phone plans.

The difference between those who have broadband Internet access through a home computing device and those who don't is fostering what some are calling an "under-connected" class of Internet users. And, these users largely come from the same population subgroups as those with historically lower levels of residential Internet access.

For example, not only are low-income Californians less likely than high-income earners to have Internet access at home (68% vs. 97%), the disparities grow wider when comparing how residents with access are connecting to the Internet. Just 43% of Californians with incomes of less than $22,000 can access the Internet at home through a computing device, compared to 94% among those with incomes of $100,000 or more.

Similarly, a smaller proportion of the state's Spanish-speaking Latinos (69%) than others have access to broadband Internet at home, and just 39% connect to the Internet through a home computing device.

The survey also finds that seniors age 65 or older continue to lag behind other population segments in having access to broadband Internet at home. Just 56% of Californians age 65 or older report this, while 44% do not. Further analysis of the seniors without Internet access shows them to have the following demographic profile: low income, women, renters, did not attend college, Latino or Asian American, and first generation immigrants.

Other population subgroups with lower levels of Internet access at home are the disabled, Californians living in population areas of the state with fewer than 10,000 residents, and those who have not graduated from high school.

Cost is by far the single biggest factor preventing those without Internet connectivity at home from going online. Of those without Internet access at home, three in four (74%) cite either its expense or not having a computer or smart phone at home as the reason for not being connected, and 39% volunteer this as their main reason. No other factor is cited by more than 18% as a primary reason for not having Internet access at home.

Pre- & Post Retirement: Out-of-Network Medical Bills

By Tom Donahue, Chair, Pre- and Post-Retirement Concerns Committee

Q: Surprise Medical Bills – Will AB 533 Help?

A: Assembly Bill 533 in 2015-16 promised considerable relief from surprise medical bills not covered by your present plan. The usual example for such a predicament concerns an expectant mother who goes into labor far distant from her HMO and is charged extraordinary fees for childbirth costs.

But for retirees, consider this: you are on a trip elsewhere in California, away from your home network HMO, and you have a medical emergency. One or more of your attending physicians is not a member of your health plan, but they fix you up and you go home quite successfully on the mend. Back home, there may be a shock in store: the hospital bill might be a whopping jaw-dropper. If you have a large HMO like Kaiser, you either present the bill to the HMO, or pay it and send the receipt to the HMO. But if you are not a member of a large HMO - do you have any recourse?

Under development in the California legislature in 2015 was AB 533, crafted and presented by Assemblyman Rob Bonta (D – Oakland). This legislation provided that professionals giving non-contracted care would be reimbursed based on "covered services in the amount the individual health professional would have been reimbursed by Medicare for the same or similar services in the general geographic area in which the services were rendered" (Article 1371.31).

The bill was amended twice in 2015 in the Assembly and passed 69-1; it was amended three times in the Senate in 2015 but failed by three votes last September.

Professor Alan Wade, CSU-ERFA's legislative director, wrote that the bill "was opposed primarily by organizations of health care providers" (some of whom are mentioned below), but it may be re-introduced in a coming session.

However, the pushback from the medical community itself is fascinating and in fact gripping. Perhaps we are overdue to see some sensitive and extremely concerned opinion from a medical practitioner.

Remarks from a provider, Dr. Eileen Natuzzi, a vascular surgeon from Encinitas, give an additional perspective from an M.D.'s point of view:

What insurance companies pay their in-network providers is a lot less than what out-of-network providers bill as usual and customary. This is the entire crux of the matter. Insurance companies hold the upper hand on contracts with doctors, underpaying their contracted in-network providers. This is especially true since the ACA was implemented, and poor reimbursing exchange contracts were offered on the Covered California website.

Ever-shrinking reimbursement with rising costs, medical education debt and no ability to collectively bargain for adequate reimbursement from the likes of Blue Cross and United Health has left providers with one option: drop their contracts and charge usual and customary rates.

Non-contracted providers must fight with health insurance companies regularly in order to be paid for services rendered, even lifesaving emergency ones. Currently emergency care is not factored into the equation, but should be, as risk and acuity are higher than in elective treatment. For any emergency care health insurance companies should guarantee timely, hassle- free payment to non-contracted providers that pays a reasonable usual and customary amount. Emergency providers should agree to not bill excessively. But rates should not be the same as in-network rates.

If the Bonta bill goes through, insurance companies win yet another big victory. If you layer the Bonta bill on top of California's Medi-Cal expansion, the business of medicine will simply become too expensive for many California doctors including surgeons and anesthesiologists to continue working. Consumers will lose as doctors leave and provider pools shrink. The insurance companies will continue to net big profits while underpaying all providers, contracted or not.

No current presidential candidate is blaming, much less mentioning doctors as responsible for rising health care costs. But they are blaming insurance companies and drug companies for the persistent cost escalation. That's because doctors and clinics only account for 18-20% of total healthcare costs. AB533 will do nothing to correct increasing health care costs and will in fact feed current increases. Health Access California, the sponsor of AB 533, needs to hold the insurance companies responsible for failing to pay providers adequately for services rendered and failing to provide robust provider networks for consumers. Attacking doctors who choose to be non-contracted is just not the right way to address the problem of undervalued doctor services. The California state legislature should be focusing its efforts on the insurance side of this problem in order to make health insurance companies pay non-contracted providers what is a fair usual and customary rate.

This opinion, obviously very strongly felt, is a necessary addition to the discussion of AB 533. We can now envision this matter as a kind of combat from four corners of a pugilistic ring: in one corner, Assemblyman Bonta and his effort to exert leadership on an issue, in another corner, we the needy citizens, in another the insurance companies, and in the fourth the practitioners.

There is uncertainty over whether or not this precise bill will be reworked; spokespersons at Assemblyman Bonta's office say that the present focus is on AB 72, which passed both houses of the legislature in August 2016 and is on the governor's desk in early September as we go to press.

This bill, quoting from the text, "establishes a payment rate, which is the greater of the average of a health plan or health insurer's contracted rate, as specified, or 125% of the amount Medicare reimburses for the same or similar services." It is fascinating that the legislation shows a "trickle-down" effect of a form of retirement benefits to other citizens. The Pre- and Post- Retirement Concerns Committee will makeAB 72t the subject of our column in the next issue of *The Reporter*. Watch here for future news!

If you have questions for this column, please write Tom Donahue at donahue__thomas@ymail.com

Health Benefits Report: Open Enrollment Process Change, OptumRx Conversion, LTC Lawsuit Status

By David Wagner, CSU-ERFA Health Benefits Director

CalPERS Open Enrollment Process Change. The annual CalPERS' health plan open enrollment period is from September 12- October 7, 2016. This year there is a major change in the process for receiving your statement and open enrollment material. As was explained in past issues of *The Reporter*, active and retired members who wished to continue to receive their statements and enrollment information by mail needed to inform CalPERS of that decision by July 1, 2016. Those who did not inform CalPERS of their choice of the mail option will receive statements and enrollment material via My|CalPERS, CalPERS' name for its individual account information access to the CalPERS website.

Members who opted for mail received a letter acknowledging this selection. Those not responding or selecting email received email confirmation from CalPERS. You will receive another reminder by mail or email from CalPERS on August 22, 2016.

How you receive Open Enrollment material and the process for changing to a new health plan is important primarily if you decide to switch health plans. If you are satisfied with your current plan and that plan continues to be offered, you do not need to do anything. In response to stakeholders' concerns, CalPERS managers have indicated that members who did not respond to prior requests and now wish to receive Open Enrollment information by mail may call CalPERS and request mail delivery.

The links to the 2017 health plans and rates, along with pharmacy benefit changes are https://goo.gl/T1CC37 and https://goo.gl/PGDBjX. (Editor's note: we've used "shortened URLs" here so that the link will fit in a column and be accessible directly from the PDF version of the newsletter.)

OptumRx Transition. OptumRx will be the CalPERS' Pharmacy Benefit Manager beginning January 1, 2017 for all health plans. CalPERS notes in the FAQ that "Blue Shield Access+, Kaiser Permanente, and UnitedHealthcare Group Medicare Advantage PPO health plans are not affected. OptumRx replaces CVS/caremark in administering prescription drug benefits.

Learning from the transition experience five years ago to CVS/caremark, CalPERS has over 100 staff assigned to this project. Frequent communication with members impacted by this change is planned. Customized letters will be sent to impacted members in mid-September with information on the transition. A toll free phone number will be announced to provide answers to specific questions. The CalPERS – OptumRx Transition FAQ document is posted to the CalPERS website at: https://goo.gl/3QJZqD

Long-Term Care Lawsuit. The CalPERS long-term care lawsuit (Sanchez v. CalPERS) is moving forward. Postcards have been mailed to all identified members of the class who purchased LTC1 or LTC2 long-term care. You are a member of the class if you are a Californian citizen; you purchased a long-term care policy from CalPERS between 1995 and 2004; you were subject to the 85% premium increase announced in or around February 2013 and implemented beginning in 2015.

If you want to remain a member of the class you do not need to do anything. You will automatically be included unless you opt out. The postcard contains information on the procedure to opt out of the lawsuit.

Blue Shield Short Term Service Closure. The August 12, 2016 *San Francisco Business Times* reported that Blue Shield of California "is shutting down for four days after Labor Day to reduce its payroll related liability." This will affect most of its California workforce. This story may be picked up by other media outlets. The good news, according to David Teykaerts, CalPERS' manager for Stakeholder Relations, "is that CalPERS members and retirees will not have a service interruption during this time." He notes that the CalPERS contract requires Blue Shield to "provide CalPERS-specific customer service seven days a week, except contractor holidays." This is the link to the original media story from the *San Francisco Business Times*: http://goo.gl/Ku5yoX.

CSU-ERFA Charitable Foundation Receives Sixth Challenge Grant

The CSU-ERFA Charitable Foundation recently received a sixth $500 challenge grant from a CSU-ERFA member. The donor will match all donations from individuals received by the foundation through December 30, 2016 up to a total of $500. We are pleased to report that several members made contributions between January 1 and June 30, 2016, and our previous challenge grant was fully matched.

The CSU-ERFA Charitable Foundation is a 501(c)(3) organization that provides competitive grants to CSU-ERFA members to support their research and scholarly activities. Donations in any amount from both CSU-ERFA members and the general public are welcomed. Donations to the foundation generally are deductible from state and federal income taxes, and all donations will be acknowledged in writing.

You may donate to the foundation by sending a check made out to the CSU-ERFA Charitable Foundation to CSU-ERFA, 18111 Nordhoff Street, Northridge, CA 91330-8339.

Alternately, members can choose to donate to the foundation monthly through a deduction from their CalPERS pension warrant. If you wish to contribute through a deduction from your CalPERS pension warrant, please download our donation agreement form, fill it out and return it to the foundation at the above address: http://csuerfa.org/pdf/Donation-Agreement.pdf

CFA Report: "Updates from CFA"

By Leni Cook, CSU-ERFA Liaison to CFA

As CFA accelerates into fall after a successful spring bargaining agreement, expect to see a focus on bolstering tenure density, full funding, academic freedom and shared governance. At the "Fall Kick-Off" August 12-13, activists and leaders from all the campuses met and began to plan actions and activities focused primarily on these areas.

As a part of the spring bargaining agreement, a working group consisting of the CSU and CFA has been formed to address range elevation issues for lecturers. An organizing meeting was held in July, and a further meeting is scheduled for the end of August. Currently, lecturers must be at the service salary increase maximum in their salary range in order to apply for an elevation. But after years of no SSIs for faculty, reaching the maximum has become difficult, if not impossible. If the working group, which includes CFA lecturer leaders, fails to agree to a resolution, the parties will submit the matter to binding arbitration.

Right now, there is one CFA-sponsored bill still active: AB 2294, which assures the same union affiliation-related leave time for public universities as present law does for K-12 and community college representation. Also, CFA supported AB 2016, which authorizes ethnic studies courses in secondary schools to be included in the A-G college entrance requirements. And they are working with the coalition of educational organizations, unions, and others in support of Proposition 55, which would extend the tax structure for high income earners in Proposition 30 that sunsets next year.

FYI: The CFA contract is online and searchable. You can browse the entire faculty contract at http://goo.gl/XtGfKg. This is a searchable HTML document. You could enter any search term in your browser search window and search the entire contract for all references to that term. For example, you could search for all the instances of "FERP" or "retirement medical benefits" and it would return all the places you would find those terms throughout the contract.

CSU Daily Clips

Are you interested in keeping up with the news about higher education in California? Each weekday, the CSU Pubic Affairs Office publishes *Daily Clips*.

This is an electronic compendium of noteworthy news about CSU system and campus activities, links to editorials and commentary relating to the CSU system and campuses, UC and CCC news, and California as well as national educational news of relevance.

CSU-ERFA has arranged for members to be added to the distribution list for the Daily Clips.

If you are interested, please email the CSU-ERFA Office at csu_erfa@csun.edu. Please put in the subject line "Daily Clips" and in the body of the email your name and email address.

Should CSU-ERFA Have A New, Online Magazine?

The CSU-ERFA executive committee has approved, in principle, a second publication which would be delivered to CSU-ERFA members electronically. Ideally, this would come out bimonthly during months when *The Reporter* is not published.

The magazine would have sections on topics such as: Travel, Humor, Restaurant Reviews, Book Reviews, Interesting Web Links, Upcoming Chapter Events, Health, Financial Planning, Discounts, and Essays. It would also have a free classified section where members can list items or services they wish to sell or donate.

As articles would be written by members either with or without attribution (author's choice), we would like to know if a) you would be interested in receiving such a magazine and b) if you would be interested in writing articles for such a magazine. If you are, please send an email to: Barry Pasternack, CSU ERFA VP, at bpasternack@fullerton.edu and indicate if you are interested in receiving such a publication and/or contributing articles to such a magazine. We will use this information in order to determine if we should move forward with this project.

CSU-ERFA New Members

Bakersfield – Lewis S. Betty
Joanne Schmidt

Chico – Michelle R. Cepello

East Bay – Arthurlene Towner

Humboldt – Joseph M. Giovannetti

Los Angeles – Lillian Taiz

Long Beach – Leslie Kay Swigart
Judith A. Tyner

Pomona – John O. Pohlmann
Phillip R. Rosenkrantz

Stanislaus – Jack P. Doo, Jr.

Who Is Covered By Long-Term Care Insurance?

A recent Urban Institute report on this subject provided some interesting findings. Long-term care insurance is a new product, offered only the last 35 years, since the early 1980s. The market grew the first twenty years but has recently been contracting. In 2002, 754,000 individual policies were sold in the private market (excluding public programs like the one at CalPERS'), but in 2014, only 129,000 policies were sold.

The Urban Institute study relies upon

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CalPERS Earned 0.6% Last Year -- Should We Worry?

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the world financial markets. The FY 2015 and 2016 dismal earnings wiped out the double-digit earnings of the two previous years.

Meanwhile, pension expenses have risen due to increased longevity of retirees and their surviving spouses, increased earnings resulting in larger pension benefits, more stringent funding, reporting, and accounting requirements adopted by the Governmental Accounting Standards Board (GASB). In the case of California, things were made worse by a combination of other things.

... pension expenses have risen due to increased longevity of retirees and their surviving spouses, increased earnings resulting in larger pension benefits, more stringent funding reporting and accounting requirements ...

One is the "California Rule." Due to a number of California judicial decisions culminating in 1955 (Allen v. City of Long Beach), once a pension improvement has been granted to public employees, it may not be rescinded or reduced unless replaced by a benefit of equal value.

Two, in 1999, at the urging of CalPERS, the state legislature passed SB 400 that significantly improved pension benefits retroactively. It was assumed that the impressive ROIs and growing asset values of the late 1990s would continue and would pay for the enhancements. Then came the recession of 2001. By 2007, asset values had recovered and CalPERS was fully funded. And then came the Great Recession of 2008.

While many of us have benefited from SB 400, it was a big mistake. Because of the California Rule, the generous benefits it affords cannot be withdrawn for existing public employees.

The Public Employees' Pension Reform Act of 2012 (PEPRA) made numerous changes in CalPERS, CalSTRS and 20 of the county plans covered by the 1937 Act. However, they only apply to employees hired after January 1, 2013. While CalPERS estimates that by June 30, 2016 a surprising 29% of active members were accruing benefits under the PEPRA formula, the rate of growth is expected to slow down due to turnover among those hired after January 1, 2013 (see p. 10). It will take decades before PEPRA fully covers all active public employees.

Against this backdrop, CalPERS continues to assume that its ROI will be 7.5% (not to be confused with the GASB accounting and reporting blended-rate requirement). The 7.5 rate is used as the discount rate to convert projected benefit obligations (liabilities) to present value (sometimes called "current liabilities"). It is this that is used to calculate the "funded ratio" (assets ÷ liabilities) which drives the employer's "annual required contribution" (ARC), recently renamed as the "actuarially determined contribution" (ADC), since it is not really "required" for most public pension plans.

The discount rate is important. The higher the discount rate, the lower the "unfunded actuarial accrued liability" (UAAL) and hence the lower the employer's ARC/ADC and vice versa. An investment consulting firm (Wilshire Associates) estimates that the system's ROI over the next 10 years will average 6.4%. If CalPERS remains with a 7.5% rate, that would mean about $50 billion less in earnings over the decade according to one source.

However, if CalPERS were to reduce its assumed rate of return to 6.4% that would greatly increase its UAAL and the ARC/ADC of the State and the over 3,000 contracting local governments and school districts (nonteaching employees). These governments and school boards have many competing funding demands that would be hurt by increasing pension contributions even further.

It could be worse. A number of financial economists believe that since the pension benefits are 100% guaranteed that they should be backed by "riskless investments" such as 30-year Treasury bonds (now yielding about 2.5%). They base their reasoning on the misapplication (in my opinion) of a 1957 article by Modigliani and Miller. Fortunately, the GASB rejected their advice in crafting GASB 67 and 68.

The media pundits (E*ast Bay Times, Sacramento Bee*, others) have been quick to point out that in addition to the poor investment performance, CalPERS had a funded ratio of 68% and a deficit of $139 billion that will have to be paid by our children and grandchildren. That's debatable. Our generation inherited a pile of public pension debt from our predecessors.

The concept of fully funding future benefit obligations originated in the Employee Retirement Income Security Act of 1974 (ERISA). Full funding is necessary in the private sector because the Pension Benefit Guaranty Corporation (PBGC) insures the vested pension benefits of defined benefit plans. When a private-sector employer fails with underfunded pension liabilities, the PBGC acquires its benefit obligations. Governments don't go out of business and therefore don't have or need pension benefit insurance. Somewhere along the line, the full-funding concept jumped from the private to the public sector where it took root. It is now fully accepted by everyone (except me).

In conclusion, the disappointing returns on invested assets in the last two years

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Table 1 - Funded Ratios for All Plans, CalPERS, CalSTRS, and UC Retirement System

Year	All Plans	Cal PERS	Cal STRS	UC
2000	102.1	111.9	NA	147.7
2005	85.5	87.3	86.0	110.3
2010	75.8	83.4	71.0	86.7
2015	73.6	76.3	68.5	81.7

Source: Center for Retirement Research, Boston College, http:.//www.crr.bc.edu.

Crack in the California pension rule?

By Ted Anagnoson, Editor

A recent court case may – if upheld by the California Supreme Court – have opened the smallest crack in the traditional "California rule" that so many on public pensions have relied upon to protect their pension from impairment.

A state appellate court in San Francisco in early August ruled unanimously that the "California rule" is not an absolute bar to modifying pension benefits that current employees believe they are due when they retire.

The rule, according to a recent article by Dan Walters in the *Sacramento Bee*, originated in a 1955 state Supreme Court case from the city of Long Beach, which had raised the pension contributions for employees from 2% to 10%.

The resulting lawsuit, Allen v. City of Long Beach (1955), gave constitutional protection not only to the pension that employees had earned already but to future pensions for existing employees – employees had a right to keep earning a pension based on rules at least as generous as long as they were employed.

The judge overseeing Stockton's bankruptcy suggested that notwithstanding the rule, pension benefits could be reduced in a bankruptcy because bankruptcy too is the impairment of a contract. Stockton backed off from asking for pension cuts, so the issue died.

The most recent challenge is in Marin County, where the county adopted a provision prohibiting "pension spiking," as called for by the 2012 pension reform measure enacted by the legislature and signed by the governor. Pension spiking is the inclusion of "ancillary payments," such as unused sick leave or bonuses, in pension calculations.

The appellate judges concluded that the vested right to a pension "is only to a reasonable pension – not an immutable entitlement to the most optimal formula of calculating the pension." It added, "the legislature may, prior to the employee's retirement, alter the formula, thereby reducing the anticipated pension … so long as the … modifications do not deprive the employee of a reasonable pension."

The ruling will surely be appealed to the California Supreme Court, where the 1955 Allen v. City of Long Beach case might be updated, or not. Stay tuned.

LTC Insurance Coverage

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data from the Health and Retirement Study (HRS), which is a nationally representative survey of older Americans conducted by the nationally prominent survey research center at the University of Michigan.

The most basic finding is that "relatively few older people have private long-term care insurance coverage, even among wealthy older adults who could gain the most from coverage." In 2014, author Richard W. Johnson reports that only "11% of adults ages 65 and over living in community settings were covered by long-term care insurance, corresponding to about 5 million people." Coverage rates in recent years have fallen, as the industry has raised its rates to levels it considers more realistic for the contemporary era and fewer people have purchased the insurance.

Johnson found that coverage of long-term care insurance rises with wealth, since people with more wealth have more to protect for their descendants and at the same time are more able to purchase the insurance. And those who are at the poorer end

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CalPERS

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are a cause for concern. They are far below the 7.5% that CalPERS uses as its expected ROI and discount rate. If this continues, annual UAALs will increase, funded ratios will fall and employer (and possibly employee) contribution rates will increase. This assumes that the rules of the game, including the California Rule, remain the same. It also assumes that CalPERS earnings on invested assets do not improve significantly, as they have in the past. There is a good chance that they will. The equity markets have improved markedly since June 30, 2016 (although interest rates remain at historic lows). Table 2, at right, displays CalPERS ROI from 2005 through 2016.

Table 2 - CalPERS Rate of Return on Invested Assets, 2005-2016

Year	Return on Investments		Year	Return on Investments
2005	12.2		**2011**	20.7
2006	11.9		**2012**	1.0
2007	18.8		**2013**	12.5
2008	-2.9		**2014**	18.4
2009	-23.6		**2015**	2.4
2010	11.1		**2016**	0.6

Source: CalPERS Facts at a Glance, http://www.calpers.ca.gov.

Atlas Obscura

By Barry Pasternack

I tend to get a fair amount of junk email each day. Some I read and a fair number go directly to the junk email folder. One site that I have found fascinating is Atlas Obscura (http://www.atlasobscura.com/). Somehow I got on their email distribution list (you can subscribe by entering your email address in the Subscribe box). Each day (except for weekends) I receive an email listing topics that I would not have found on my own, but which are quite interesting.

For example, a recent email had the following articles:

* "The Most Inaccessible Places in the World People Desperately Want To Visit ",

* "Netherlands Cube House (pictures of houses each tilted at a 55 degree angle)",

* "Guide of Gymnastic Moves",

* "Exit Interview: I Was Bernie Sanders' Chief Advance Man" (about the logistics planning of the Sanders Campaign),

* "One of NYC's Oldest Buildings" (about a 220 year old house that is a reminder of the city's Dutch past),

* "How an Olympic Village Became a Prison" (about how an Olympic Village used in the 1980 winter Olympics was converted to a federal prison),

* "Clinton Hall's Blocked Entrance" (how a NYC subway station was blocked off),

* "She Won Gold, But Never Knew" (about the first American to win a gold medal at the Olympics and she was unaware that she had done so), and

* "Connecticut's Legacy in Ohio" (an article about the influence of Connecticut in Ohio as northeast Ohio was once part of Connecticut and was known as the Western Reserve of Connecticut).

Unlike Conde Nast Traveler, which also sends out interesting emails related to travel daily but can have a fair amount of advertising incorporated into the emails, so far Atlas Obscura has had a limited amount of advertising in the emails.

Future of Nursing Homes Limited?

The number of skilled nursing facilities in the U.S. has remained constant at 15,000 for more than a decade, bringing up the possibility that senior citizen "aging in place" in their own homes or in senior communities will become the norm in many areas of the country.

An article by a Plante Moran executive in June 2016 hypothesizes that Americans will be forced to get the kind of care usually found in nursing homes through home visits, assisted living, and other alternatives outside the highly institutionalized nursing home structure. An alternative hypothesis is that the static growth of nursing facilities is the result of Americans' choosing to find care outside of the nursing home structure and finding that insurance programs increasingly will pay for part of it.

Betsy Rust, the author, is a consulting partner in Plante Moran's senior care and living practice. She points out that "Medicare and Medicaid, along with other health care insurers, want to find ways to reduce the cost of health care by shifting individuals to lower-cost models. Increasingly, states are expanding Medicaid coverage to include home and community-based settings, options that are typically preferred over traditional nursing home facilities, especially among the newly old." As a result, home care and assisted living are growing in popularity, and nursing home growth is static.

Some analysts project a 20% decline in nursing homes in the next five years, by 2021.

Data from the Centers for Disease Control and Prevention show about 15,209 nursing homes in 2003, increasing to 15,401 in 2014. California figures for the same time period go from 1,291 to 1,178, a slight decrease. The Kaiser Family Foundation calculates the odds of using a nursing home range from 1.4% of the "young-old" to 24.5% of the oldest old (85+) and about 50% of those 95 and older.

In Memoriam

Bakersfield – Nancy J. Bailey
James M. Moloney
Salvatore Ramondino

Chico – Nancy A. Cooper
Susan Gardner
Patrick W. Kopp

Dominguez Hills –
Marshall H. Bialosky
Lawrence Gray

East Bay – Shirley Foster Hartley

Fresno – Barbara K. Varley

Fullerton – Gerald B. Hoth
George R. James
Vera M. Robinson

Humboldt – Miles H. Esget
Glenda R. Richter
Edwin Sundet

Long Beach – Robert P. Bareikis
Catherine Goodman
Howard Hitchcock

Los Angeles – Francis H. Baxter
Karen M. Johnson
Joyann H. Morin
Arnold Pincus

Pomona – Stanley J. Cook
Thomas H. Oury
Jia-Shi Wu

Sacramento – Fred Krakowski
Frank B. Laury
R. Stephen Polkinghorn

San Diego – Suzette Elgin
Adam Gifford
Marion J. Kahn
Frank J. Ratty

San Francisco – Cameron Ainsworth
Arthur J. Hall

San Jose – Dennis E. Brown
Gail J. Fullerton
Howard Menges
Michael P. Wood

San Luis Obispo – Charlotte Burns
William K. Michaud

Social Security Backs Off New Security Requirement

The Social Security Administration (SSA) tried requiring those who set up their "mySocialSecurity" accounts to have cell phones so that they could receive a security code in order to log on to their accounts. However, so many senior citizens have minimal or no cell phone plans that SSA has decided to postpone the requirement.

The accounts are useful to change the bank receiving the benefit each month, obtaining proof of Social Security income to document loan applications, and for those who are not yet receiving benefits, checking the accuracy of earnings statements.

The security code requirement was in addition to having a user name and password. There have been so many security breaches at banks and other financial institutions that many are moving from requiring just a name and password, to requiring a name, password, and a special single-use security code that is emailed or texted to the phone number or email address already on file.

A 2014 study from the Pew Research Center found that about a quarter of those 65 and over did not have a cell phone at that point, and less than 20% of senior citizens had a data plan that would make texting easy.

Federal Employee LTC Program Faces Huge Premium Increase

Federal employees are now facing the same levels of increases in their long-term care policies that CalPERS long-term care policyholders have been facing the last two years.

The increases, set to take effect November 1, will average 83% or $111 per month and rise as much as 126%, according to several recent articles in the Washington Post. All but 10,000 of the 274,000 people in the program will face the increases.

The increases seem to be the result of the same problems that have affected the CalPERS long-term care program, mistakes by the actuaries decades ago as to the future costs of the program. According to Walton Francis, a health economist and author of "Checkbook's 2016 Guide to Health Programs for Federal Employees," "this never should have happened. The LTC estimates should have been actuarially sound and accurate, taking into account far more carefully both the possibility of low interest rates, the low rate of return on premiums invested in bonds, and of adverse selection by persons most likely to need LTC." Adverse selection, he added, means that the program "disproportionately attracted persons who were at high risk of needing expensive care after retirement."

Mark Shapiro, a member of the CSU-ERFA executive committee, pointed out an additional reason in an online discussion of the issue among executive committee members: "The actuaries underestimated the effects that medical advances would have long-term care, particularly for males."

Your editor postulated that that attitudes toward long-term care have changed drastically in the last 30+ years since these programs were developed – many people are more likely to use their long-term care policies than they were decades ago.

And we still have people who feel that their long-term care policy is a savings account – instead of this year's premiums paying for this year's insurance coverage, they want to get out all of what they paid in premiums over the years, something that is clearly impossible in a typical insurance situation without a policy deliberately structured to have a savings component.

Both the federal employee unions and members of Congress have become involved in the proposed federal price increases, with congressmen calling for hearings and the unions expressing outrage. The federal program enrolls about 274,000 people from among the several million federal employees, military members, and families who are eligible for the coverage. Like the CalPERS program, the federal program has had steep price hikes before, in this case in 2009, with similar anger among the policyholders.

Federal employees have the same options as CalPERS employees in the program of reducing the scope of coverage in return for avoiding all or part of the price increase.

29% of State Employees Are On The New Pension Plan - PEPRA

From a CalPERS Board Agenda item:

On September 12, 2012, Governor Brown signed into law AB 340 which included the PEPRA and related pension reform changes to the PERL and Legislators' Retirement System law. These statutory provisions became effective on January 1, 2013. This legislation added, amended, and repealed numerous sections of the Government Code relating to public employees' retirement benefits. PEPRA creates a new tier of members subject to a lower set of benefit formulas and requires members to pay their own contributions.

PEPRA is fully implemented (with the exception of three areas discussed in next steps below) and as a result employers are starting to realize savings. By June 30, 2016, we anticipate approximately 29 percent of the active member population will be accruing benefits under the new, lower, benefit formulas prescribed by PEPRA. The percentage of members covered by the new formulas will come as a surprise to many since it will take decades before all members are under the new formulas. The rate of increase in the percentage of members under the new formulas will slow in coming years....

In addition to the new benefit formulas, PEPRA members have their benefits based on their three-year highest average compensation, are subject to a significantly lower pensionable earnings cap and are required to contribute at least half of the normal cost as a member contribution.

CSU-ERFA's 2016-17 Goal: To Collect a Million Shoes for "Soles4Souls" - Fall, Planning; Spring, Collection!

CSU-ERFA President Bill Blischke, after a trial semester in the spring at CSU Dominguez Hills, will be expanding the collection effort to all CSU campuses in fall 2016. The campaign will begin with the following letter.

Blischke reports: "At the urging of the CSU-ERFA Executive Committee I will be sending the following letter regarding the CSU-ERFA Million Shoe Campaign to the members of our State Council, Campus Affiliate Presidents, the Presidents of ASCSU, CSSA, the Alumni Association, and the Chancellor's Office as well as campus senates, provosts, associated students, foundations, alumni groups, etc."

Dear Friends,

CSU-ERFA is soliciting your support for the CSU Million Shoe Campaign. This project is a partnership between our organization and Soles4Souls (S4S) This non-profit was founded in 2006 and has distributed 27 million pairs of shoes in the US and 127 foreign countries. Over 50% of the shoes are provided to the poor and homeless in our country as well as the thousands of victims of floods, tornados and the devastating fires such as the ones that hit our State recently. S4S collects and distributes new and used shoes for the approximately one billion out of seven billion on our Planet who lack adequate footwear.

This ambitious project has the following major goals: to provide shoes for those who need them, to integrate all major campus constituencies in a valuable and rewarding project, to connect the campus to relevant organizations in the surrounding communities (such as schools, city governments and religious and service organizations) and to provide noteworthy public recognition for the campuses and the CSU.

The shoe drive, which usually takes place for 4-6 weeks, must be carefully planned and organized. The Dominguez Hills campus piloted the S4S project during the Spring 2016 semester. The most important issues that emerged from this trial effort include the following: all major campus groups should be involved, the collection boxes must be placed strategically, sufficient storage space must be designated, volunteers must be recruited to collect, count and, if necessary, connect the pairs, and provide funds to cover the cost of boxes and shipping.

Based on this experience, the CSU-ERFA Ad Hoc Soles4Souls Committee, co-chaired by Barbara Sinclair (LA) and Bill Blischke (DH) and a staff member from Soles4Soles will work with each campus-wide group, chaired by an emeritus professor, during the Fall, 2016 term.

The shoe drive itself will be conducted during the Spring, 2017 semester.

One of my mottos is "Think Globally, Act Locally" (in this case, from your closet to the shoelsss on Planet Earth!)

Please spread the word about the CSU-Million Shoe Campaign to as many colleagues as you can and visit the Soles4Souls website for further information. Feel free to contact me via email with questions or concerns (wblischke@csudh.edu).

Sincerely,

Bill Blischke, President
CSU-ERFA

From the President

(Continued from page 2)

students, students older than the traditional ages of 18 to 21, or that many of our students work one or more jobs, are married, have children, or come from financially challenged families.

Furthermore, they ignored the fact that the tremendous increase in tuition and student fees in recent years has forced our enrollees to shift to part-time status. Cutbacks in K-12 funding and the resulting increase in our remediation programs were also overlooked. The last major factor that prolonged earning the bachelor's degree hit me very directly a few years ago. The massive decreases in State of California funding resulted in some students crying in my office because they needed to add my class in order to receive financial aid. A preliminary study recently estimated that 10% of our students are homeless and about 22% are hungry. Coping with collegiate demands under such circumstances in incredible. In addition, with a class of 63, I was unable to teach the way I wanted to. As a sociologist, I find it much more effective to use social simulation "games" to replicate ethnic and social class relations rather than to depend on my boring lectures or textbooks. The simulations cannot be used with more than forty students. In addition, I try to test frequently and require writing assignments. Since I couldn't teach the way I wanted to, and one course was almost a full-time job, I moved on to other tasks such as working with this wonderful organization. Many of our teaching colleagues have certainly sacrificed some of their effective pedagogical techniques under these constraints as well.

I strongly encourage you to get involved in whatever programs are extant on your campus to assist our students in achieving their goals in as little time as possible.

Soles4Souls. Please read the letter above on this page regarding this initiative that will be sent to all of the major constituencies on your campus.

Be well, stay active and stay involved!

Bill Blischke
President, CSU-ERFA

CALIFORNIA STATE UNIVERSITY EMERITUS AND RETIRED FACULTY ASSOCIATION
The Retirement Center
18111 Nordhoff Street
Northridge, CA 91330-8339
http://www.csuerfa.org

Have you moved? If so, please report your new address to the CSU-ERFA office at the above address.

Address Service Requested

California State University
Emeritus & Retired Faculty Association

LTC Insurance

(Cointued from page 8)

of the income and wealth distribution are more likely to qualify for Medicaid coverage for their long-term care needs. Medicaid at the same time has moved toward covering people in non-institutional settings in some states. Johnson states: "In 2014, coverage rates reached 25 percent for adults ages 65 and older with at least $1 million in total household wealth and 20 percent for older adults with at least $500,000 but less than $1 million in household wealth. By contrast, only 8 percent of older adults with at least $100,000 but less than $500,000 in household wealth—representing 40 percent of the older population—had coverage."

Johnson found that the median amount of assets, including housing, IRAs, etc. for those 65 and over was $215,000 in 2014. "About 12% of older adults had at least $1 million in household wealth in 2014."

Demographic factors that correlate with the purchase of LTC insurance are education and race.

CSU-ERFA Calendar of Events

CalPERS Open Enrollment - September 12 - October 7, 2016.

October 22, 2016 - State Council meets at Cal Poly Pomona.

January 1, 2017 - Those on PERS Select, PERS Choice, PERSCare PPO plans, Anthem Blue Cross Traditional and Select HMOs, Anthem Blue Cross Monterey and Del Norte EPOs, Health Net SmartCare and Salud y Mas, Sharp Performance Plus, and UnitedHealthcare SignatureValue Alliance transition to OptumRx for drug benefits.

January 28, 2017 - CSU-ERFA Executive Committee meets in Torrance, CA.

April 22, 2017 - State Council meets at CSU Dominguez Hills.

If You Move...

CSU-ERFA members who move after retirement to a location that is closer to another CSU campus should contact the CSU-ERFA office. Information will be provided about the CSU-ERFA campus affiliate at the nearby campus.

CSU-ERFA Pocket Calendar Error

Those who use the CSU-ERFA pocket calendar should be aware that it omits the week of October 16-22. CSU-ERFA apologizes for the error.