FINANCE

Orig #	Question	Revised
AR1	1. What was the thinking when the City Council approved the increases in the pension formulas in calendar year 2008 and 2010? [2000?]	Since 1990, please list each instance in which the City agreed to provide increased (and retroactive) pension (including medical) benefits including COLA increases to any employee groups (Misc/Police/Fire).
AR2	2. Were you aware that each increase would be retroactive and would cause (1) an instant increase in the City's unfunded pension liability of several million dollars and (2) raise the City's unfunded pension liability to a level it could not pay down?	Please provide the complete historical record (minutes, CALPERS presentations etc.) presented to the Council regarding each such action listed above.
AR3	3. What advice did CalPERS provide before the City Council approved the increases in pension formulas in 2008 and 2010?	Delete. Replace with above questions. Let's find the historical record.
AR4	4. Was the City aware of the significant negative impact the increase in each pension formula would have on the General Fund revenues that are available for non-labor expenses and investments in the community at large?	Delete. Is this directed to Council? Let's find the historical record to determine the representations made to Council. If we subsequently want to learn of Council's opinion, besides the record, we could invite those members to one of our meetings to answer this and related questions.
N3	3. What impact will the GASB Statement No. 68 (accounting for pensions) have on calculations of Costa Mesa's unfunded pension and medical benefits liability and Costa Mesa's financial statements?	
CL5	5. How much do the new PEPRA rates help? Please explain per "typical" employee? -2.7%@55 versus 3%@50? -2%@62 versus 2.5%@55?	Please provide any analysis regarding the impact to the City's pension obligations as a consequence of the PEPRA legislation.
		Please provide an annual historical record of the amount (by dollar amount and as a percentage of the General Fund budget) paid by the City for their CALPERS obligations.

	COMMENT - After examining the historical record, determine those decision makers and other parties of interest (e.g., former council members, staff, CALPers staff) that could be interviewed or otherwise invited to an Oversight meeting to discuss questions 1-4 above and/or any other information.	

ACTUARIAL

<table>
<tr><th>Orig #</th><th>Question</th><th>Revised</th></tr>
<tr><td>CP 34</td><td>7. For what purpose and what is significance of CalPERS splitting the Investment Return between 'price inflation' and 'real rate of return'?
-Doesn't splitting infer that CalPERS will at least earn the 'price inflation' rate?
-If one of the factors is not reached does CalPERS change the investment return?</td><td>Explain the financial/actuarial rational for CALPERS breaking their targeted Investment Return (discount rate) into two components: a 'price inflation' and 'real rate of return?'

What historical real rate of return does CALPERS use with this decision?

What historical rate of price inflation does CALPERS use with this decision?

What financial/actuarial justification is required to change either of said components to CALPERS Investment Return decision?</td></tr>
<tr><td>CP5</td><td>21. Joe Nation, Economic Professor - Stanford University, stated that most economists think CalPERS' calculation of unfunded pension liability should be based on a 6% discount rate or lower. What is the current thinking at CalPERS regarding the discount rate?</td><td rowspan="2">In light of the fact that private pensions generally use a lower discount rate (Boeing is 3.8%) and that most economists and experts (e.g., Moody's recommends 5.5%) advocate a discount rate of between 5-6%, what actuarial justification does CALPERS rely on for their 7.5% investment rate of return.</td></tr>
<tr><td>CP22</td><td>29. Why does PERS use an investment return of 7.5% when Moody's recommends 5.5%? And Boeing uses 3.8%? And Costa Mesa's OPEB retiree medical plan uses 4.5%?</td></tr>
<tr><td>N1</td><td>1. How was the 4.5% discount rate determined? Why isn't the inflation rate used … since this is a "pay as you go" plan with no investment assets?</td><td>Explain the reasoning for using a 4.5% discount rate for the OPEB obligations.

Does the 4.5% rate include an inflation and rate of return component like the CALPERS discount rate?</td></tr>
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		Why does the 4.5% OPEB discount rate differ from the 7.5% CALPERS rate?
CP37	10. If a government agency negotiates benefit terms that CalPERS does not have an existing Risk Pool for will it open a new Pool? -If not, why not and does opening a new pool cost the requesting government agency additional fees?	If an Agency negotiates benefit terms that CalPERS does not have an existing Risk Pool for, will CALPERS open a new Pool? If CALPERS will not, explain why. If CALPERS will open a new pool, will additional fees for such new pool be charged to the Agency?
CP3	30. Please show the detailed description, original date, and annual amount of each individual event of smoothing, amortization, or similar spreading caused by (1) any increase in unfunded liability (change in benefit formula, retroactive application, etc.) and (2) any other cause.[valuations page 13]	?? What are we asking for? I'm not sure. Moreover, this seems very broad??
S16	16. Why is the payment to get out of CalPERS so high? Is there an inflation component in the return equation? If so, why does CalPERS include an inflation factor? Is it because the pension obligation will increase with inflation? Or is it because CalPERS is thinking that their investments will go up with inflation? [valuations page 15]	What is the basis for the discount rate used to calculate the Termination Fee for those Agencies desiring to exit CALPERS? Does this discount rate differ from the rate used by CALPERS to calculate an Agency's annual PERS contribution? If yes, what is the actuarial rational for using two different discount rates?
CP35	8. Why does CalPERS use an Investment Return for all their calculations except termination liability? A much lower discount rate is used that jacks up the cost to cities for exiting the program.	
CP8	32. Exactly how does CalPERS' bookkeeping for Costa Mesa's individual plans work? Contributions and actual fund earnings add to each account. Disbursements to retirees and actual	Explain the bookkeeping and recordation process for Costa Mesa's individual plans. In particular, explain how all changes to these plans including contributions, disbursements,

	fund losses subtract from each account. What other activity is actually added or subtracted to / from each account?	investment returns, fees are notated.
CP9	33. If the unfunded pension liability increases during a year and Costa Mesa fails to make a special payment to offset the increase, is the increase then actually recorded in the accounts … or is this just included in the separate actuarial calculations?	For example, if an Agency's unfunded pension liability were to increase in a particular year without the Agency making a special payment for these amounts, how is this recorded and notated in the Agency's account?
S6	6. What is the right goal for reducing the under funded pension obligation? Should we target $0 obligation or is there a more reasonable and fiscally acceptable number, for example 85% funded? If so, what is that number and why would it be a good target and what is a reasonable period of time to achieve this?	???This is more of a political question as phrased and I don't think PERS will want to answer it. We could ask about the risk associated with having an unfunded obligation exceeding a prescribed amount. This question is best sent to other experts. I would start with research on general accounting standards and the acceptability of having an unfunded liability.?? What do actuarial and industry "best practices" recommend in regards to under funded pension obligations by an Agency or City?
S1	1. Do you think there is a problem with underfunded pension obligation (UPO)? If so, why? If not, why not? What are the consequences if it is a problem and doesn't get resolved?	
S12	12. What variables can CalPERS change to make the underfunded pension obligation a more manageable amount of money for the cities to service?	Besides increasing the discount rate, what other actions can CALPERS take to reduce or lessen the increase of an Agency's annual CALPERS contribution amount?
S13	13. Based on the concept to make the current CalPERS payments work more/ go further and then to see what additional money is needed, can payments of the same amount be made faster, and if so, will it reduce the UPO? For example, if payments were made twice a month or daily, like paying on a mortgage the same amount but	Can Agencies "prepay" their annual obligations more frequently than annually, much like a mortgagee making a more frequent payment than a monthly payment, in order to reduce its obligations?

	every two weeks, would this reduce the UPO?	
S15	15. Why not use a tighter basis for cost of living increases or go every other year or reduce them to 1% or less?	Explain the rational for a constant 2% cost of living increase (COLA)? Can this be modified (reduced) by CALPERS in any way? What particular authority requires the annual 2% COLA?
CP10	34. What impact will the GASB Statement No. 68 (accounting for pensions) have on CalPERS calculations of Costa Mesa's unfunded pension liability and the timing of the annual calculations? Most publicly held companies report annual earnings within 30 days after yearend and issue financial statements within 60 days. Many of the larger companies still have defined benefit plans and include current actuarial calculations within those reports. Why does it take CalPERS 16 months to complete such actuarial calculations?	What impact will the GASB Statement No. 68 (accounting for pensions) have on CalPERS calculations of Costa Mesa's unfunded pension liability and the timing of the annual calculations?
Took CP 10 which had two separate questions w/n it and made this a separate question.		In light of the fact that public companies with defined contribution plans generally include actuarial calculations within their year end reporting obligations, why does it take CALPERS 16 months to complete such actuarial calculations?
CP 23	16. Please provide rough estimates updating unfunded liabilities: -as of 6/30/2012 recognizing FY 2012 investment return of 0.14% -as of 6/30/2013 assuming FY 2013 investment return of 15% incorporate updated headcounts above as much as practicable	Please estimate Costa Mesa's current unfunded liabilities including updated headcounts: as of 6/30/2012 assuming a FY 2012 investment return of 0.14% and as of 6/30/2013 assuming a FY 2013 investment return of 15%.
CP 25	Please explain Class 1 benefits add-	Please explain Class 1 benefits add-

	on rates and quantify Present Value (PV) of future benefits vs. costs per "typical" individual if possible http://www.calpers.ca.gov/eip-docs/employer/actuarial-gasb/risk-pooling/surcharge-misc2.5-55.pdf	on rates and quantify Present Value of future benefits vs. costs per "typical" individual, as discussed at http://www.calpers.ca.gov/eip-docs/employer/actuarial-gasb/risk-pooling/surcharge-misc2.5-55.pdf
CP 7	23. Costa Mesa and other Cities are responsible for losses if CalPERS' fails to achieve projected earnings used to calculate contribution rates. Does the 7.5% earnings and discount rate provide a cushion in the projection to offset that risk? Should the earnings rate lower to offset that risk?	Does CALPERS guarantee agencies a 7.5% or any other minimum investment rate of return? Explain the financial consequences to an Agency such as Costa Mesa in the event that CALPERS investment return does not average 7.5% over an extended period of time (5, 10, 20 years)?
CP 21	28. When will the unfunded liabilities be amortized assuming a 6% investment return?	?? Did Joe Nation perform this?? It seems that we could do it. ?? I may not understand what this question is asking, particularly in regards to its focus on amortized liabilities. For the city of Costa Mesa, assuming a 6% investment return instead of the current 7.5%, how much does our underfunded pension obligation grow?
CP 2	31. Please provide the worksheets that show the detailed calculation(s) of the Employee and Employer pension contributions for fiscal year 2012-13 and projected contributions for future fiscal years that are known (2013-14, 2014-15, etc.). Please show each Association pension plan separately.	For Costa Mesa, please provide all substantiation (e.g., worksheets) that shows the calculation of the Employee and Employer pension contributions for fiscal year 2012-13 and projected contributions for future fiscal years that are known (2013-14, 2014-15, etc.). Please show each Association pension plan separately.
CP 26	38. What PERS plan would equate to Social Security contribution rates (6.2% for both employer and employee)?	??I think we need to better define this.??
N2	2. Why isn't the present value of future benefits (unfunded liability) going down as the number of individuals in the medical plan	For Costa Mesa's OPEB plan, explain why the unfunded liability has not decreased despite the fact that the those participating in the

	declines?	medical plan have decreased. ??

INVESTMENT

Orig #	Question	Revised
CP 16	15a. Does the investment loss in 2008/2009 have any historical precedent in PERS or any other public pension program? 15b. What was done in those circumstances to improve the funding position?	Is there historical precedent within the PERS system or outside of it for the fiscal year 2008/09 investment losses? What, if any historical precedent, did CALPERS rely on in their response (i.e., smoothing and amortization) to the investment losses in 2008/09?
CP 36	9. CalPERS had an overall PERF portfolio return of .1% for 2011/2012, with a market value of $233.9B. The 2010/2011, market value was $239.3B. Why the decrease in market value with the (small) positive return?	Please explain the cause of the decline in CALPERS holdings from fiscal year 2010/11 to 2011/12 despite an increase in their return on investment during this same period?

Orig #	Question	Revised
CP27	17. If classic employees reverted to their PERS plan on date of hire, effective 7/1/2014 (e.g. 2%@50 for fire before ~2001) and vested current benefits in the interim (e.g. fire 3%@50), would that eliminate the unfunded liabilities?	QUESTION - Are we asking for the effect of removing the retroactive benefits?
MP11	11. How much does the August 31, 2012, 2%@50 fire agreement help the unfunded liabilities?	Provide an analysis of the net effect of Costa Mesa's most recent (August 2012) negotiated fire plan whereby pension benefits were changed to 2% at 50. (Finance, General or Actuarial?)
CP28	20. What is the impact of reducing the benefits by the amount of the unfunded liabilities? -across only active employees -across active and retired employees (like New Hampshire http://www.nhpolicy.org/reports/policynote_july2011_pensionreform.pdf)	How much would pension benefits need to be reduced for those retired employees in each of Costa Mesa's plans to eliminate the city's current unfunded liabilities? How much would pension benefits need to be reduced for current employees in each of Costa Mesa's plans to eliminate the city's current unfunded liabilities? (General or Finance, and do we even want to do this study?)
CP6	22. What future earnings rate (%) would CalPERS need to achieve to eliminate Costa Mesa's unfunded pension liability … based on 2012-2013 contribution rates and assumptions? How many years are included in this calculation?	General or Finance?
CP11	24. Assume we do nothing (no changes to reduce or increase pension obligations). What annual rate of return would PERS have to yield before the amount Costa Mesa is charged on the unfunded portion of the pension will start to decline starting in 5 years, 10 years?	General or Finance?
CP20	27. Assuming PERS achieves 7.5% investment returns, when will the current (6/30/2011) unfunded liabilities be amortized? When will contribution rates return to single digits for employee and	I would suggest deleting this question as we will never achieve a fully funded status even if we hit 7.5% consistently based on the amount we have to historically "make-up" from shortfalls.

	employer, i.e. less than 20% total?	
MC1	1. When do the fire, police, and miscellaneous workers have to sit down with the City of Costa Mesa to review their contract?	General or Finance?

GENERAL

Orig #	Question	Revised
CP17	35. Has CalPERS done or is it aware of any studies about the cost to federal, state and local government of providing basic living needs of retirees if there were no public employee pensions?	Suggest deleting. Not really within the scope of the committee.
CP13	26. How do the RORs above compare to the historical rates that have been achieved by PERS in terms of average, median and modal rates? [CAFR, Facts at a Glance]	What are the ROR's for PERS over the last 20 years and how do they compare to various investment indexes….(define which indexes to compare with)
CP15	14. What is the percentage range of underfunding and overfunding over the history of PERS and how does PERS funding rate currently stack up within that range?	What is the percentage of underfunding and overfunding Costa Mesa has experienced over its history with PERS and where does our current funding rate fall within that range?
CP4	12. Please describe what caused Costa Mesa's collective unfunded pension liability to rise to above $200 million.	What are the major triggers that caused Costa Mesa's collective unfunded pension liability to rise above $200M.
S7	7. What cities have the least underfunded pension obligation and how have they achieved this?	What cities have the least unfunded pension obligations and is there something categorically different about those cities versus Costa Mesa? Perhaps within their employee obligations and contracts themselves.
S4	8. What cities have had a serious problem with underfunded pension obligations and now don't and how have they achieved this?	
CP12	25. Assuming we do nothing. What ROR would PERS have to yield before there would be a fully-funded status in 10 years, 15 years, or 20 years?	Assuming no changes in the City's current plans, at this time, what rate of return would CALPERS need to achieve over the next 5, 10 and 20 years in order for Costa Mesa's unfunded pension obligations to return to the black and be considered fully funded? (What does fully funded mean? 85% funded or 100%

CP14	13a. Historically, how many years have the PERS pension obligations been fully funded and underfunded and what are the percentages of funding/underfunding over that time? 13b. In other words, how unusual is it historically (long view backwards, 20-30 years at least) to be underfunded.	
CP18	36. Has any state retirement system tried to move from pensions to private accounts and, if so, what has been the outcome?	

Orig #	Question	Revised
CL1	1. Can you provide a list of the various laws and applicable sections/provisions that affect Costa Mesa and the pension, medical and other retirement benefits it provides (and might in the future provide) its employees. Can you provide links to these laws and applicable sections/provisions?	What specific, or major, provisions of California law & regulations govern CALPERS and pension obligations to public employees?
CL2	2. Is the City "required" to make increases in a pension formula retroactive?	When Costa Mesa increased their pension benefits, such as they did in 2008, did CALPERS require such enhancements to be offered retroactively or was this a union negotiated benefit? If your answer to the above question is yes to CALPERS, please list the specific laws or regulations that require this practice of granting retroactive benefits.
S5	5. How can Costa Mesa get firm reassurances that they won't lose, by CalPERS bankruptcy, any money (including money above and beyond what CalPERS has asked for) given to CalPERS and what would be the process for Costa Mesa to recover the money? [CalPERS ID 5937664258]	Are those amounts in the City's pension accounts segregated from other Agencies accounts like an escrow account, or are these moneys in Agencies accounts commingled with other Agencies accounts? Doe CALPERS guarantee or otherwise offer any assurance that those funds in the City's account will not be used to pay other Agencies obligations? Does CALPERS guarantee or otherwise offer any assurance to Agencies that will receive a 7.5% investment return?
S9	11. If CalPERS fails, do they have some sort of default insurance that would cover the gap in the funding obligation?	Please list each and every financial or other instrument at CALPERS disposal in the event

		they could not meet their obligations?
S11	10. What happens if Costa Mesa fails to meet its obligation?	What is the legal process should an Agency fail to meet its CALPERS obligation? What legal proceedings could CALPERS undertake in such an event?
S10	3. Can CalPERS go bankrupt?	Is CALPERS subject to bankruptcy laws and proceedings? In the event that CALPERS obligations exceeded their current assets, could they enter bankruptcy proceedings?
CP30	4. Will employees be able to keep their plan? Is the plan grandfathered under Obamacare? If not grandfathered, what are the benefit and cost impacts to employees and cost impact to the city?	
N4	2. What specific law or policy allows employees to 'spike' their pay for pension calculation purposes? -What has to change to discontinue that process?	
CP32	5. Are retroactive changes to benefit formulas allowed because of law/policy or because CalPERS software does not have the capability of separating the new formula? [CalPERS publication "Reinstatement From Retirement" illustrates hybrid plan benefit calculations]	
CL3	3. Can Costa Mesa offer new employees a 401K (defined contribution) type of pension plan?	Are agencies such as Costa Mesa required to offer a defined benefit pension to existing and/or new employees? Could Costa Mesa offer a defined contribution or 401K styled plan to existing and/or new employees?
CL4	4. On a forward basis only, is it possible to roll back a pension formula for existing employees? Or for retirees? If so, what	What statutory or regulatory restrictions restrict an Agency's ability to negotiate smaller

	would need to be done to accomplish this?	pension benefits on a going forward basis for a particular plan? What statutory or regulatory restrictions restrict an Agency from reducing current retirees benefits?
CP 31	4. If a member agency refuses to pay their annual contributions what procedural/legal process does have to make them pay? -Or can CalPERS make them pay if the agency absolutely does not have the funds?	In the event that an agency does not pay its annual pension obligation, how are the other participating Agencies' pension plans in CALPERS affected? In the event that an Agency enters bankruptcy and has all or some portion of its pension obligations discharged, how are the other participating Agencies' pension plans in CALPERS affected?
S2	2. What is your opinion on the likely outcome of the Stockton and/or San Bernardino cases? Will CalPERS get payments in advance of bond holders? What happens if cities can't pay? Would CalPERS seize assets? Explain how this would work and the consequences to the city residents and city workers.	I suggest we do this research as CALPERS isn't likely to answer such a hypothetical question. What is CALPERS position in regards to whether an Agency's pension obligations can be discharged in a bankruptcy proceeding? What legal authority is such a position based on? In the event an Agency does not have revenue to meet its pension obligations, what legal recourse can CALPERS take to collect such amounts?

NEW		Set forth the law or regulation that requires an annual COLA increase to be included in CALPERS pension benefits? If a COLA increase is mandated by law, is there a minimum COLA required by law? If so, what is this amount? Can an Agency offer a COLA exceeding the minimum amount should this be negotiated?