FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD AGENDA LETTER

DATE: March 15, 2017

TO: Board of Retirement

FROM: Donald C. Kendig, CPA
Retirement Administrator

Staff Contact: Elizabeth Avalos
Executive Assistant

SUBJECT: **Educational Attendance Report: Trustees Basua, Baxter, Coburn, Dowell, Gomez and Donald Kendig, Retirement Administrator – RECEIVE AND FILE**

Recommended Action(s)

1. Receive and File

Fiscal and Financial Impacts

None from the receiving and filing of this item.

Discussion and

I have attached a report from Trustees Basua, Baxter, Coburn, Dowell, Gomez and Donald Kendig, Retirement Administrator, on their attendance at the CALAPRS General Assembly 2017.

Attachment(s)

1. Educational Attendance Report – Trustees Basua, Baxter, Coburn, Dowell, Gomez and Donald Kendig, Retirement Administrator: CALAPRS General Assembly 2017

Background

Per the Fresno County Employees' Retirement Association (FCERA) Education Policy, paragraph 18, trustees attending a non FCERA educational program shall provide a written report to the Board which summarizes the program's merit and content. Such reports will be included in the public meeting on the consent agenda.

Similarly, the Retirement Administrator will also prepare written reports to the Board so that the Board is aware of training activities and of potential training opportunities.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Report of Attendance at Conference or Seminar

Attendee Name:	Trsutees Basua, Baxter, Coburn, Dowell, Gomez Donald C. Kendig, CPA Retirement Administrator		
Conference/Seminar Name:	CALAPRS General Assembly 2017		
Conference/Seminar Sponsor:	CALAPRS		
Dates of Attendance From:	March 5, 2017	To:	March 7, 2017
Educational Credit Earned:	10:15/13.8	Type:	Hours/CPA CPE

Brief Summary of Information and Knowledge gained:

Topics were: A national Perspective of State and Local Pensions (Handouts Provided(HP)), Securing CalPERS' Future: Managing our Assets and Liabilities (a case study) (HP), The Big Investment Issues of the Day ("Game of Thrones: Winter is Coming" style), Putting California Innovation into California Portfolios: Panel Discussion (HP), Risk is the Word – The Actuarial Challenge of Adequate Funding (HP), Legal Update: Vested Rights Doctrine – Storm Clouds Ahead? (HP), The Governance Side of Effectively Managing Disability Claims, Power & Politics (Better described as maximizing teamwork.) (HP), Macroeconomic Outlook on the Future (Handouts at CALAPRS, but not provided.).

Key take Aways (briefly):

Keith Brainard, of NASRA, covered a many statistics and trends that help to explain our current circumstances, and what we can likely expect going forward. 2009 areas of change included the shifting of costs and risks to the employee and a reduction of benefits. GASB 68 has raised awareness of the costs and funding. Ratings agencies thankful. Possibly legislation coming to require a risk free rate (resulting in three liability values).

CalPERS representatives discussed the investment and actuarial challenges CalPERS is facing, and that we all share to some degree. One is plans are maturing and the ratio of assets to payroll needed to fund the benefits are around 10 to 1, higher for safety at about 12-15 to 1. What this means is that a 10 % drop in asset values equates to 100% of payroll (for a 10 to 1 ratio). This emphasizes the importance of smoothing and amortization to dampen the effect of wild assets swings in any one year. CalPERS upped tips and commodities and sounded like it takes a more dynamic approach to asset allocation, making more frequent adjustments.

Both the CIO of Hawaii and San Bernardino spoke about care and vigilance being required to weather the next ten years and shared about how they were planning on doing it. San Bernardino has coined the phrase Crisis Risk Offset, which w/could provide return and liquidity during a growth crisis.

Stanford, incubator thought leader, Ashby Monk, Jim Meketa, of Meketa Investment Group (Consulting) and Neil Rue of Pension Consulting Alliance, explored ideas on how to get the most out of this innovative State we live in. CA is one of the most prolific sources of new ideas, where venture capital thrives, and everyone wants to know, "how can locals get an outsized portion of the profits from this idea machine." Ashby mentioned lots of little projects. The consultants questioned "moving the needle." Jim talked about an investors consortium/syndicate/partnership of about $1B, that would have a critical mass enough to attract GP's that could source us those deals. Moving the needle is an interesting excuse for inaction, in one attendee's opinion. Here locally, if we can make an extra $10M with a good idea, that is an extra 10M the sponsors do not have to pay, and that moves their needles.

Paul did a heroic job making actuarial concepts interesting. It was good practice for our joint meeting coming up on March 23, 2017. His two most famous concepts were codified in buttons (I hope he did not run out for our meeting): No Free Lunch and C + I = B + E. Want to know what they mean? Come to our joint meeting.

Vested rights are in the cross hairs and it looks like a high-powered scope. Will they be shot down? It is anyone's guess. They have not been shot down yet, but it is getting scary. See the attached slides for all the case history.

The disability panel brought different views and processes for handling disability cases. Staff will be looking at San Diego procedures and Orange County procedures to glean best practices. One of particular interests are time-periods and cut off dates. If a member does not do something within a certain time, a particular outcome results. One thing we will be implementing is the timing of when our attorneys get involved. We will be introducing them to the process later in the process. Something unbelievable were their 80 and 90% grant rates. Either they are giving away the farm or they have a really good filtering process, such that the frivolous cases do not get into the system in the first place. The disability discussion also supported the staff's recommended changes to our system. It appears the presenter systems are more draconian in procedures than FCERA.

Power and Politics quoted teachings from Covey, in particular The Speed of Trust. Brian attempted to take the bad taste out of politics by simplifying it down to, "the process in which we do things." It is just how we do things. We can do good or bad and have good processes or bad processes. Ethics was emphasized. Focus was on Competence and Character (much like in the Covey 7 habits). Political Capital is what you build when you behave ethically and competently, and that is akin to the deposits into the emotional bank account description that Covey provides. Focus on making deposits, so when the inevitable withdraw comes, you can be afforded grace. Great response to, "It's always been done this way" What are 3 other ways it can be done?

Last but not least was the soft spoken, extremely informative CIO from San Francisco, William Coaker, Jr. He had some great charts and even better views. Expansion has been long, but not strong. Growth has been slow because growth in workers has slowed by 70% and productivity growth has slowed by 50%. Positives: Household debts are the lowest in 35 years, housing starts are not overheated, and no excess inventories or capital (supply). Deleveraging has impaired growth, but that drag on growth will soon

ease. Growth in Federal Debt and the slowing workers and productivity are a long term influence (concern). In the past, when unemployment has fallen, wages have risen, but not this time. What William didn't comment on was the fact that many of the disenfranchised workers that fell out of the unemployment statistics periods ago are coming in to take any new job that come about at any price. Once the surplus of "unlisted" unemployed workers are absorbed, wages have the potential to rise. Market sentiment is high, indicating future returns will be rather low. Low bond yields and potentially higher interest rates spell ugly returns for bonds. Internationally speaking, growth is improving, valuations are modest and improvement is expected, and the unemployment rate is starting to come down in Europe. Loan demand is improving in Europe. Japan on the other hand continues to disappoint. Emerging markets are very attractive for growth and currency reasons, and FCERA could be rewarded for its allocation very soon. China's growth model is evolving with the change in the times. Inflation has not occurred for a number of reasons: technology is a powerful deflator, as well as aging societies. The correlation between emerging market currencies and commodities would indicate that FCERA could benefit from its commodities allocation very soon. Lesson: Patience pays dividends. Alternatives had a mixed view. Private Equity returns will be lower due to crowding, overhang, and high valuations. Real estate could be hampered by high valuations. Private credit returns and hedge funds hold promise. He was very complimentary of hedge funds. On a political front: 5 of 10 largest countries have had top leadership changes, there is intense mistrust toward politicians, CEO's, Wall Street, and the media.

The CIO presentations undergirded the changes FCERA has, and is making in uncorrelating from US/Developed country's equity market. FCERA is ahead of the curve, and should other agencies catch up, the herd will pay more for their various exposures than we did by entering early.

Key link lost in handouts – Herding Cats: https://www.youtube.com/watch?v=vTwJzTsb2QQ.

Evaluation of the Conference/Seminar:

The CALAPRS General Assembly conferences are superbly done. A committee of CA administrators put together the program. There are no breakout sessions simplifying attendance and minimizing conference room costs. They utilized the 2shoesapp.com application for the first time and it proved a very easy way to review the materials and ask questions. One drawback is having enough cell phone power to view the presentations throughout the day on your phone. Trustees are encouraged to bring their iPads to future conferences. (Conference venues will need to start providing electrified tables.) Staff will be exploring the use of the 2shoesapp or a similar application for its workshops. The feedback that we would like CALAPRS to receive is to list its events further into the future. Surely, the hotel agreements have already been inked for the next couple General Assemblies. Knowing the dates would help us plan.

Recommendation Concerning Future Attendance:

We recommend future attendance. Attendance is pre-approved. The next General Assembly will likely be March 4-6, 2018, but it has not been posted yet.

Donald C. Kendig et. al.

Signature

March 9, 2017

Date

Return to: Elizabeth Avalos

A National Perspective of State and Local Pensions

Keith Brainard
Research Director
National Association of State Retirement Administrators

California Association of Public Retirement Systems
General Assembly
March 5, 2017

Comparison of Retirement Benefits in the U.S.

Private Sector

- 60% of full-time private sector workers participate in an employer-sponsored retirement plan; 21% of part-time workers participate
- In total, 49% of all private sector workers participate in an employer-sponsored retirement plan
- Fewer than one in five have a traditional pension (DB) plan
- Social Security coverage is universal

Public Sector

- Nearly all full-time workers have access to an employer-sponsored retirement benefit; most have access to a traditional pension (DB plan)
- 82% participate in a DB plan; virtually all others are in a DC plan
- Three-fourths participate in Social Security

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Public pensions in the U.S.

- ~$3.82 trillion in assets
- ~14 million active (working) participants
  - 13 percent of the nation's workforce
- 10 million retirees and their survivors receive $250+ billion annually in benefits
- Annual contributions = $180 billion
  - $132 billion from employers; $48 billion from employees
  - Approximately 5.0 percent of all state and local government spending goes to public pensions
- Of 6,000+ public retirement systems, the largest 75 account for 80+ percent of assets and members
- Aggregate funding level = ~74%

US Census Bureau, Public Fund Survey

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Public pensions in California

- ~$800 billion in assets
- ~1.8 million active (working) participants
- ~1.2 million retirees and their survivors receive $45 billion annually in benefits
- Annual contributions = $35 billion
  - $25 billion from employers; $10 billion from employees
- 88 retirement systems
  - CalPERS and CalSTRS account for $500 billion
  - Largest other plans: UCRP, LACERA; LA Fire & Police, LACERS

US Census Bureau

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National public pension trends

- Sustained low interest rates are fundamentally changing the pension finance calculus
- An unprecedented spate of pension reforms occurred from 2009 to 2014, and reform continues, at a slower rate
- After a lengthy period of decline, pension funding levels and costs have stabilized, although not for all plans
- The number of public employees and their salaries have stagnated or grown below historic norms since the Great Recession
- Federal interest in expanding public pension oversight and regulation looms

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Pension reforms in recent years

- Every state modified public pension benefits or financing arrangements, or both, since 2009
- Lower benefits:
  - higher retirement age
  - more required years of service
  - lower multiplier
  - longer vesting period
  - reduced, suspended or eliminated COLAs
- Increased use of hybrid retirement plans
- Newly-hired state employees in Oklahoma as of 11/1/15 have only a defined contribution plan
- Many municipal plans also have been reformed

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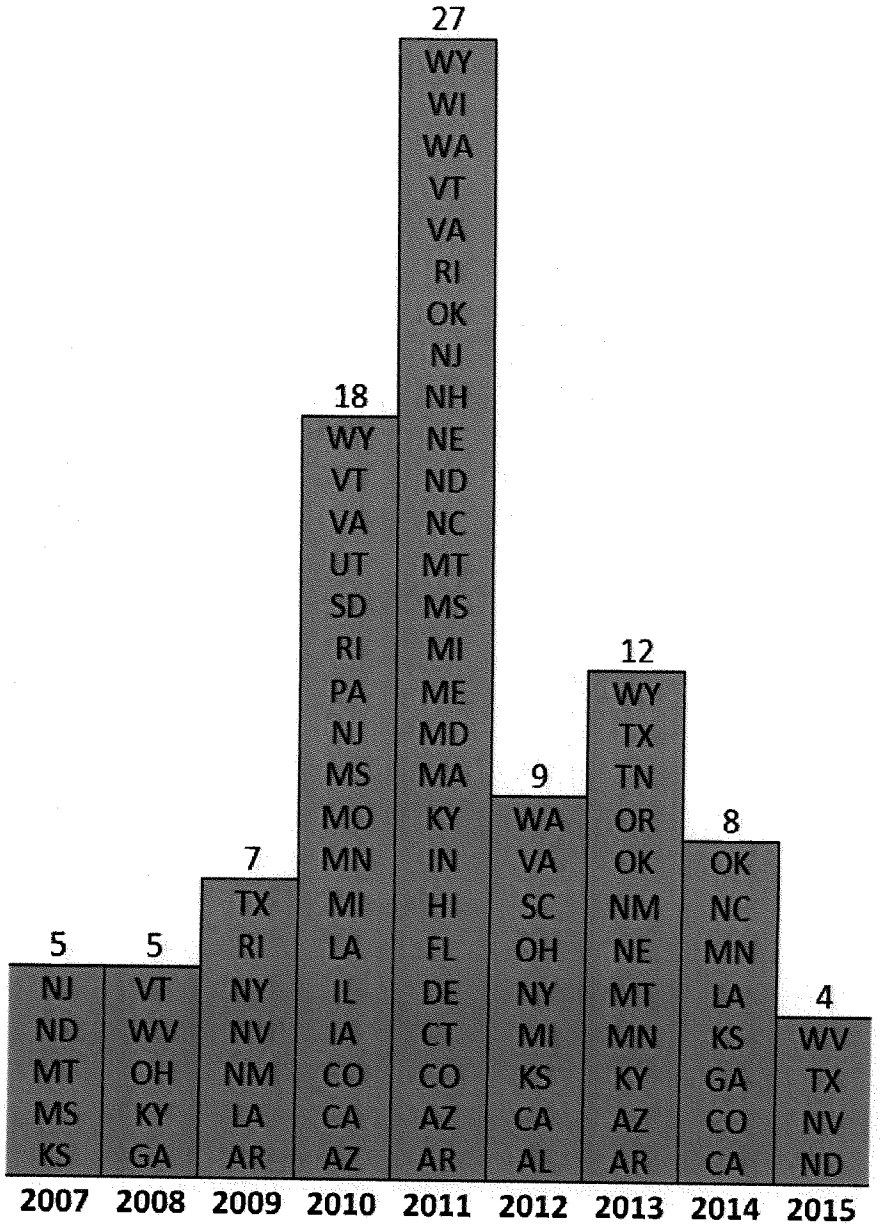
States that reformed pension plans, by year, 2007-2015



"Significant Reforms to State Retirement Systems," NASRA 2016

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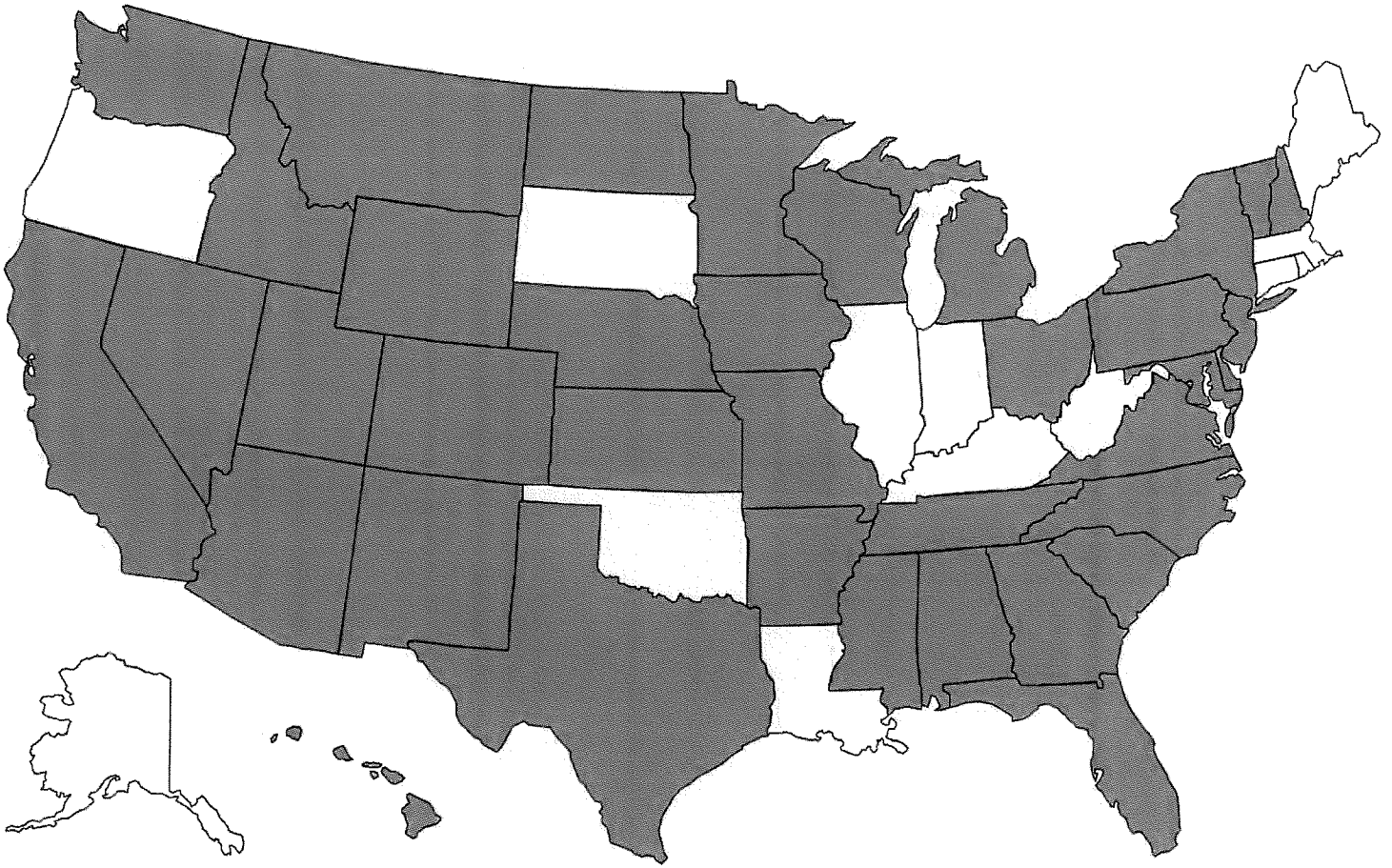
States that increased employee contributions



"Significant Reforms to State Retirement Systems," NASRA 2016

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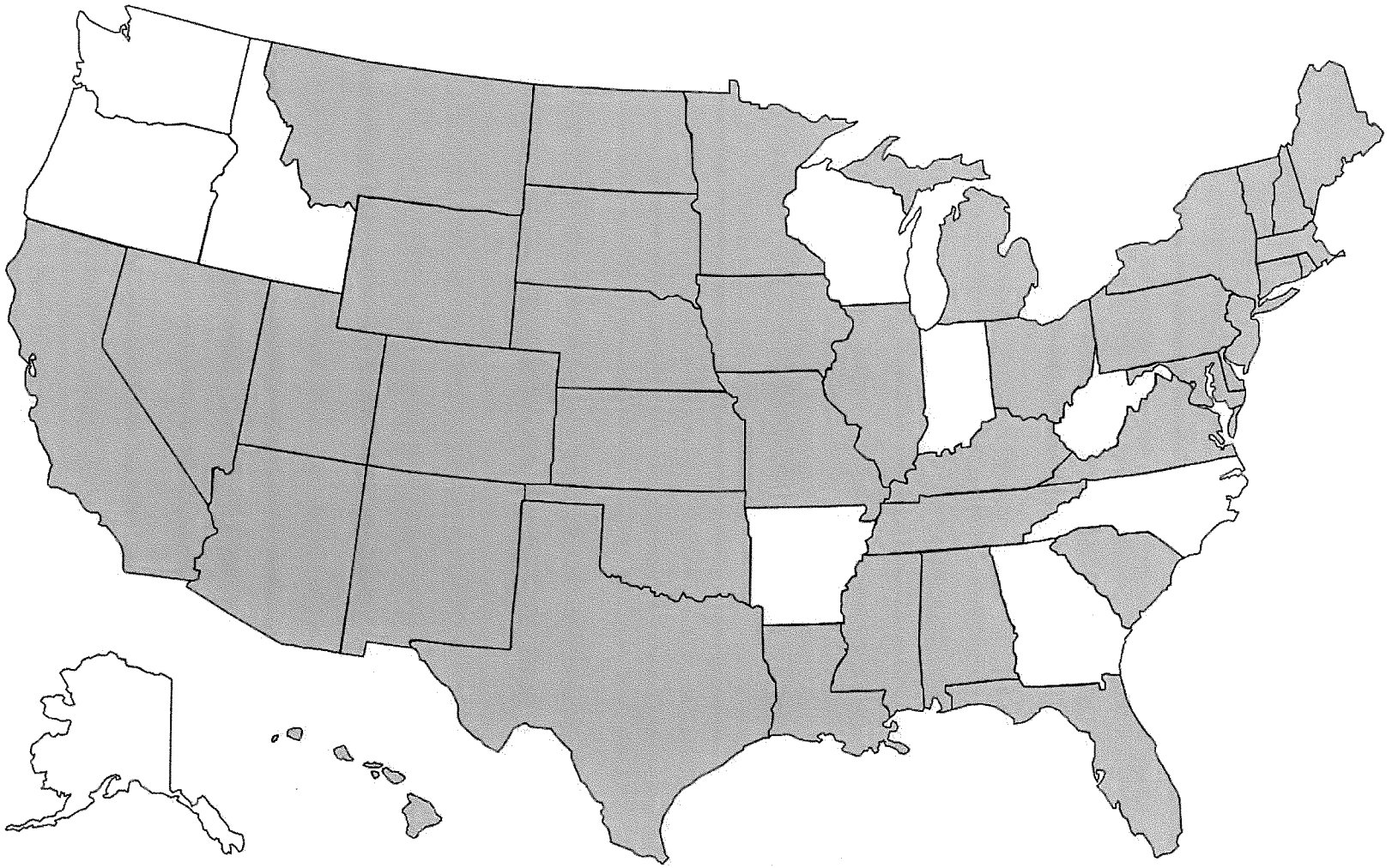
States that reduced pension benefits



"Significant Reforms to State Retirement Systems," NASRA 2016

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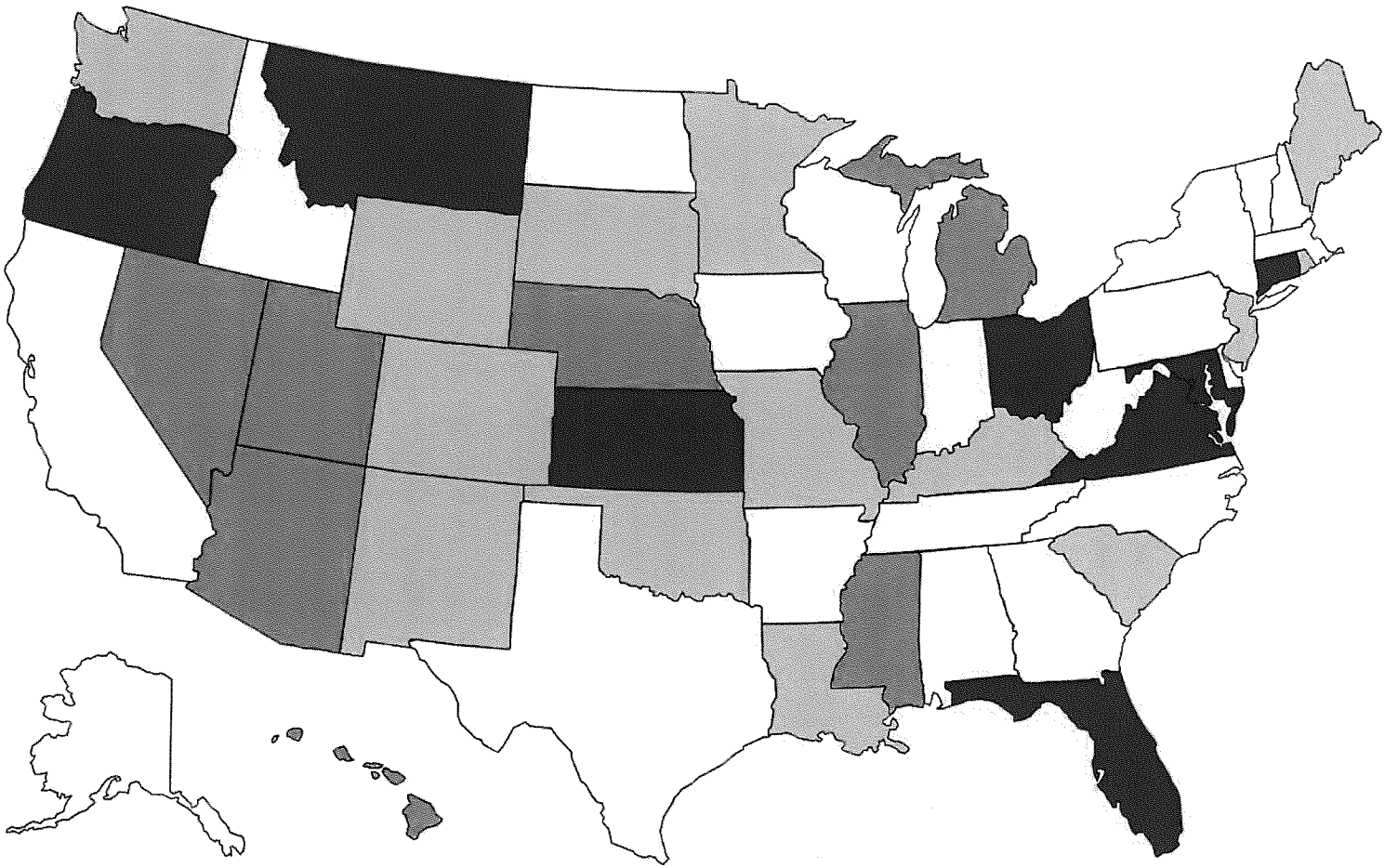
States that reduced automatic COLAs



Affecting New Hires Only Affecting Current Employees & New Hires Affecting Retirees

"Significant Reforms to State Retirement Systems," NASRA 2016

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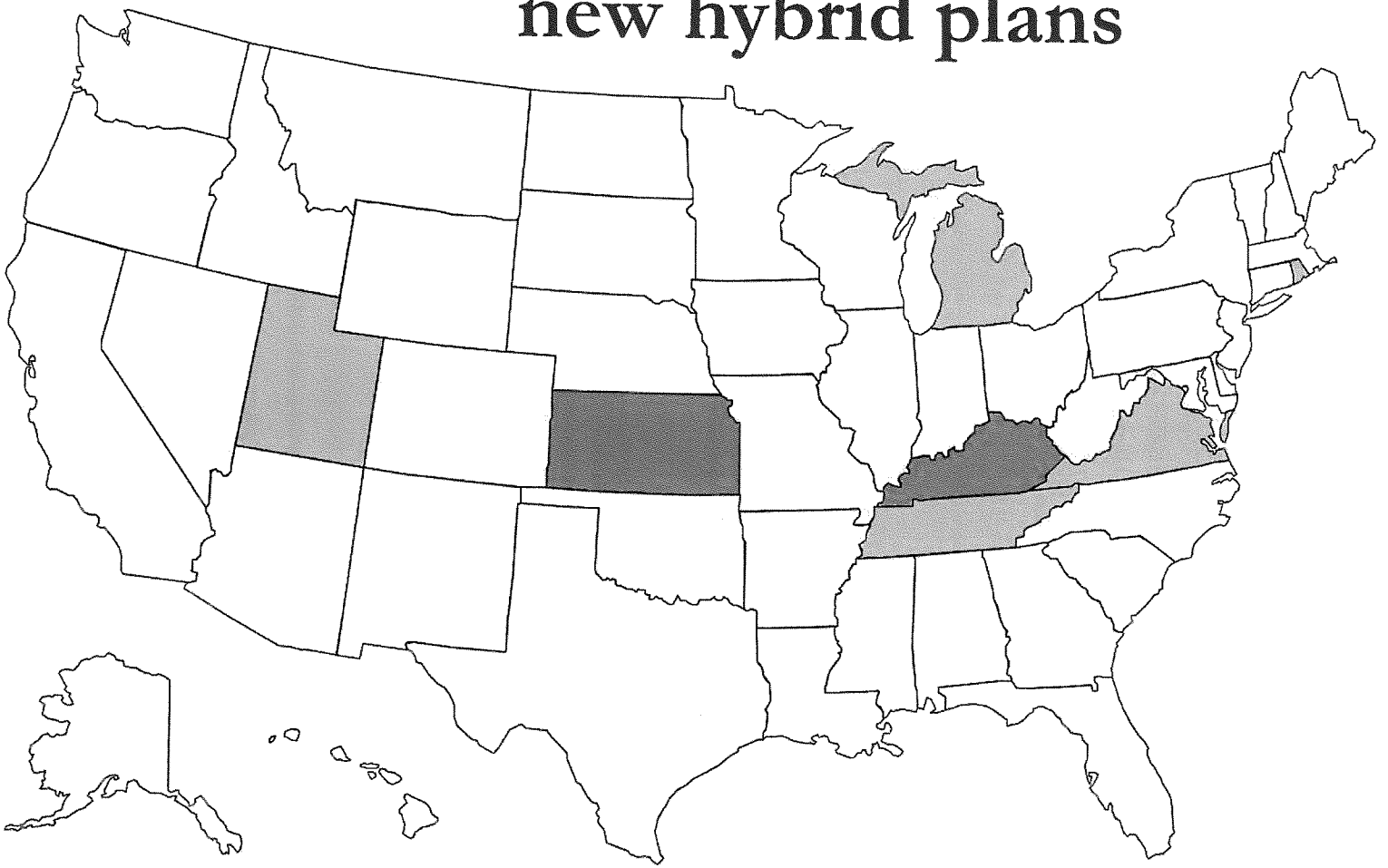
States that established new hybrid plans



"Significant Reforms to State Retirement Systems," NASRA 2016

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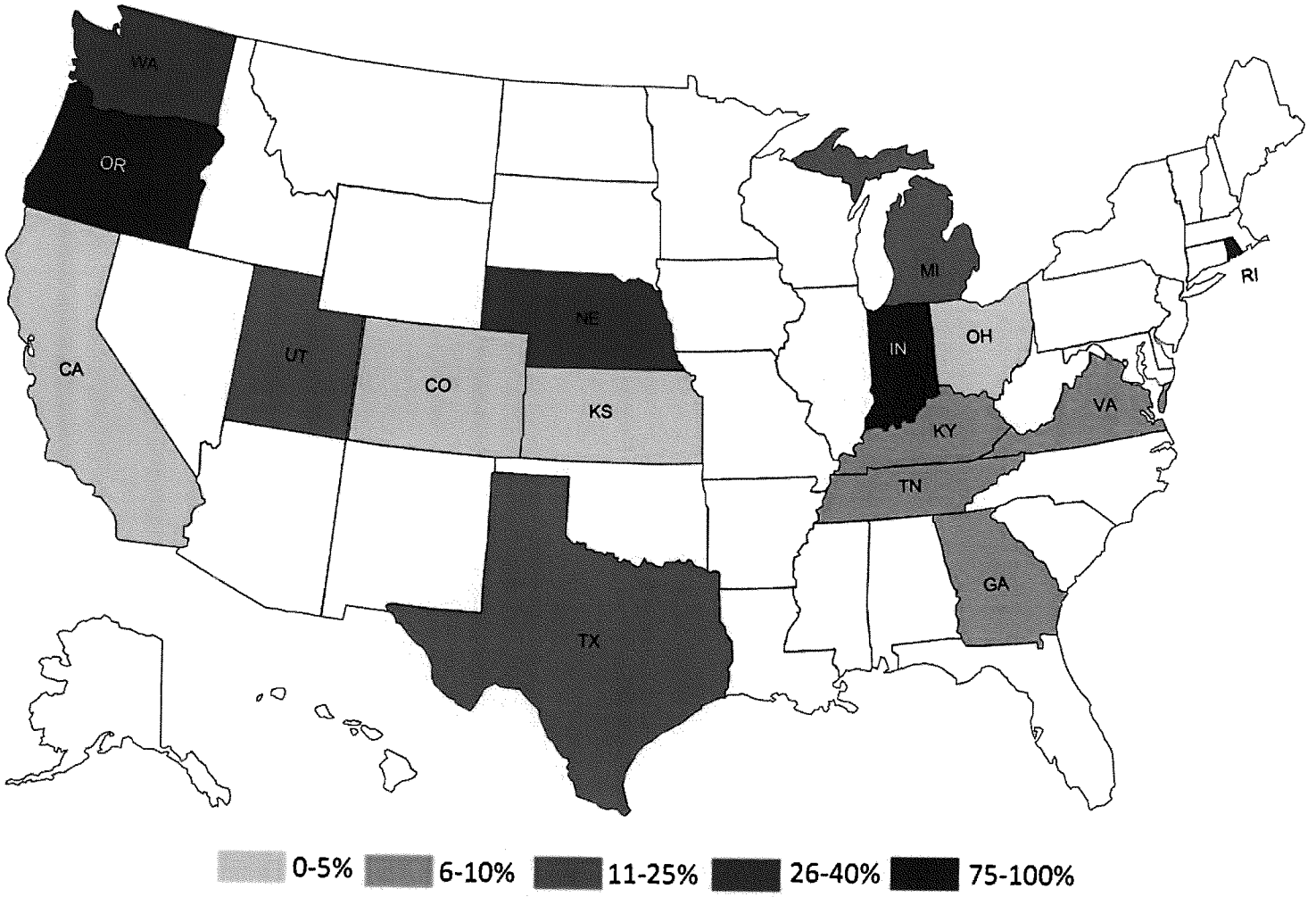
Statewide hybrid plans



"State Hybrid Retirement Plans," NASRA 2016

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Hybrid Plans Detail: DB-DC

- DB-DC plans:
- Contain a traditional pension plan accompanied by a 401k-type plan
- Pension component is typically around one-half of the accrual rate and cost of a typical public pension
- Examples: Oregon, Washington, Ohio, Indiana, Georgia, Virginia, Rhode Island, Michigan

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Hybrid Plans Detail: Cash Balance

- Accumulate employee and employer contributions, plus an annual accrual, or interest, rate
- Accounts may be supplemented by strong investment earnings
- Assets are pooled; individual participant accounts are "notional" or hypothetical
- Retirement benefit is based on size of cash balance and age at retirement
- Qualifying for a benefit requires minimum age and years of service, like a DB plan
- Examples: CalSTRS, Texas MRS and CDRS, Kansas, Kentucky, Nebraska

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Primary areas of change since 2009

- Shifting plan costs and risks to employees
  - Higher employee contribution rates
  - Greater use of hybrid plans
  - Linking COLAs to investment performance or funding level
- Lower benefits
  - Reduced benefit accrual rates
  - Longer vesting periods
  - Higher age
  - More years of service
  - Reduced COLAs

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Effects of GASB 68

- GASB 68 took effect in 2015
- Requires:
  - public retirement systems to calculate the proportionate share of each employer's pension liability
  - employers that sponsor pensions to include their share of pension liabilities on their basic financial statements
  - pension plans to use a lower discount rate if they are projected to exhaust their assets
- Initial disclosures resulted in lower liabilities for most plans
- Nationally, new disclosures have produced little surprise or alarm, but some discomfort

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Effects of GASB 68

- Has heightened awareness among plan sponsors (cities, school districts, etc.) of their pension liabilities
- Bond-rating agencies have praised the transparency produced by the new calculations
- GASB numbers are market-based and include immediate effect of some pension changes
- A dramatic investment experience or change in plan design could have a noticeable effect on an employer's financial statement

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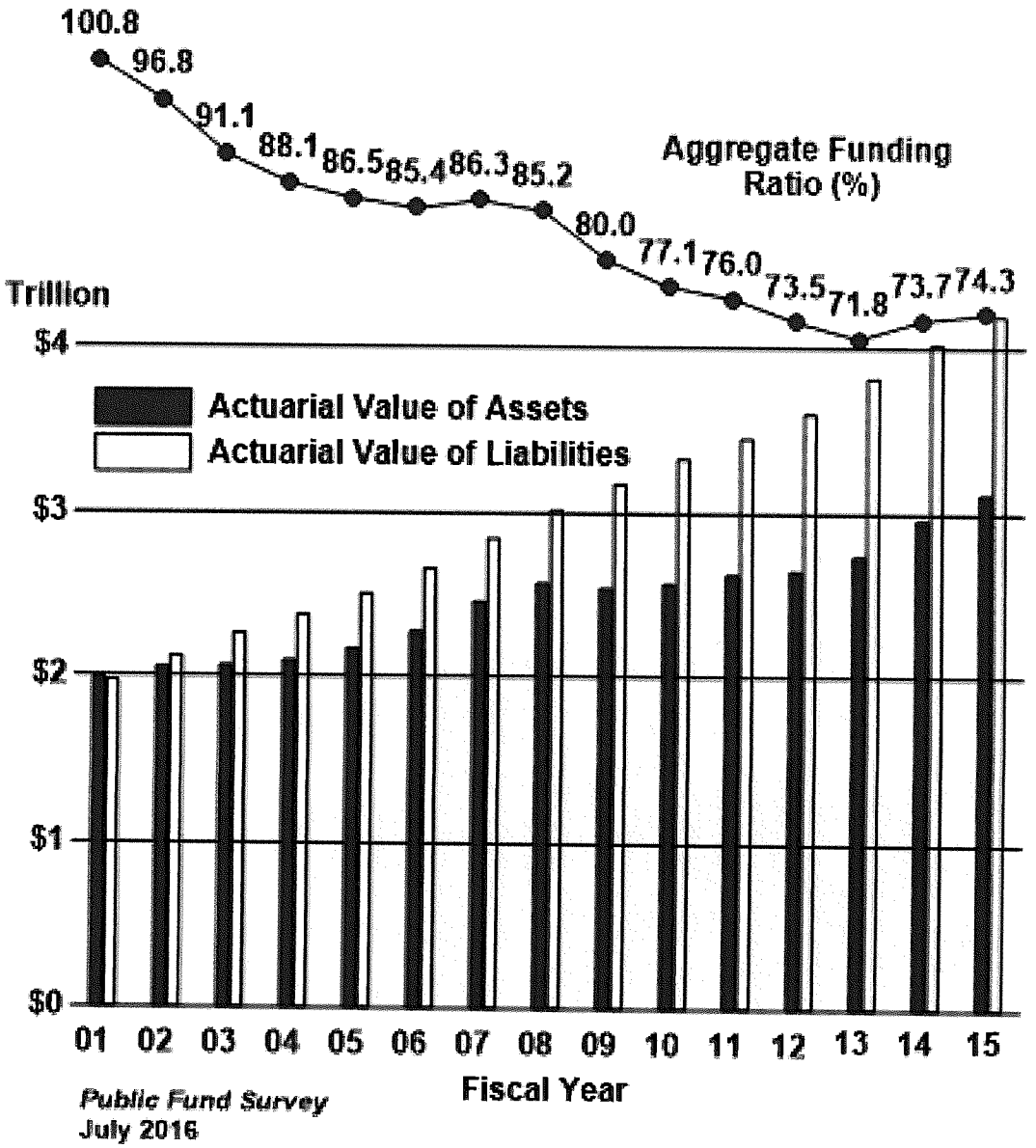
Aggregate Public Pension Funding Level, FY 01 to FY 15



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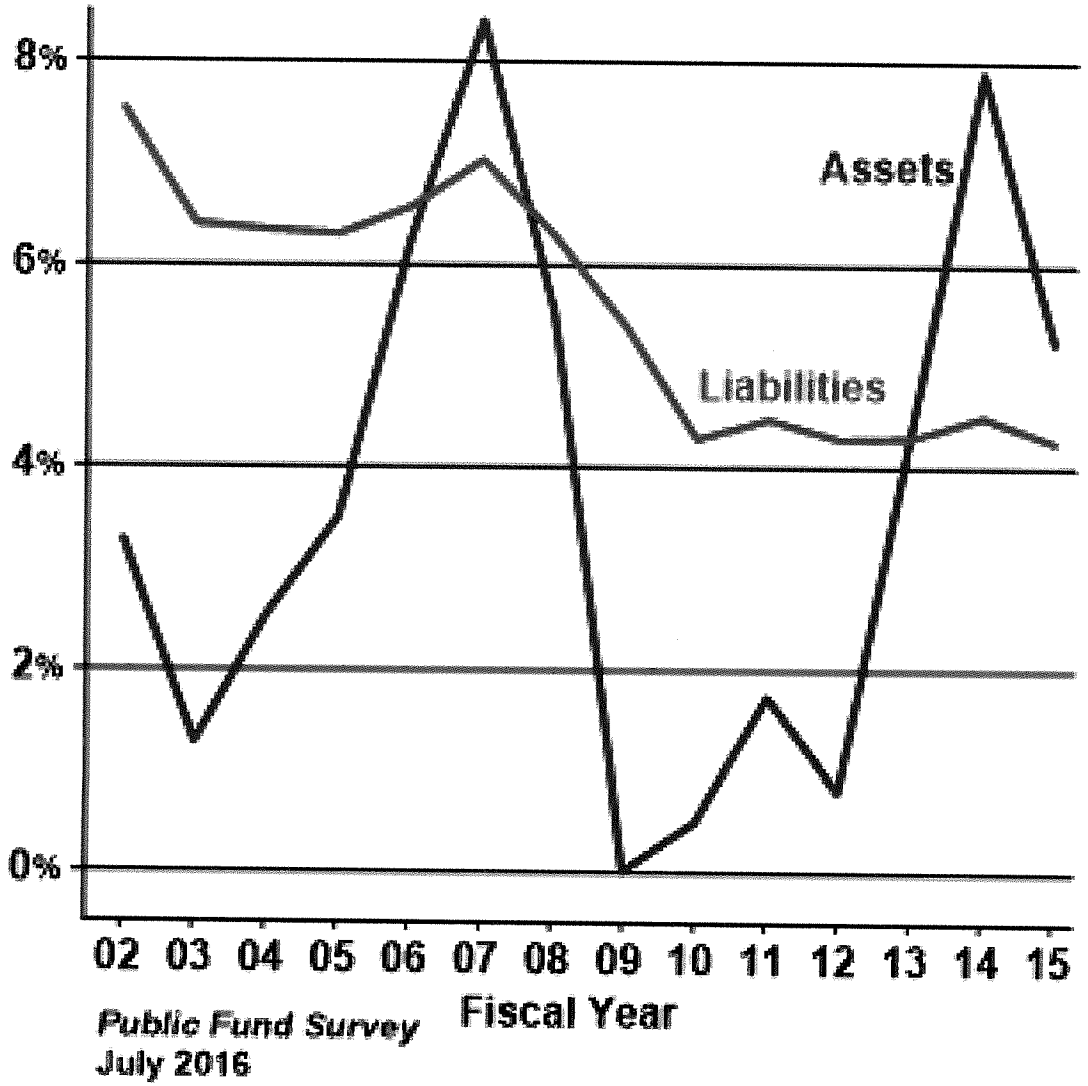
Median Change in Actuarial Value of Assets and Liabilities, FY 02 to FY 15



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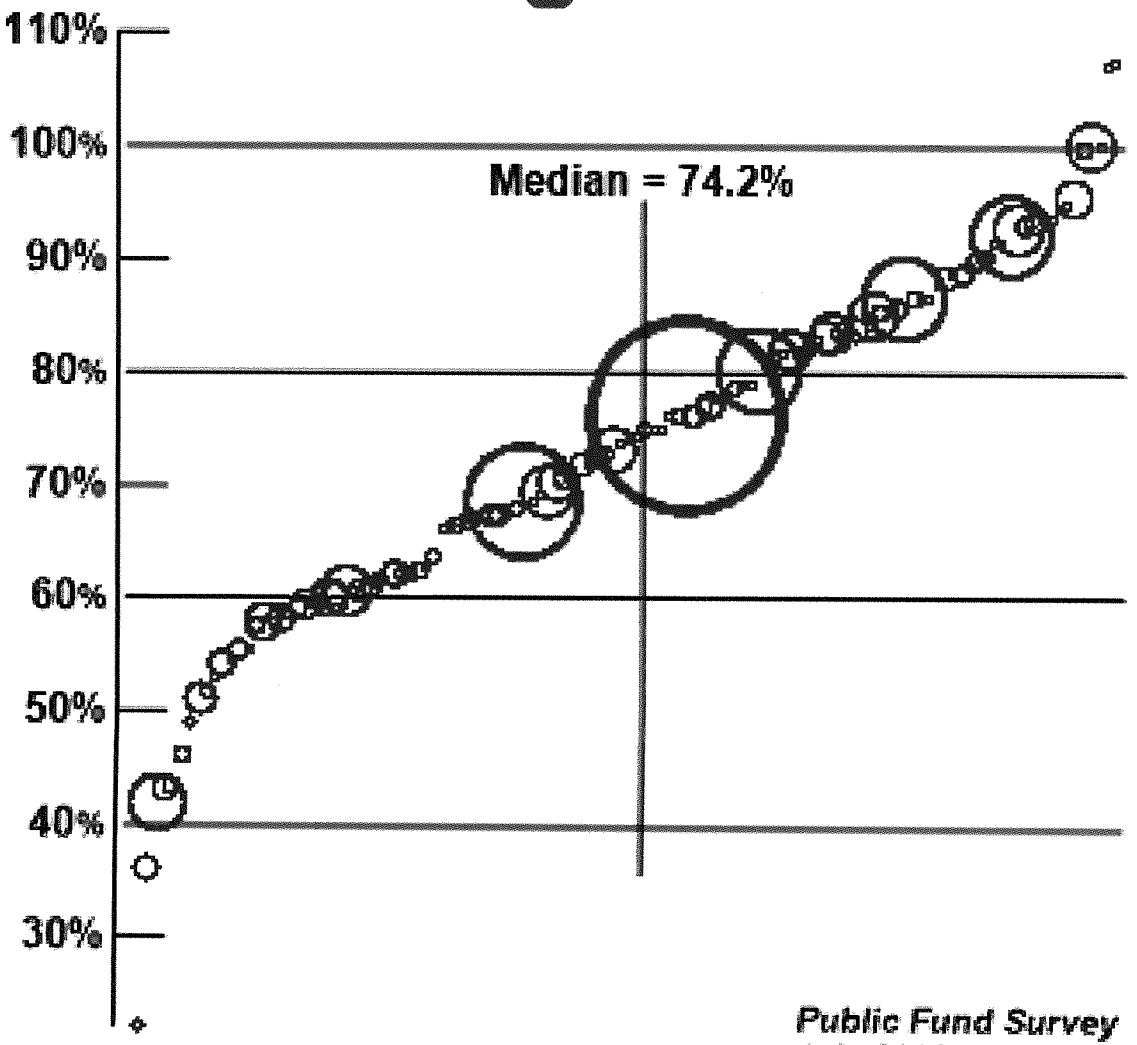
Latest Public Pension Funding Levels



Size of bubbles is roughly proportionate to size of plan liabilities

Public Fund Survey
July 2016

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The meaning and implications of an actuarial funding ratio

- An actuarial funding ratio is the most popular and recognized metric of a pension plan's condition
- By itself, this ratio is not a reliable indicator of the condition of a pension plan
- The actuarial funding ratio is akin to a single snapshot of a movie that last for decades
- Other key considerations in evaluating a pension plan's condition:
  - The fiscal condition of the pension plan's sponsoring government
  - The commitment of the sponsoring government to pay required plan costs
  - The current and required cost of the plan
  - The reasonableness of the plan's actuarial assumptions and methods
  - The trend, or direction of the plan's funding condition
  - The plan's demographics

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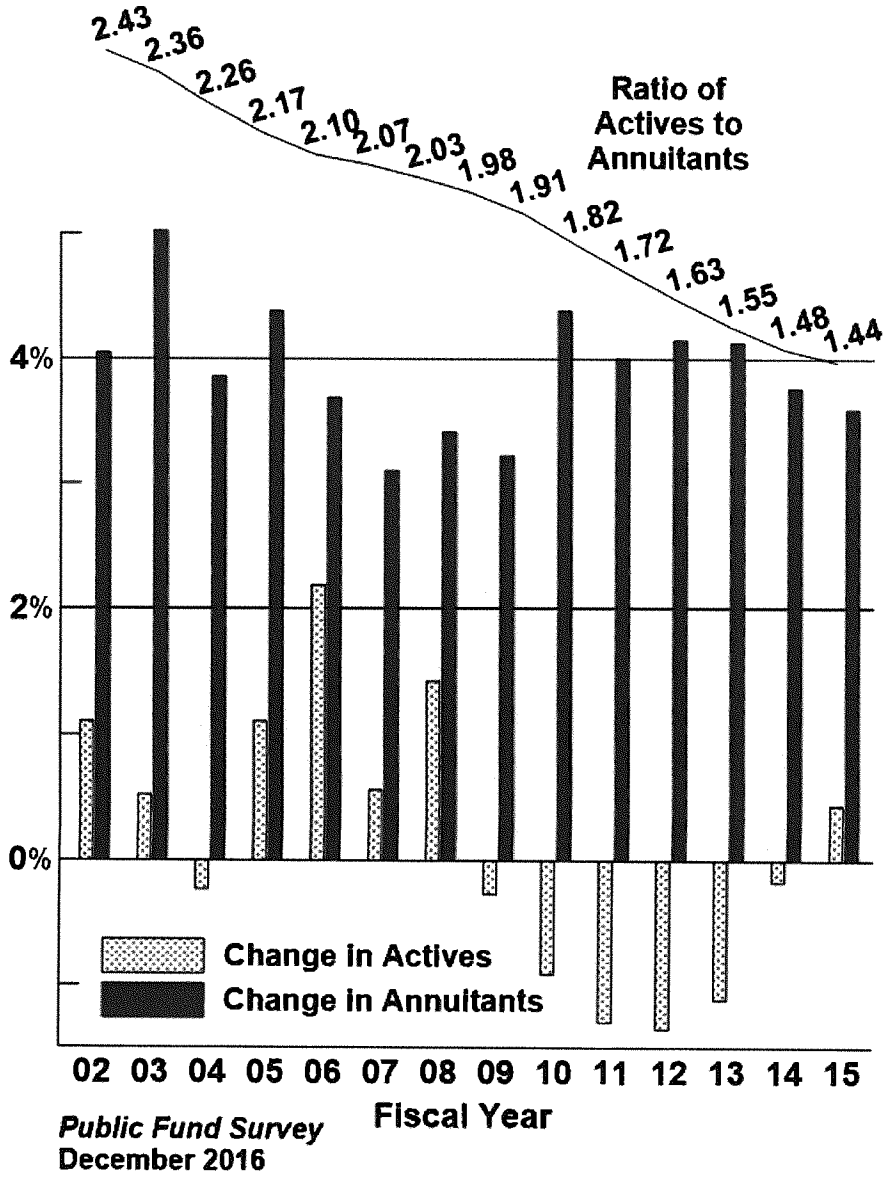
Annual median change in active and annuitant participants, FY 02 to FY 15



Public Fund Survey
December 2016

NHRS: 1.53

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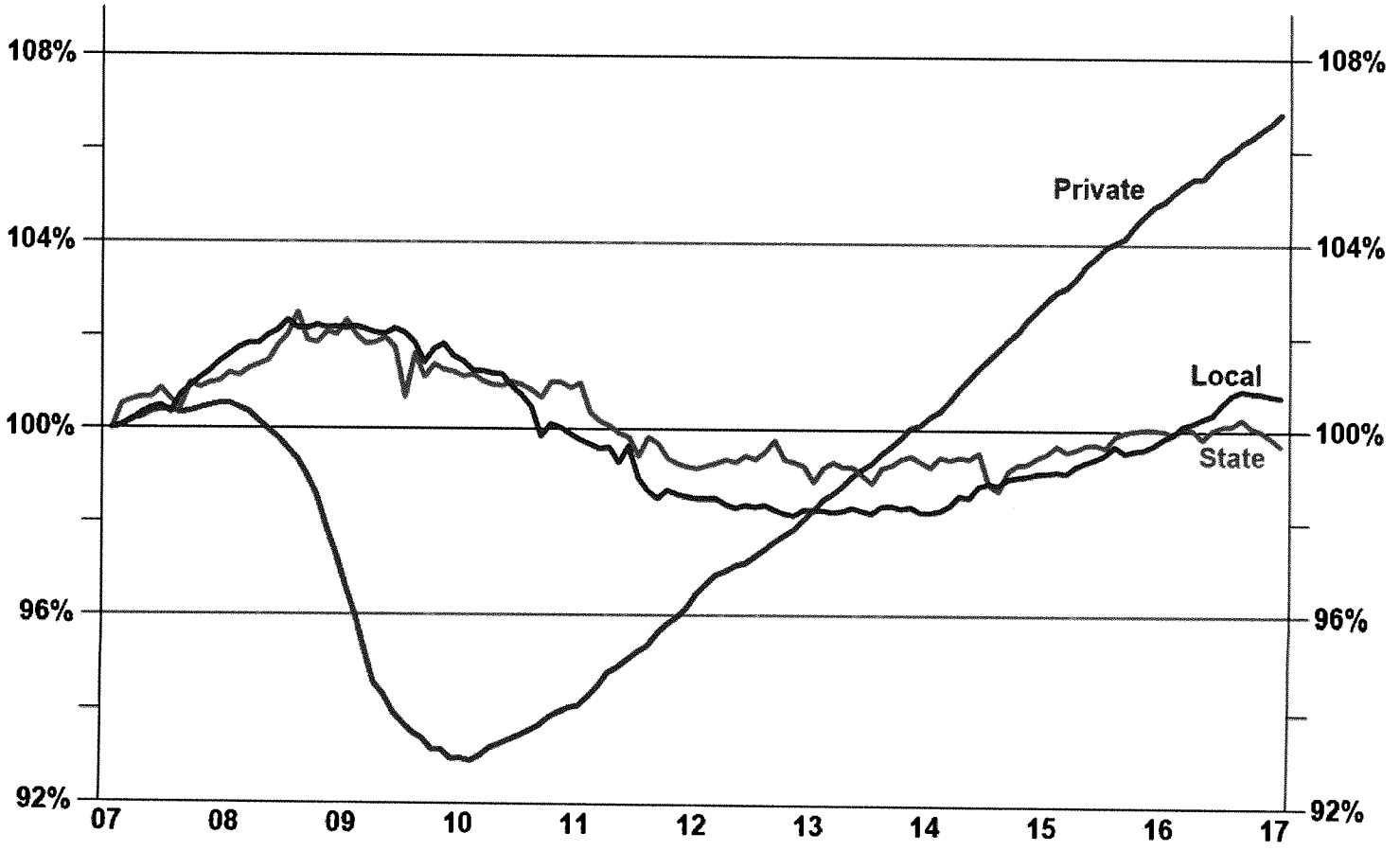
Cumulative change in employment, private sector and state and local government, 2007-2017



Final data as of January 2017

US Bureau of Labor Statistics

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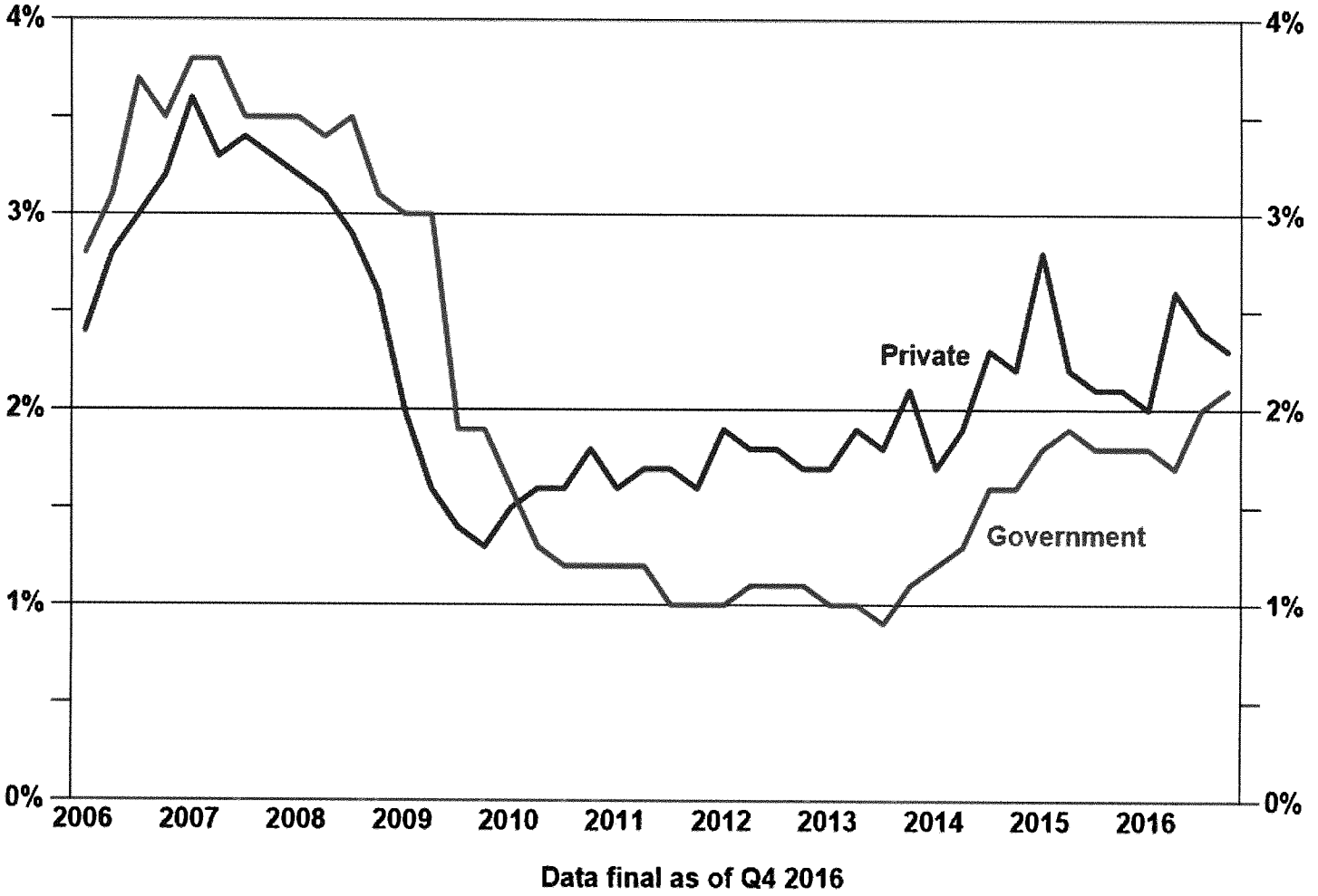
Annual change in wages and salaries, private sector and state and local government, 2006-2016



US Bureau of Labor Statistics

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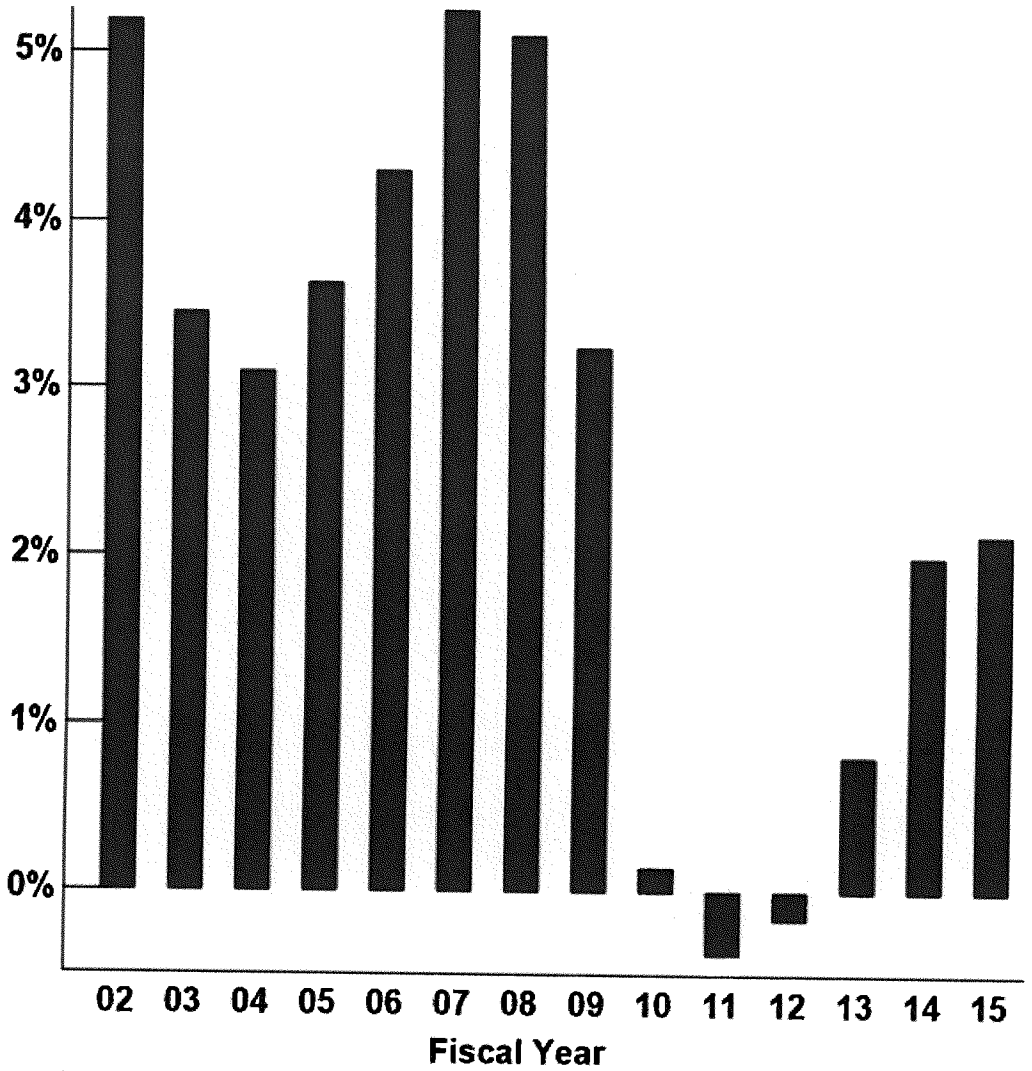
Annual median change in public pension payrolls, FY 02 to FY 15



Public Fund Survey, NASRA

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Taxpayer spending on pensions

- Spending varies widely among states
- Pension benefit levels affect the spending number
- Social Security participation is an important factor
- Not all states contribute as much as they should
- Spending is higher for cities than for states
  - A larger portion of city budgets is spent on personnel
  - Municipal employees are more likely to be unionized and therefore to have higher wages and pension benefits

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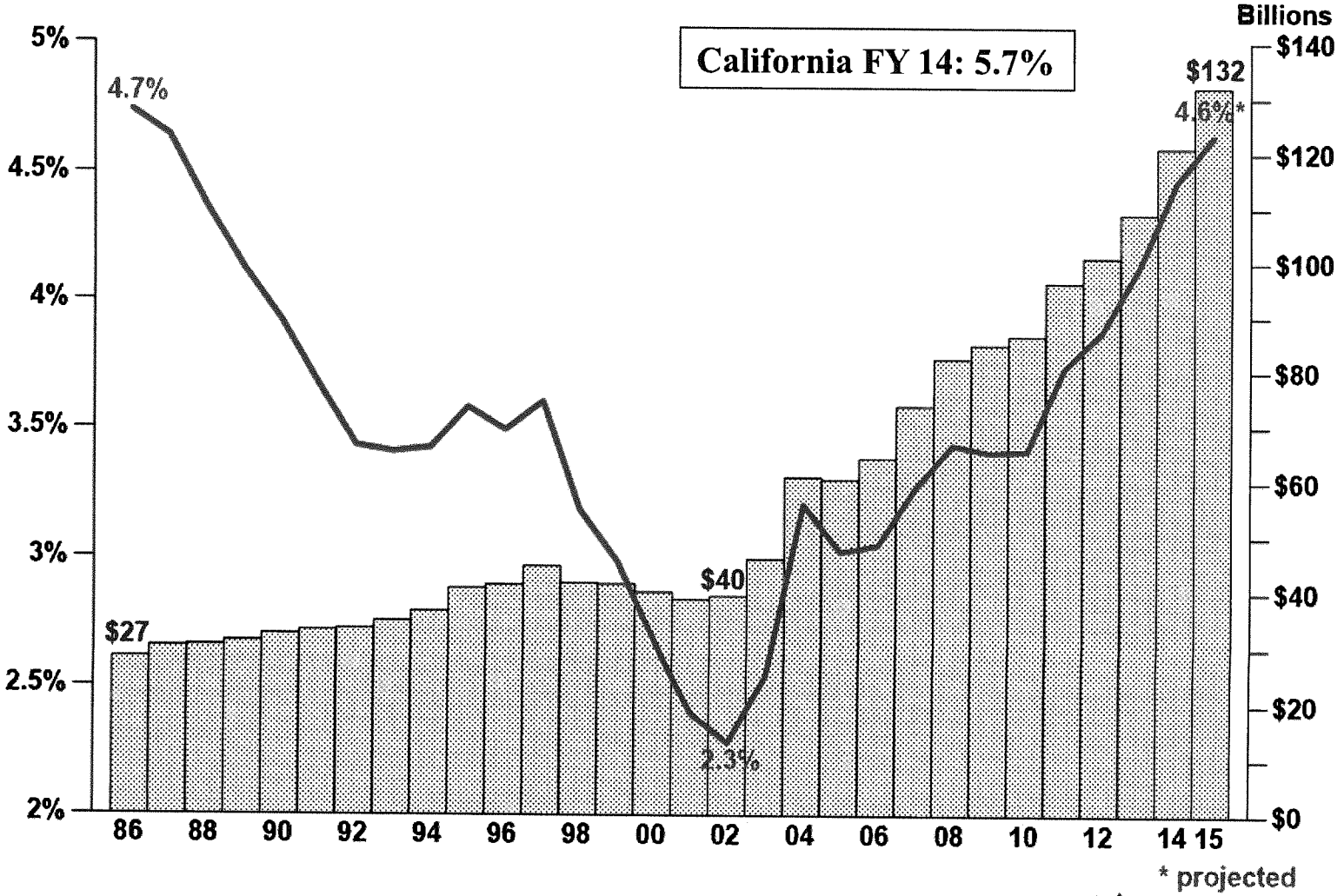
Employer (taxpayer) spending on public pensions, 1986 to 2015



"State and Local Government Spending on Public Employee Retirement Systems," NASRA 2016

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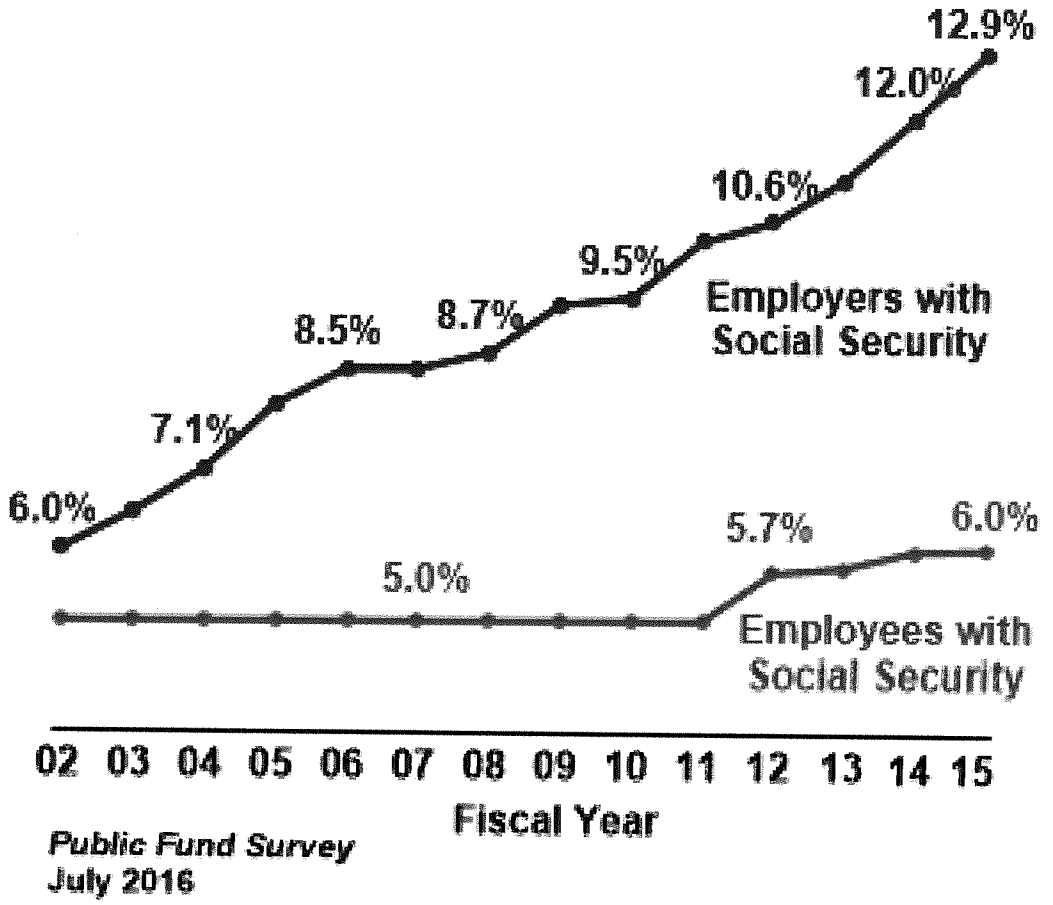
Median employer pension contribution rates, pension and LTD, Social Security-eligible, FY 02 to FY 15*



*General employees and teachers only

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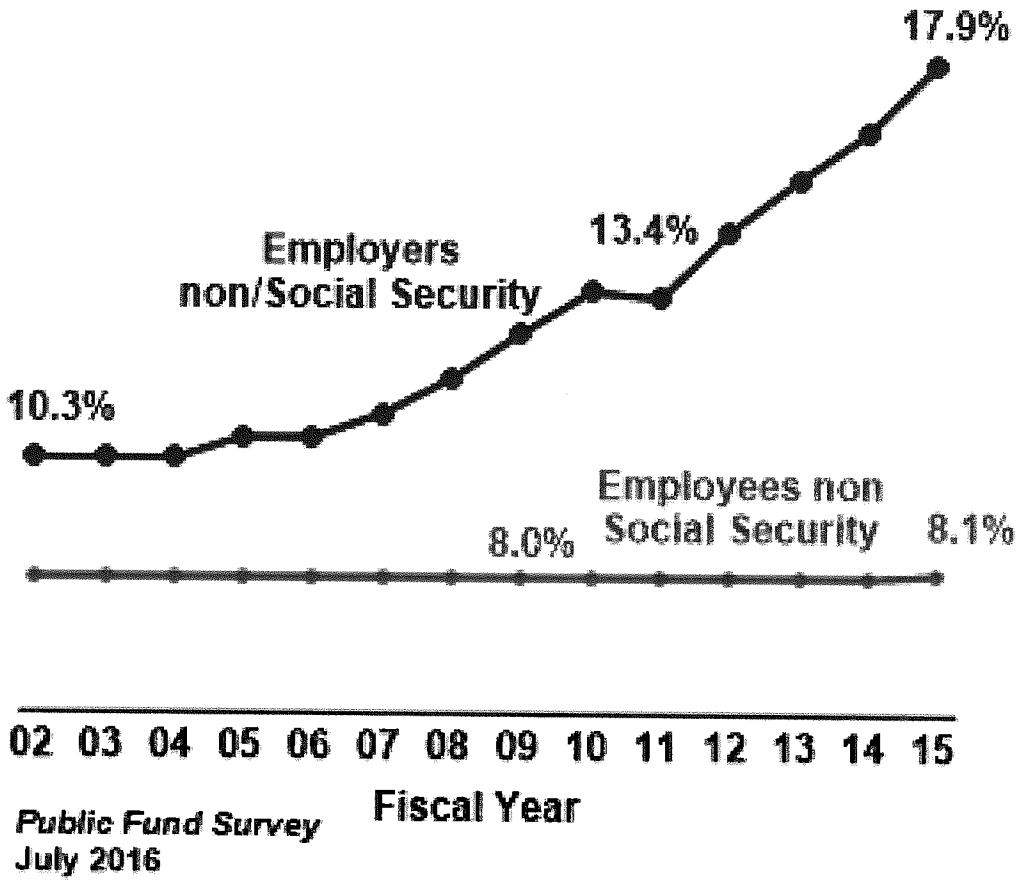
Median employer pension contribution rates, pension and LTD, non-Social Security-eligible, FY 02 to FY 15*



*General employees and teachers only

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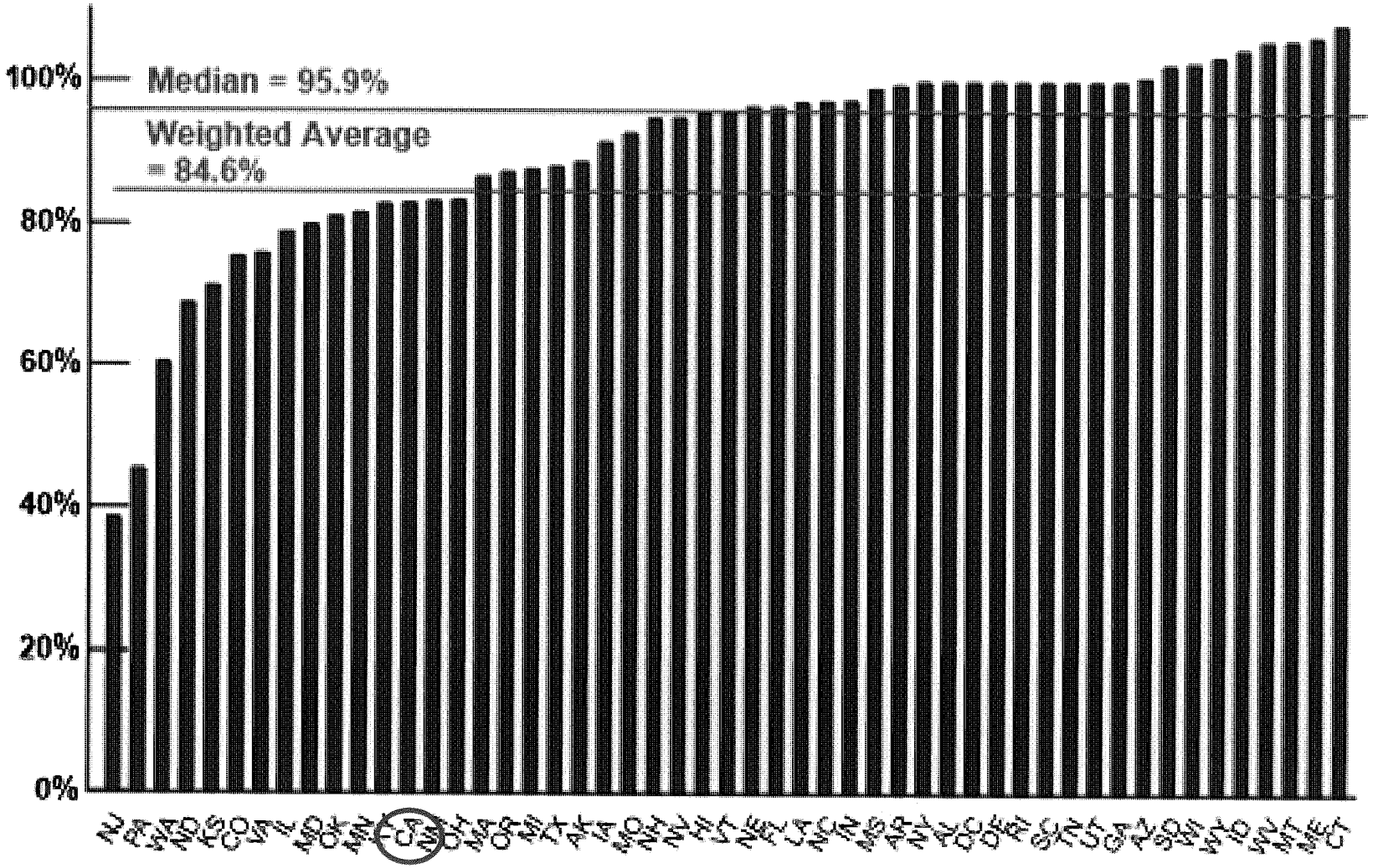
Weighted Average of Required Contribution Paid, by State, FY 01 to FY 14



"State and Local Government Contributions To Statewide Pension Plans ," NASRA 2016

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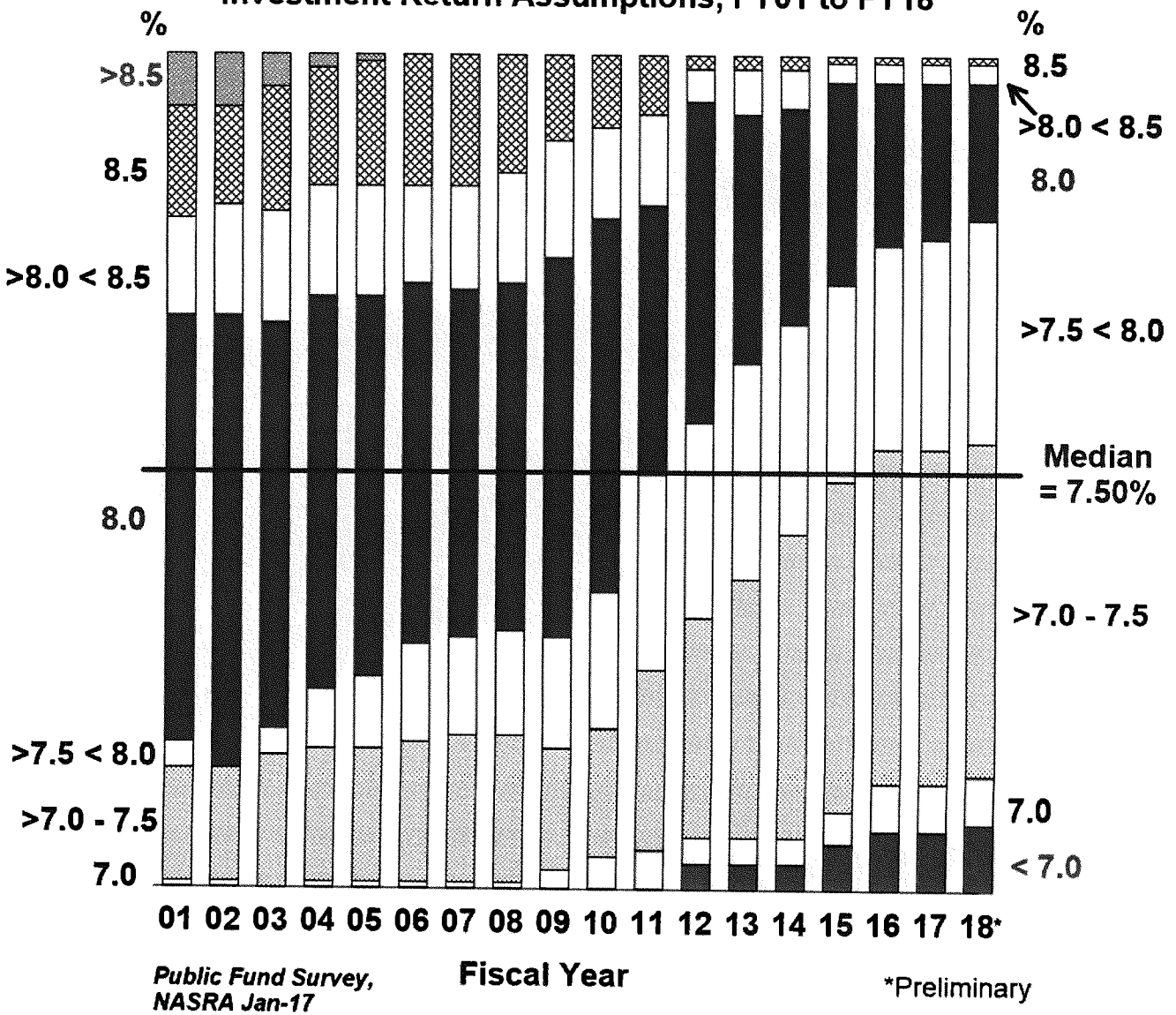
Change in Distribution of Public Pension Investment Return Assumptions, FY01 to FY18



NHRS = 7.25%

Public Fund Survey, NASRA Jan-17

*Preliminary

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Legal Protections

- Public pension benefits already earned are protected by the US Constitution, particularly the property rights clause of the Fifth Amendment
- The right to future benefits varies from state to state
- Some states include specific pension protections in their constitutions
- California relies heavily on case law to forbid changes that would diminish benefit levels for participants already in the plan; this is the "California Rule"
- California's pension legal protections are among the strongest in the nation
- Challenges to the California Rule may be considered by the state supreme court

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Legal Rulings

- Many state pension reforms that affected current plan participants provoked lawsuits
- An unprecedented number of legal rulings on public pension issues have been issued since 2010
- Rulings have run the gamut, from affirming to rejecting states' authority to reduce benefits and increase contributions
- Rulings in some states have contradicted rulings in other states on the same basic issues
- Federal bankruptcy rulings in 2014 in Detroit and Stockton, CA permitted reductions in pension benefits despite strong pension legal protections in those states

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Pension challenges facing state and local government

- For some states and cities, adequately funding their pension will be a challenge, especially for those with large unfunded liabilities
- Funding challenges are exacerbated by
  - low interest rates
  - declining projected returns, and
  - improving mortality
- Providing a retirement benefit that aligns with key stakeholder objectives

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Pension challenges facing state and local governments, continued

- Understanding and responding appropriately to multiple pension measures (books, budgets, and bonds):
  - Books: GASB statements provide standardized financial reporting
  - Budgets: Actuarial funding calculations identify the amount needed to fund the benefit
  - Bonds: Bond rating agencies assess the degree to which pension obligations affect a government's ability to repay bonded debt
- Possibility of federal oversight
  - PEPTA: Public Employee Pension Transparency Act
  - Would require state and local government sponsoring pensions to submit to the US Department of the Treasury calculations based on the use of a risk-free interest rate
  - Creates a burdensome reporting requirement under the threat of losing access to municipal bond markets

NASRA

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NASRA

Segal Consulting

CALAPRS 2017 General Assembly

Risk is the Word – Actuarial Challenges of Adequate Funding

Monterey, California

Monday, March 2, 2017

Paul Angelo, FSA, MAAA, FCA, EA

Segal Consulting

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So Many Topics – So Little Time

- What is "adequate" funding anyway?
  - It depends on: The Purpose of the Measurement
  - The "80% funding" myth
  - What can be done: C+I=B+E
- Remeasuring the target: Trends in actuarial assumptions
  - Expected Return on Assets (EROA)
  - Mortality/Longevity assumptions
  - "No good deed goes unpunished."
- Risk is the Word
  - Risk mitigation strategies come at a cost
  - New actuarial standard on risk assessment and disclosure
  - Possible "solvency value" disclosure requirement

What is "adequate" funding anyway?

- Actuarial standards help frame the question, but give no answers
  - Actuarial Standards of Practice (ASOPs) from the Actuarial Standards Board (ASB)
- Two key ASOPs for measuring pension obligations
  - ASOP 4: Measuring Pension Obligations
    - Including the "cost method"
  - ASOP 27: Selecting Economic Assumptions
    - Including the "discount rate"
  - Exhaustive revisions released September 2007

	ASOP 4	ASOP 27
January 2011	Discussion Draft	1st Exposure Draft
January 2012	1st Exposure Draft	2nd Exposure Draft
December 2012	2nd Exposure Draft	Working Draft
Dec. / Sept. 2013	Revised ASOP	Revised ASOP

What is "The Purpose of the Measurement?"

- Final ASOPs 4 and 27 say pension measures should reflect the **"purpose of the measurement"**
  - ASOP 4: "when measuring pension obligations and determining periodic costs or contributions"
  - ASOP 27: "as a primary factor in selecting a discount rate"
- Possible purposes of measurement
  - ASOP 4 examples: contributions, accounting, settlement, "market value assessments"
  - ASOP 27 examples: contributions, defeasement/settlement, "market-consistent measurements"
- Different purposes call for different measures
  - That means a plan will have different funding levels for different purposes

What is "The Purpose of the Measurement?"

- For most California plans, the purpose is ongoing funding
  - Measure is level cost ("Entry Age" method) not accrued benefit
  - Discount rate is expected return on assets (not "risk free" market rate)
  - Note: GASB uses this same liability basis for the purpose of accounting and financial reporting (GASB Statements 67 and 68)
    - Difference is that GASB uses market value of assets, not smoothed value
- Some purposes do call for a market based settlement value
  - CalPERS uses a market discount rate for withdrawing employers
    - See Sept. 2016 NYT article on "Two Sets of Books"
  - Some 1937 CERL systems offer withdrawing employers a choice:
    - "Walk away" value using market discount rate
      - » Employer retains no risk for future adverse experience
    - "Ongoing" value used expected return discount rate
      - » Employer still at risk: liability remeasured every three years with possible additional contributions
  - For "diminishing" employers, depends on whether employer is actually going out of existence, or just reducing participation

What is adequate funding for an ongoing employer?

- Defining "adequate": Is it about benefit security or budgeting?
  - For an ongoing public sector plan, benefit security is provided more by a secure benefit promise and employer than by the plan
  - A high unfunded liability (and so a low funding ratio) means a more expensive benefit, not a less secure benefit
  - This is in contrast to corporate plans, where plan or employer can terminate
    - That's why they use a market based settlement value for funding and accounting
- Funding Ratio not directly useful for measuring funding adequacy
  - Not used to determine contribution rates, which depend on UAAL* in dollars
  - Useful to track progress, but not as a simple test of Plan's health
    - Like UAAL, does not measure solvency or benefit security
- What about the 80% funding threshold we always read about?
  - Derives from pre-2006 corporate funding rules
  - For public plans there are two funding ratios that matter: 100% and 0% !
  - **See Academy of Actuaries July 2012 Issue Brief: "The 80% Pension Funding Standard Myth"**

* UAAL = Unfunded Actuarial Accrued Liability

What can be done to improve funding?

- Back to basics:

C + I = B + E

Contributions + Investment Income

equals

Benefit Payments + Expenses

- Increasing investment income increases risk
  - And expenses are relatively small
- So either increase contributions or reduce benefits
  - Sorry, no actuarial magic here

What can be done to improve funding?

- Two ways to increase contributions through Board action
- Funding Policy: shorter UAAL amortization periods
  - But also increases employer contribution volatility
  - Model practice: 15 to 20 years for most sources of UAAL
  - See Conference of Consulting Actuaries Public Plans Community (CCA PPC) **Actuarial Funding Policies and Practices "White Paper" issued Oct. 2014**
  - Funding policy is a pure Board action, the most direct way to accelerate funding
    - Restructures payments without remeasuring the liabilities
- Actuarial Assumptions: more conservative (higher cost) assumptions
  - Remeasures the costs and liabilities
  - Under ASOP 27 (economic) and ASOP 35 (demographic) assumptions must be "reasonable"
    - No significant bias (i.e., not significantly optimistic or pessimistic)
    - Exception for a including a "provision for adverse deviation"

Remeasuring the Target – Recent Trends in Actuarial Assumptions

- Recent trend is towards higher cost assumptions
  - Lower expected return on assets
  - Longer life expectancies (lower mortality)
    - Including projections of future mortality improvement
- More conservative assumptions increase current costs but reduce the risk of future cost increases
- When it comes to Risk Reduction:

Investment Return (Earnings) Assumption

- Used to set the discount rate for measuring costs
  - Sometimes called the assumed interest rate
- Used for contribution requirements
  - Also for financial reporting (GASB Statements 67 and 68)
- Affects timing of Plan cost
  - Lower assumed rate means higher current cost
  - Ultimately, actual earnings determine cost

    C + I = B + E
  - "Can't pay benefits with assumed earnings"

Trend is Towards Lower Assumed Investment Returns

- Especially in California, which leads industry practice
- CalPERS recently reduced from 7.50% to 7.00%
  - Assumption reduced in three steps
    - 7.375%, 7.25% and 7.00% for 6/30/2016, 2017 and 2018 valuations
  - Then each UAAL payment cost impact phased in over five years
  - Sample impact for Safety plans (increases above rates in June 30, 2015 valuation):

Valuation Date	Fiscal year	Normal Cost (% of payroll)	UAAL Payments (% increase in projected payments)
6/30/16	2018-19	0.5%-1.25%	2%-3%
6/30/17	2019-20	1.0%-2.5%	4%-6%
6/30/18	2020-21	2.0%-5.0%	10%-15%
6/30/19	2021-22	2.0%-5.0%	15%-20%
6/30/20	2022-23	2.0%-5.0%	20%-25%
6/30/21	2023-24	2.0%-5.0%	25%-30%
6/30/22	2024-25	2.0%-5.0%	30%-40%

Trend is Towards Lower Assumed Investment Returns

- CalSTRS also recently reduced from 7.50% to 7.00%
  - Assumption reduced in two steps
    - 7.25% for 6/30/2016 and 7.00% for 6/30/2017
- Consistent with actions by other city and county California systems
  - **6.875%**: San Jose (two plans)
  - **7.00%**: San Diego City and Contra Costa, Fresno and Santa Barbara Counties
  - **7.25%**: LADWP and Los Angeles, San Diego, Orange, Sonoma, Mendocino, San Mateo, Stanislaus, Marin and Merced Counties
  - **7.40%**: San Joaquin County
  - **7.50%**: LAFPP, LACERS, Fresno City, San Francisco and Imperial, Kern, San Bernardino, Sacramento and Ventura Counties
  - Greater than 7.50%: Alameda County (7.60%), Tulare County (7.65%, declining)
- Lower assumed returns result from lower inflation, lower real returns, or both

Remeasuring the Target – Recent Trends in Actuarial Assumptions

- Continuing trend towards longer life expectancies
- The Society of Actuaries (SOA) periodically publishes mortality tables based on retirement plan experience
  - Most recent is RP-2014, which replaced RP-2000
- The SOA also publishes scales to estimate future mortality improvements:
  - Scale AA - Was standard since around 2000
    - Does not accurately reflect recent improvements in mortality
  - Scale BB - Interim standard scale issued in 2012
  - Scale MP-2014 – Issued in October 2014
  - Scale MP-2015 – Issued in October 2015
  - Scale MP-2016 – Issued in October 2016
- Annuity values under MP-2016 vs prior MP scales
  - Generally about 1.5% - 2% less than MP-2015
  - Generally about 3% - 5% less than MP-2014

Continuing trend towards longer life expectancies

- Two ways to use mortality improvement scales to project future mortality improvements: Static or Generational
- Static projection to a future year - reflect mortality at a future date, not as of today
  - Continued use of static mortality projection but with increased margin (20%) for future mortality improvement
    - Actual deaths during the study period should be around 20% greater than the expected deaths
  - For example, RP-2014 projected 20 years with scale MP-2015
- Current practice moving towards generational mortality
  - Each future year has its own mortality table that reflects projected improvements at every age
    - Younger participants have more future mortality improvement built in than for older participants
  - Other considerations include awaiting more robust projection scales and SOA experience studies using public plan experience

Remeasuring the Target – Recent Trends in Actuarial Assumptions

- Recent trend towards more conservative (higher cost) assumptions is prudent Board action
  - Justified by data and analysis, consistent with actuarial standards
- But under the new assumptions, the UAAL increases and the funded ratio decreases
  - Higher UAAL increases contributions
- So do more conservative assumptions "improve funding" or not?
  - Yes, but not if you only look at the funded ratio
- "No good deed goes unpunished!"

It's all about Risk

- Focus in the actuarial profession on improving how we manage risk
- Consider the Society of Actuaries (SOA)
  - Research and education branch of the actuarial profession
- SOA motto is a quote from John Ruskin:
  - "The work of science is to substitute facts for appearances and demonstrations for impressions."
- But in 2008 the SOA adopted a new slogan: Risk is Opportunity
  - Well, maybe for actuaries …
  - (won the PR Week Corporate Branding Campaign of the Year award for 2008!)
- Activity at all actuarial organizations and companies on assessing, disclosing and managing (mitigating) risk
  - Including the Actuarial Standards Board

Risk mitigation strategies

- Reducing risk always has a cost (or a sacrifice of savings)
  - Actuarial "No Free Lunch" rule
- More conservative assumptions reduce risk of future cost increases
  - But increase current contributions
- Less volatile asset allocation reduces risk of contribution volatility
  - But lower expected return increases current contributions
- Case study: what to do when a plan is in surplus (negative UAAL)?
  - Historically, either reduce contributions or increase benefits – or both
  - Current thinking: "take risk off the table":
    - Match part of the assets to cash flows for some retiree benefits
    - Lower expected return on those assets lowers discount rate for those benefits
    - Lower discount rate increases liability so plan is no longer in surplus
    - In effect, spend the surplus on risk reduction
- New CalPERS risk mitigation strategy intends to do this with investment gains (even though not in surplus)
  - Forego contribution reductions so as to reduce risk

Recent Actuarial Standards Board Activities

- Reviewing Actuarial Standards of Practice (ASOPs)
- 2013 and 2014 – Key pension ASOPs (4, 27, 35) updated
- July 2014 – Request for Comments – ASOPs and Public Pension Plan Funding and Accounting
  - Formed Pension Task Force to review responses
- December 2014 – Exposure draft of **proposed ASOP on Assessment and Disclosure of Risk**
- July 2015 – Hearing on Public Pension Issues
- July 2016 – Release **Pension Task Force Report**
  - Includes suggestion to **require disclosure of a "Solvency Value"**
- July 2016 – 2nd exposure draft of proposed ASOP on Assessment and Disclosure of Risk
  - **See Appendix for details**

ASB Pension Task Force (PTF) Report – Suggests Disclosing a "Solvency Liability"

- Solvency liability is a market pricing type of liability calculation
  - Present value of accrued benefits (not a level cost, "Entry Age" liability)
  - Discounted at U.S. Treasury Rates (not expected return on assets)
  - Concept is to estimate the cost to settle all the plan's accrued benefits in the marketplace
  - Would be a required disclosure in all funding valuations
- Will have many implications for public sector plans
  - Including being misrepresented by market pricing proponents as the "true cost"
- Additional set of calculations beyond funding, GASB 67/68
  - May be useful as an alternative to Moody's methodologies
- Communication challenges for actuaries and systems
  - For example, the GFOA CAFR "Solvency Test" does not use a Solvency Liability!

PTF Report – Next Steps

- The ASB is expected to determine what changes to the ASOPs or new ASOPs will result from the PTF's suggestions
  - Including the Solvency Value disclosure
- The ASB's procedure for changing or adding ASOPs includes an exposure draft period with time for public comment
- The full PTF report is available on the ASB's website: http://www.actuarialstandardsboard.org/general-news/pension-task-force-report-released-pension-committee-to-begin-drafting-modifications/

Role of Assumptions and Methods

C + I = B + E

Contributions + Investment Income

equals

Benefit Payments + Expenses

- Actuarial valuation determines the current or "measured" cost, not the ultimate cost
- Assumptions and funding methods affect only the timing of costs

When it comes to Risk Reduction …

Appendix: Assessment and Disclosure of Risk – Second Exposure Draft

- Why is the standard needed?
  - Actuarial calculations require use of assumptions regarding future economic and demographic experience
  - Intended users of these measurements may not understand the effect of future experience differing from the assumptions
- When does this standard apply to actuaries?
  - When performing a funding valuation
  - When performing a pricing valuation of a proposed change that would, in the actuaries' opinion, significantly change the types or levels of risk
- What does the actuary need to do to comply?
  - Include an assessment of each of the risks that the actuary identifies
  - Assessment need not be based on numerical calculations
  - Assessment should account for applicable plan circumstances – funding policy, investment policy, funded status, demographics, etc.

Steps the Actuary Needs to Take

- **Identify and assess risks** that may affect the plan's future financial conditions
- Recommend a more detailed assessment if actuary believes it would be beneficial to intended users
- Calculate and disclose **plan maturity measures**
- Identify and disclose **historical values of actuarial measurements** that are significant in understanding plan risks
- Prepare actuarial communication

Examples of Risks

- Risks related to economic variables
  - Investment return
  - Inflation
  - Interest rates
- Risks related to demographic variables
  - Longevity
  - Payroll and/or population growth
  - Retirement, disability, termination
- Other risks
  - Asset/liability mismatch
  - Contribution risk

Methods for Assessing Risk

- Scenario tests
  - Impact of one possible event, several simultaneous events, or several sequential events
- Sensitivity tests
  - Impact of change in actuarial assumption or method
- Stress tests
  - Impact of adverse changes in one or a few factors (assumptions or events?)
- Stochastic modeling
  - Estimate probability distributions of potential outcomes by allowing for random variation in one or more inputs over time, such as investment returns

Examples of Plan Maturity Measures

- Ratio of market value of assets to payroll
- Ratio of retiree liability to total liability
- Ratio of net cash flow to market value of assets
- Ratio of benefit payments to contributions
- Duration of actuarial accrued liability
- Include commentary explaining significance of plan maturity measures

Examples of Historical Information

- Funded ratio
- Actuarially determined contribution
- Actuarial gains and losses
- Normal cost
- Plan settlement liability
- Comparison of actual contributions to actuarially determined contributions
- Plan participant count
- Covered payroll
- Include commentary explaining significance of historical information

CALIFORNIA ASSOCIATION OF PUBLIC RETIREMENT SYSTEMS

LEGAL UPDATE: VESTED RIGHTS DOCTRINE: STORM CLOUDS AHEAD?

PANELISTS: **Hugo Wildmann**, AC Transit, Moderator;
Chris Waddell, Olson Hagel & Fishburn, Panelist; and
Russ Richeda, Saltzman & Johnson, Panelist

DATED: **March 6, 2017**

VESTED RIGHTS:
Today's Presentation

- Time to Panic or Time to Sit Back and Wait for the California Supreme Court?
- Comments and Overview by Mr. Wildmann
- Introduction of Panelists
- Chris Waddell: The Deep Dive into Vested Rights
- Russ Richeda: The Marin and Cal FIRE cases
- Panel's Best Guesses on Where We Are Now
- QUESTIONS?

VESTED RIGHTS:
LET'S STEP BACK AND TAKE A BREATH

- Overview of California Vested Rights Doctrine
  - What is it?
  - Where did it Come From?
  - What are the Rules?
  - How Have the Rules Been Applied?

WHAT IS THE DOCTRINE?

- "Public employment gives rise to certain obligations which are protected by the ***contract clause of the Constitution***, including the right to the payment of salary which has been earned."
- "Accordingly,…since a pension right is an integral portion of contemplated compensation, it cannot be destroyed, ***once it has vested***, without impairing a contractual obligation."

  - *Miller v. California* (1977) 18 Cal. 3d 808, 815
  - *Citing Kern v. City of Long Beach* (1947) 29 Cal. 2d 848, 853

- ***Brief*** journey into the law of contracts required before delving into an examination of vested rights.

U.S. AND CALIFORNIA CONTRACT CLAUSES

- "No state shall…pass any…law impairing the obligation of contracts,…"
  - U.S. Constitution Art. II, §10, cl. 1
- "A…law impairing the obligation of contracts may not be passed."
  - California Constitution Art. 1, §9

WHERE'S THE "CONTRACT"

- Contracts may either be express or implied.
  - Cal. Civil Code §1619
- Express and implied contracts are of "equal dignity."
- Most cases are based upon an ***implied*** contract.
  - "After services have been rendered by a public officer under a law specifying his compensation, there arises an ***implied contract*** under which he is entitled to have the amount so fixed. And the constitutional protection extends to such contracts just as it does to those specifically expressed"
    - *CTA v. Cory* (1984) 155 Cal. App. 3d 494, 505

"ONCE IT HAS VESTED…."

- "The right to pension benefits ***vests*** upon the acceptance of employment, even though the right to immediate payment of a full pension may not mature until certain conditions are satisfied."
  - *Miller* at 815
- "….vested right to a pension based on the system then in effect."
  - *Miller* at 81

IF VESTED, THEN WHAT?

- Although vested, rights not set in stone;
  - "Reasonable modifications and changes" permissible;
  - "Necessary to permit adjustments in accord with changing conditions and at the same time maintain the integrity of the system and carry out its beneficent policy."
    - *Miller* at 816, citing *Kern* at 854-55

WHAT ARE "REASONABLE" MODIFICATIONS?

- The Courts decide.
- "Must bear some material relation to the theory of a pension system and its successful operation."
- "Changes in a pension plan which result in disadvantage to employees should be accompanied by comparable new advantages."
  - Measure is the advantage or disadvantage to the particular employee whose own contractual rights, already earned, are involved.
  - Offsetting improvement must relate generally to the benefit that has been diminished.
    - *Miller* at 816; *Betts v. Board of Administration* (1978) 21 Cal. 3d 859, 863-865

WHAT IF THERE'S A FISCAL EMERGENCY?

- "A substantial impairment may be constitutional if it is reasonable and necessary to serve an important public purpose."
  - *Board of Administration v. Wilson* (1997) 52 Cal. App. 4th 1109, 1154
- Test of "necessity" strictly interpreted; has never been applied in California in a manner to validate an impairment of a vested right.
  - "Fiscal Emergency" alone is not enough to justify an impairment. Four factor test; impairment must be temporary and vested benefits must ultimately be reinstated with interest.
  - Plan sponsor has burden to justify.
    - "A governmental entity can always find a use for extra money, especially when taxes do not have to be raised" *Wilson, supra.*

FUTURE BENEFIT ACCRUALS—*LEGISLATURE V. EU*

- Unanimous 1991 California Supreme Court upholding term limits.
- Legal challenge included federal contracts clause claim that the pension benefits impliedly promised to incumbent legislators included the right to earn future pension benefits through continued service based on terms in effect when they assumed office.
- Court said California cases confirmed both federal and state contracts clauses protected pension benefits of public officers.
- Court ruled that initiative's ban on future participation in the Legislator's Retirement plan impaired the vested rights of incumbent legislators to ***continue to participate*** in the Legislator's Retirement System.
  - *Legislature v. Eu* (1991) 54 Cal. 3d. 492, 528
- "We conclude that the incumbent legislators had a vested right to earn additional pension benefits through continued service…."
  - *Eu* at 530

RETIRED EMPLOYEES ASSOCIATION OF ORANGE COUNTY V. COUNTY OF ORANGE

- *AKA* the *"REOC"* case.
- Unanimous 2011 decision of the California Supreme Court.
- Addressed vesting of retiree health benefits.
  - "…we conclude generally that that legislation in California may be said to create contractual rights when the statutory language or circumstances accompanying its passage "clearly '…evince a legislative intent to create private rights of a contractual nature enforceable against the [governmental body].'"
  - "Although the intent to make a contract must be clear, our case law does not inexorably require that the intent be express."
  - Ultimately it's a matter of the parties' intent.
- *REOC* decision did not cite or discuss *Legislature v. Eu*, which remains the latest expression of the CA Supreme Court's views in the specific context of public pension vested rights.

VESTED RIGHTS: THE TWO NEW CASES

- Where some of us thought we were on vested rights:
  - [P]ublic employees earn a vested right to their pension benefits immediately upon acceptance of employment and…such benefits cannot be reduced without a comparable advantage being provided….A corollary of this approach is that public employees are also entitled to any increase in benefits conferred during their employment, beyond the pension benefits in place when they began.
- Two appellate courts beg to differ – from different divisions in the same appellate district.
- Waiting in the wings is a third case in yet another division of the same appellate district involving the Contra Costa and Alameda systems
- Another appellate district decided not to join the Marin train (San Joaquin County case (handed down December 20, 2016))
- THE CALIFORNIA SUPREME COURT HAS GRANTED REVIEW OF THE FIRST CASE, THE MARIN CASE!

VESTED RIGHTS:

Marin Association of Public Employees v. Marin County Employees' Retirement Association

(Handed down August 17, 2016)

- ***Marin***: The beginning: PEPRA (the Public Employees Pension Reform Act of 2013) amended the County Employees Retirement Law to cut standby pay, callback pay, and a few other items out of pensionable compensation. Plaintiffs said hold on, wait a minute, what about our vested rights? What about giving us something in return for taking away something?
- ***Marin***: The end: The court basically said what vested rights. You are only entitled to a "reasonable" pension and, even after the takeaways you still have that
- ***Big Takeaway***: The Marin court reduces to close to nothing the comparable advantage component of vested rights

VESTED RIGHTS: *MARIN* CASE: THEY CALL IT REASONING

- What in heaven's name was the court thinking of?
- Of course we don't really know; we only know what the court said in its opinion
- Court cited sources, including the 2011 Little Hoover Commission Report, that described the current public pension environment as "dire", "unmanageable", a "crisis" that "will take a generation to untangle", and "a harsh reality that could no longer be ignored"
- And pension spiking is bad; really bad
- Parties did not propose this rationale – the Court came up with this on its own

VESTED RIGHTS: *MARIN* CASE: MORE "REASONING"

- *Marin* court concludes that prior California Supreme Court decisions on comparable advantage don't really count
  - "must' means "should"
  - "should" means "forget about it"
- *Marin* court points to high-level vested rights judicial talk: can modify retirement plan "where in accord with changing conditions and at the same time maintain the integrity of the system" or bears "a material relation to the theory of a pension system and its successful operation"
  - Everyone clear now?
- *Marin* court refers to "reserved legislative power", "sovereign power", "continuing governmental power", "the right to modify [public pensions] adheres in the alienable rights of government"
- Even bigger: "the contract clauses do not foreclose government action which reflects changing concepts of public policy, concomitantly granting government the power to make illegal that which was previously legal"
  - See where this is going?
  - Stepping back, so a big clash between not binding future legislatures ("democracy") and requiring government to keep its promises

VESTED RIGHTS: *MARIN* CASE: COLLATERAL DAMAGE

- Bottom line: *Marin* court's view is that you are only entitled to a "reasonable" and "substantial" pension
  - "until retirement, an employee's entitlement to a pension is subject to change short of actual destruction"
  - Glad the court cleared that up
  - Good news at least for retirees
- The court claimed that past cases ok'd lots of major league changes under the rubric of "reasonable" modifications
  - Raising retirement age
  - Repealing COLAs
  - Reducing the amount of pension from 2/3 of FSA to 1/2
  - Changing the minimum service requirement
  - Increasing employee contributions
- Actual language and rationale of these cases may not support *Marin* court's analysis

VESTED RIGHTS: *MARIN* CASE: END OF THE ROAD

- Candidate for understatement award of 2016: "We emphasize the limited nature of our holding"
- Maybe, just maybe, there is a limit: "The parties accept that the catalyst for the Pension Reform Act was dire financial predictions necessitating urgent and fundamental changes to improve the solvency of various pension systems, including CERL….In light of the unquestioned need for change, we conclude this one was reasonable."
  - Limitation or loophole?
- REMEMBER THE CAL SUPREME COURT ON NOVEMBER 22, 2016 GRANTED REVIEW OF THE *MARIN* CASE

VESTED RIGHTS:

Cal Fire Local 2881 v. California Public Employees Retirement System

(Handed down December 30, 2016)

- A different approach than *Marin* but the same end result
- *Cal Fire*: The beginning: PEPRA took away the ability to purchase "airtime". Airtime had been added to the CalPERS law in 2003. Plaintiffs said we have vested rights to purchase airtime and you took it away without giving us a compensating advantage.
- *Cal Fire*: The end: Tough luck; no vested right at issue and, even if one was, tough because you are still getting a reasonable pension.

VESTED RIGHTS: *CAL FIRE LOCAL 2881*: PRESUMPTION AGAINST VESTED RIGHTS

- If decision stands, new tough vested rights burden on plaintiffs: you have "the burden of making out a clear case, free from all reasonable ambiguity"
  - Rationale for this burden: State is the "sovereign power"; read into the pension "contract" is "the reservation of the essential attributes of continuing governmental power"
  - Accordingly (for the court), "California law is quite clear that the Legislature may indeed modify or eliminate vested pension rights in certain cases".
  - Until retirement, "pensions rights are not immutable"…"reasonable modifications" may be made" "to permit adjustments in accord with changing conditions and at the same time maintain the integrity of the system"
    - Presumably after retirement are "immutable"

VESTED RIGHTS: *CAL FIRE LOCAL 2881*: PRESUMPTION AGAINST VESTED RIGHTS (Continued)

- Presumption: "a statutory scheme is not intended to create private contractual or vested rights". Cal Supreme Court's 2011 REOC decision.
  - A plaintiff has a "heavy burden" of proving a statutory right is vested
  - A plaintiff meets this "heavy burden" by showing that the statutory language or surrounding circumstances reflect a legislative intent to create a vested right
  - "implied rights…should not be inferred without a clear basis in the contract [the statute] or extrinsic evidence"
    - "extrinsic evidence". Useful in how many cases?

VESTED RIGHTS: *CAL FIRE LOCAL 2881*: NO LEGISLATIVE INTENT IN 2003

- Nothing in 2003 legislation "unambiguously" reflected "an intent by the Legislature to create a vested right" in airtime. So no express vested rights. That's that.
  - Court is not going "to add to the straightforward reading of this statutory phrase any promise by the Legislature *not to modify or eliminate* the option to purchase service credit …".
  - Is there ever a promise in any retirement provision on the books?
  - What the court is looking for is "language much clearer that it [the Legislature] in fact harbored such intent"
    - Is there ever such clear language e.g., "this provision creates a vested right"?
  - Plaintiffs did not try in this case to show "implied vested rights" – might be available in other contexts – hard way to go

VESTED RIGHTS: *CAL FIRE LOCAL 2881*: NO LEGISLATIVE INTENT IN 2003 (Continued)

- Even if the court had concluded there were vested rights, the court goes on to say that the circumstances allowed elimination because airtime is not for service worked and so is not related to the "central theory of a pension system", i.e., benefits for service worked.
  - Court refers to the Marin court's description of PEPRA as response to "dire financial predictions"
- "Comparable advantage": The court avoids this argument by saying that the "comparable advantages" argument only extends to financial benefits provided by an employer and, as a factual matter, airtime was not financially beneficial because the employee paid the present value of the employee's and the employer's liability and so airtime was not provided, i.e., paid for, by the employer
  - Court also adopts the *Marin* court's view that the Cal Supremes did not mean "must" when they used "must"
  - The court's "comparable advantage" argument, while perhaps just a throw in, is really restricted to the airtime fact situation
- Cal Supreme Court not as yet granted review of the Cal Fire case

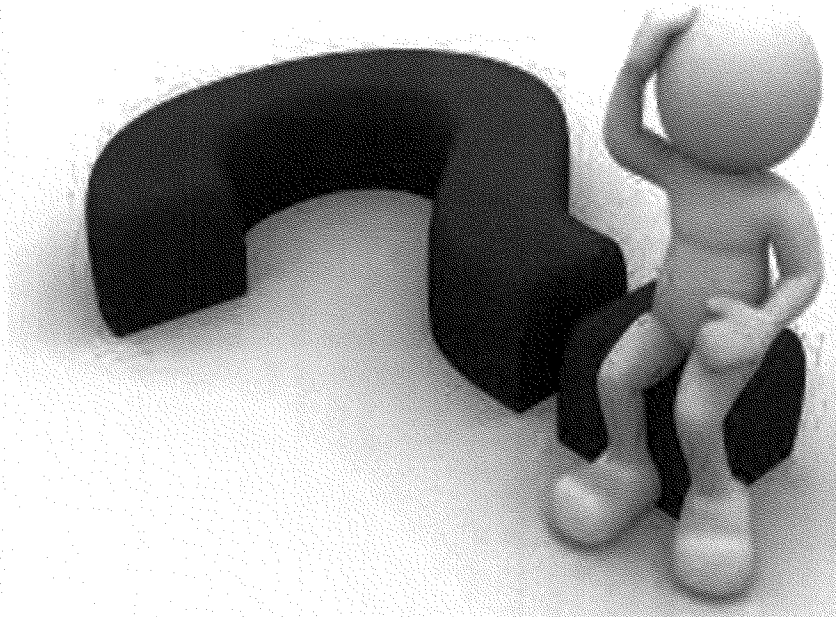
VESTED RIGHTS: *MARIN* AND *CAL FIRE LOCAL 2881*

- Lots of similarities
- Same conclusion
- Different approach
- More for the Supreme Court to chew on
  - No action from Supreme Court on *Marin* pending appellate court decision in the Alameda/Contra Costa cases.
    - As of February 8, oral argument not yet scheduled in appellate court on Alameda/Contra Costa cases.
- Petition for Review was filed in *Cal Fire* case on February 8, 2017.

WHAT WILL THE SUPREME COURT DO?

- It likely will be a relatively long time before they do anything.
- Did Court take the case to reaffirm existing vested rights precedent and reject the rationale espoused by the *Marin* court?
- Or does the Court's decision to review *Marin* signal the possibility that the vested rights doctrine could be substantially revised?
- Or???
- We won't know until we see the decision.

QUESTIONS????



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THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Power & Politics

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March 7, 2017

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

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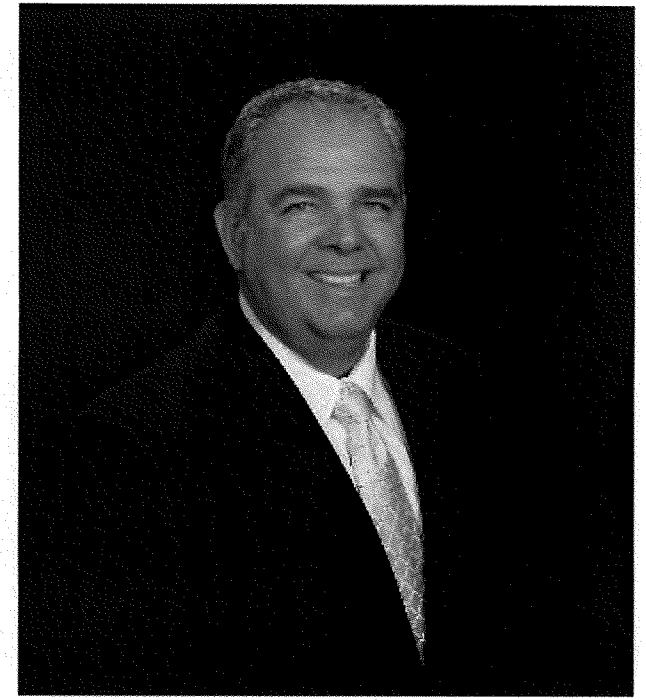
- M.S. Consulting Psychology
- M.Ed. Counseling / Human Relations



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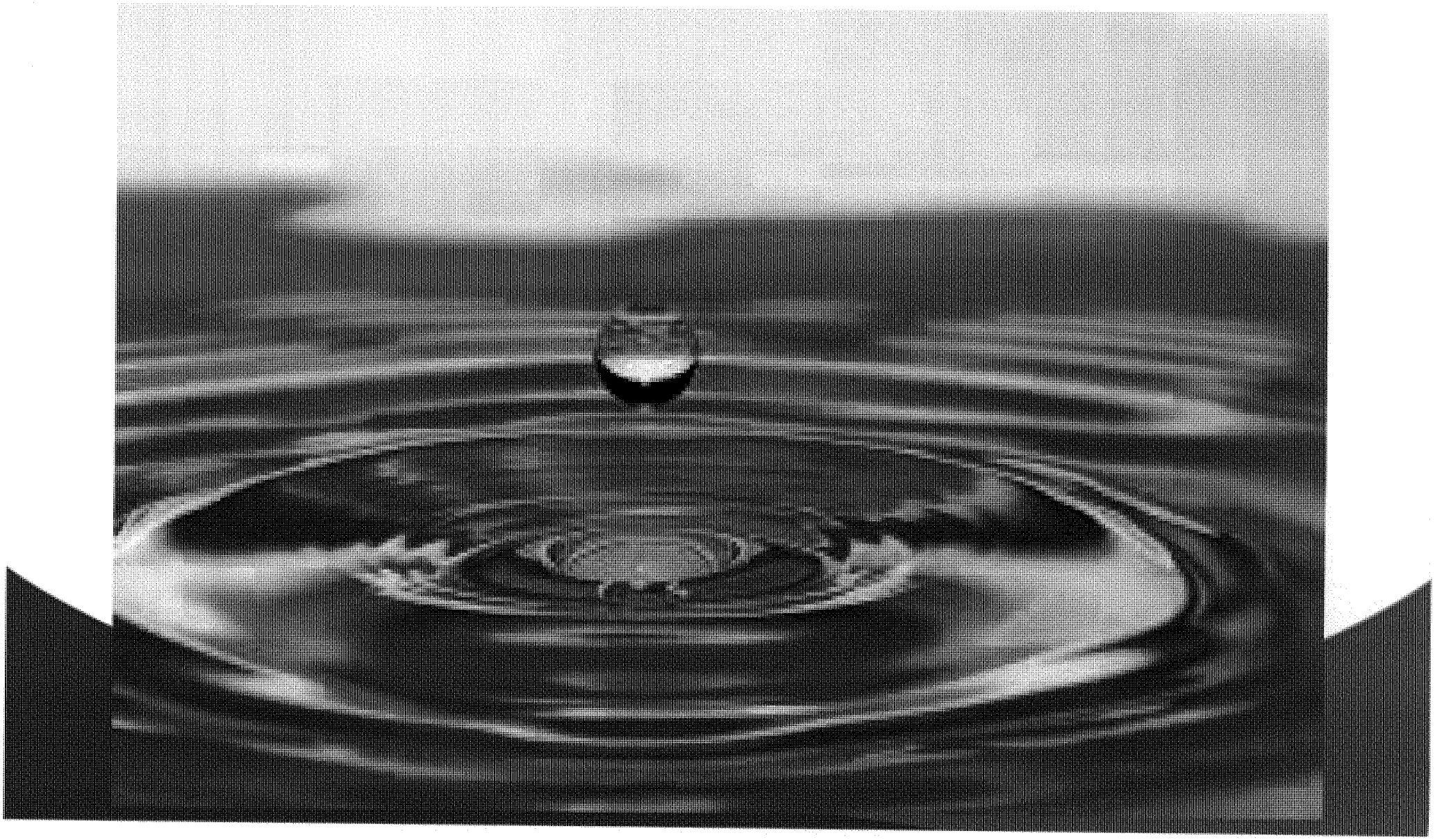
THE CENTRE FOR ORGANIZATION EFFECTIVENESS

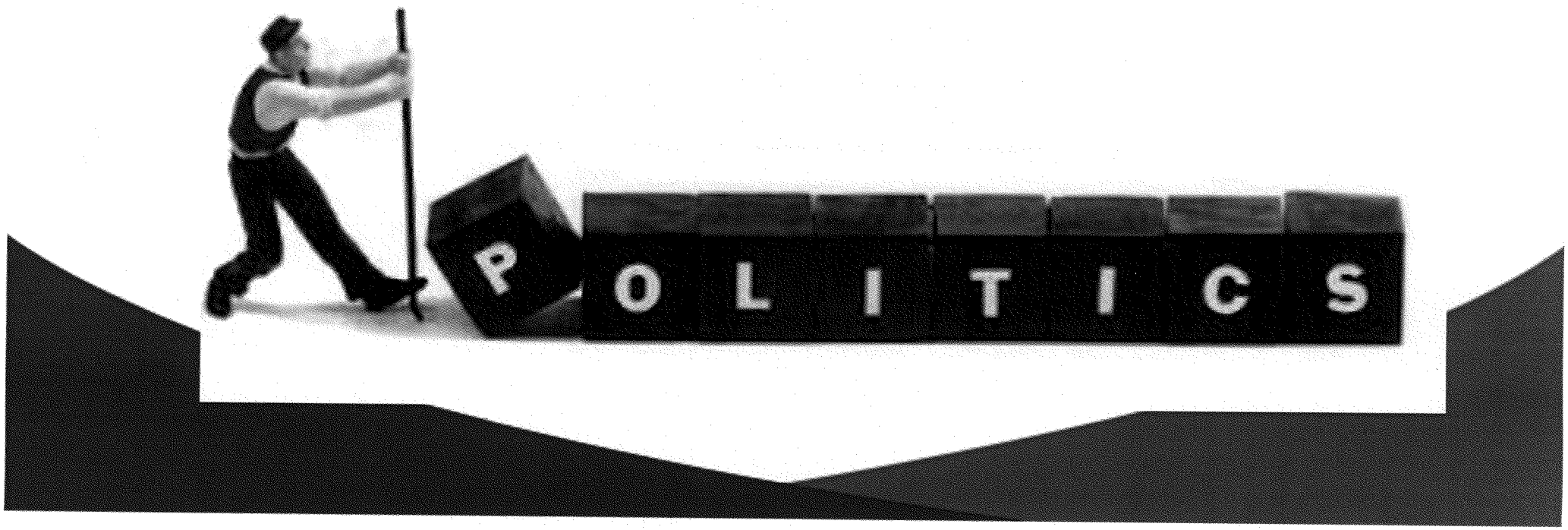
Do you want to make a difference?



THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Brief Agenda

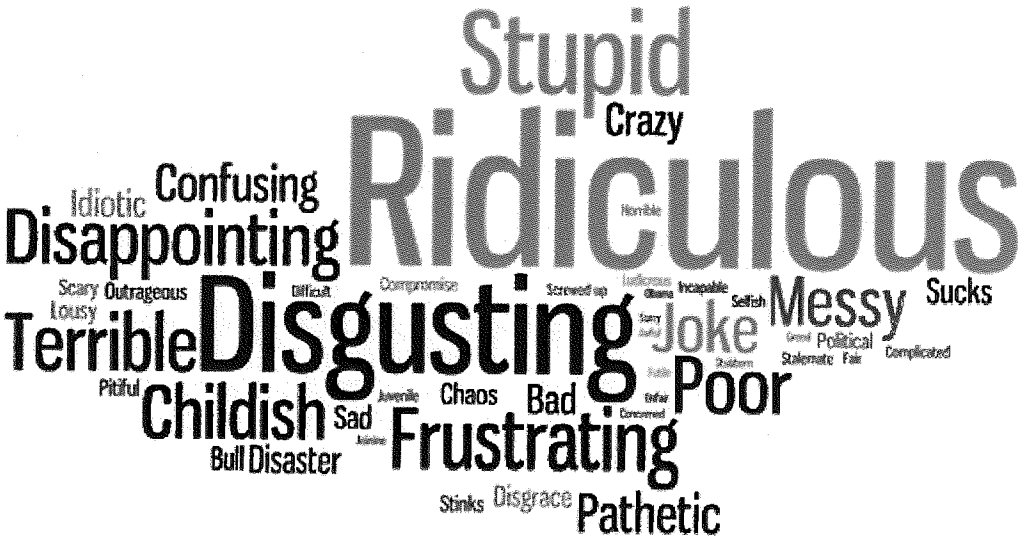
- De-Mystify Politics
- 3 Constructs of Political Success
- Q & A



THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Power and Politics

- What typically comes to mind
  - Unethical
  - Slimy
  - Wasteful
  - Avoid at all cost
  - Gamesmanship
  - Etc., etc., etc.



THE CENTRE FOR ORGANIZATION EFFECTIVENESS

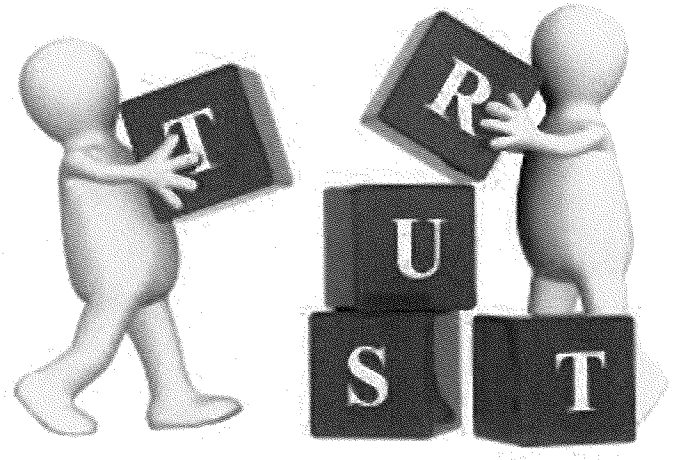
The Art of Politics

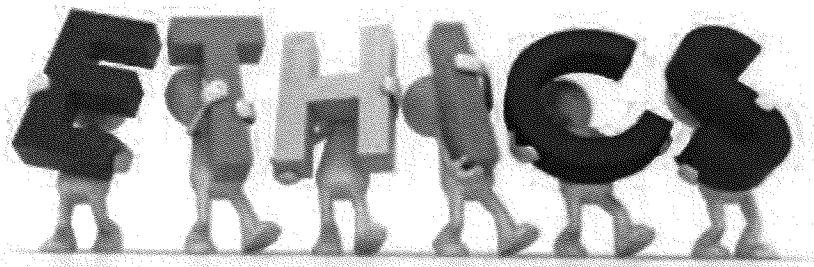
- Politics is the System of Government
  - Crafted by Statesman centuries ago
  - Designed to create order and process
  - Ensure efficiency
  - Provide equal opportunity
- It is a art of finesse

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

3 Constructs of Political Success

- Trust
- Building Capital
- Ethics

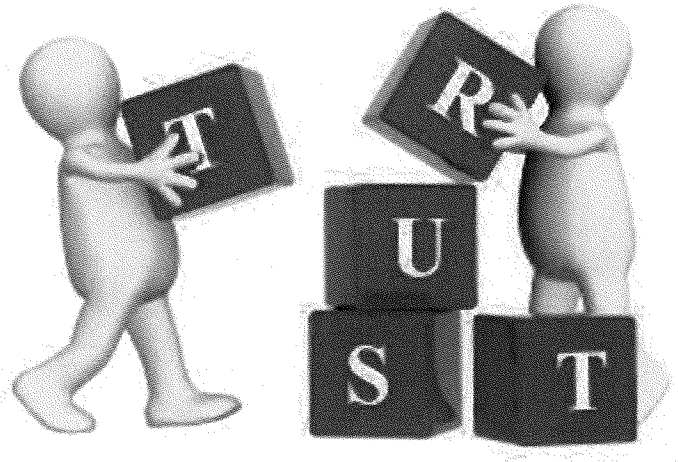




THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Trust

- Combination of Character & Competence (Covey 2006)
  - **Competence**- Are you competent to do what you do.
    - Your Ability to Build Political Capital hinges on Trust.
  - **Character** (Integrity, Motive, & Intent with people)
    - If your character is in question you will not build trust; you will not build capital.



THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Competence

- Competent for the role (Skills, Abilities, Results)
  - Able to meet the expectations of
    - The Organization
    - Your Team
    - Your Staff
  - Keeping Competent
  - Staying On Top
  - Commitment to Vision and Goals

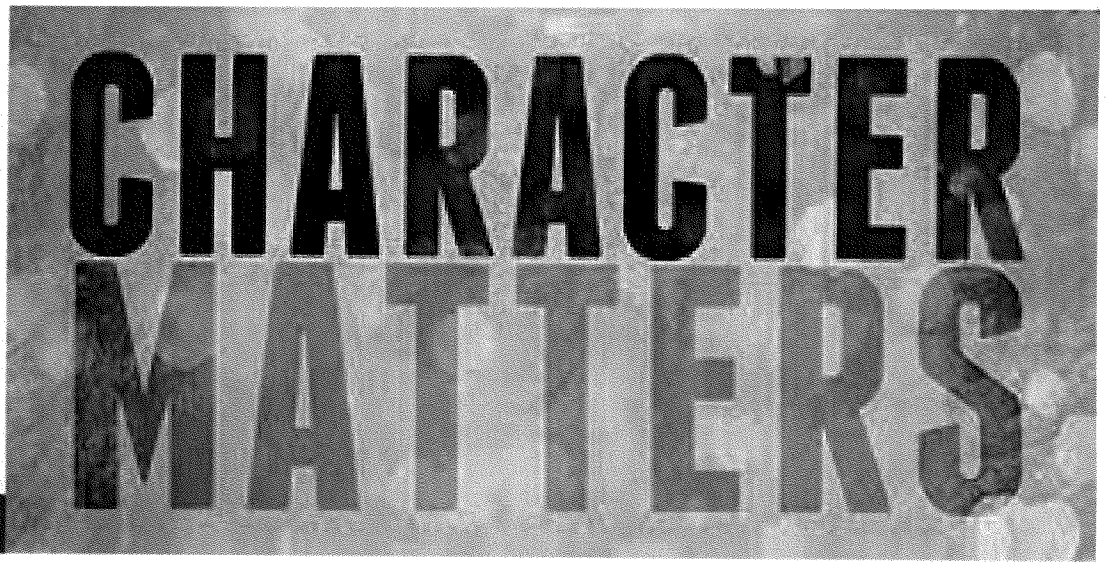
THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Character

- Character includes: Integrity, Motive, & Intent with people

  "You Can't Teach Character" unknown

  – Character is the double edge sword
    - We look for traits like honest and sincere
    - Measured against results
      - ***I trust you but I need you to get this done!***



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Different Perspectives on Politics

- Big "**P**" Politics
  - Issues at the largest level
  - Macro Level (50,000 view)
  - Requires Knowledge
  - Leveraging Resources
  - Requires Team / Community Engagement

**** Critical for organizational Success***

- Little "**p**" Politics
  - Issues at the local level
  - Micro level (individual & workgroups)
  - Requires understanding
  - Commitment to Org. Goals

**** Critical for individual, department, and organizational success***

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Building Political Capital

- If TRUST is Character and Competence
- Then Political Capital is the Result (Outcome)

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Political Acumen

What it is:

- Trust
- Communication
- Common Goals
- Good Judgement
- Informal Influence

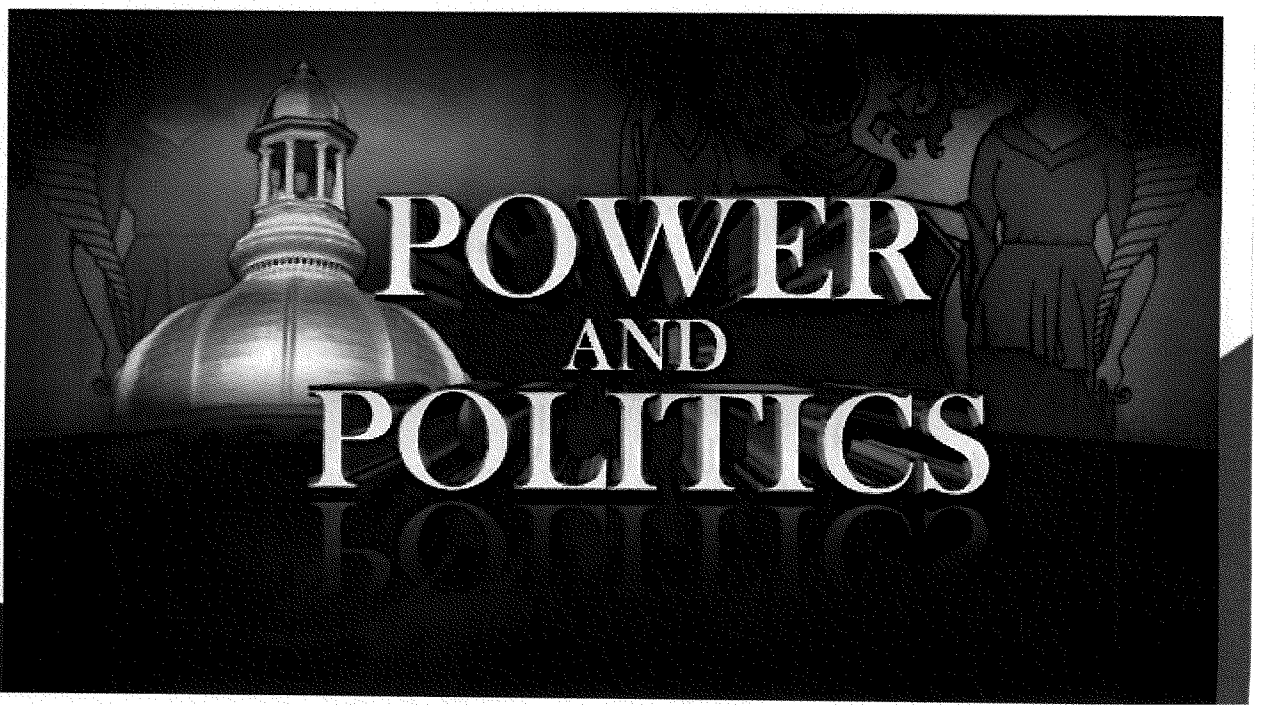
What it is Not:

- Manipulation
- Deceit
- Self Serving
- Winning
- Getting your way

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Power & Politics

- Two Imperatives of Power and Politics
  - Building Your Political Capital
  - Maintain Your Ethics



THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Building Your Political Capital

- Don't overlook how much capital you have or could have.
- Your Reputation is the bank where you deposit your political capital. (Most Valuable)
- Build before the storm (save for the crisis yet to happen)
- Your Organizational Culture

In a nutshell, do good work, share credit, make others look good, be helpful, and figure out a way to help others solve their work related problems.

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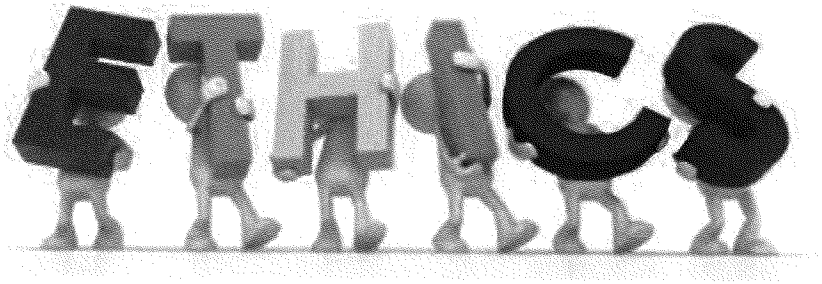
Is It Ethical



- Avoid self interest
- Share resources
- Be responsible – Avoid being marginalized

Very few decisions, actions, systems, processes, solutions are black and white / on or off.

- A Congressperson &
- A NASA Scientist

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Politically Savvy

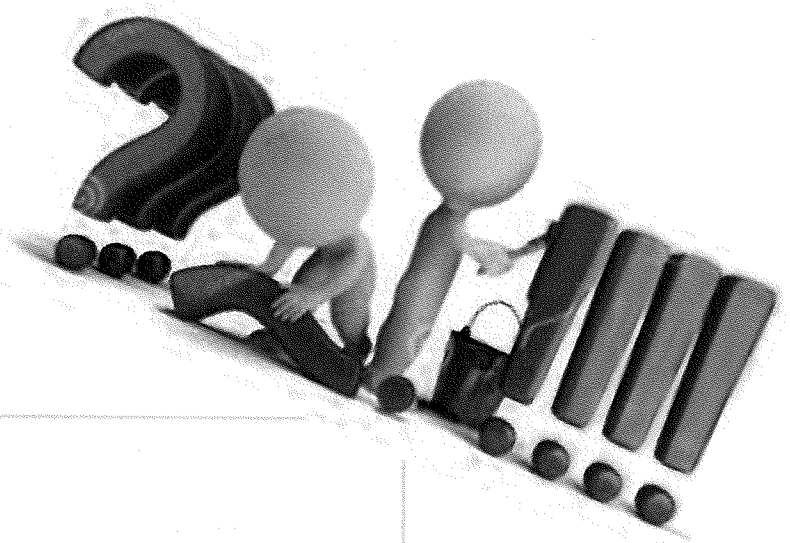
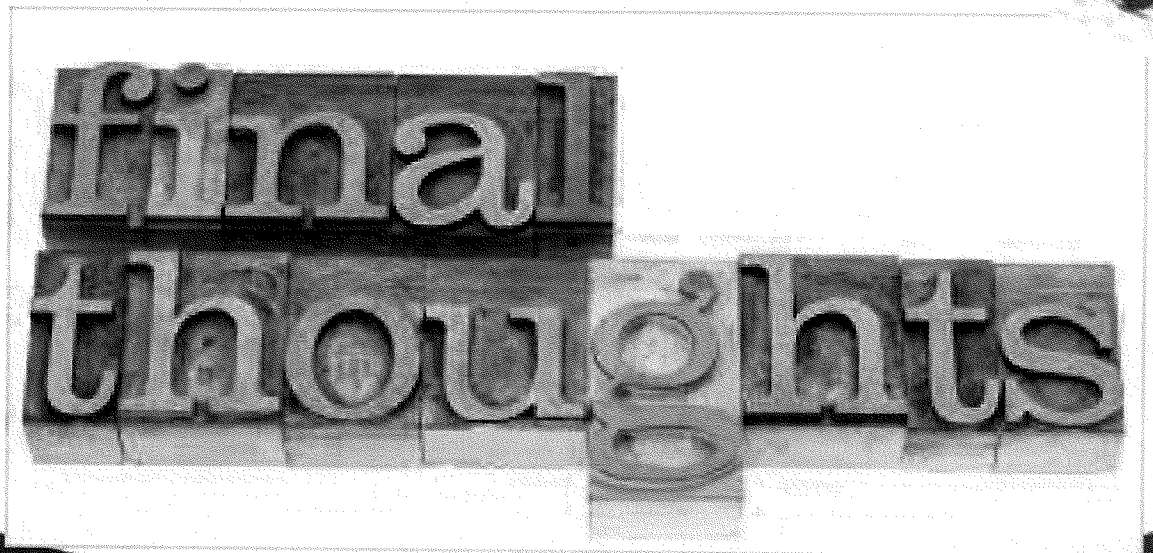
- Attitude: Politics are necessary
- Intent: Further the organizational goals
- Method: Network; expand social connections; assist others; allow others to assist your group.
- Tactics: Negotiation

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Be Amazing!

- We need solutions right now!
- We are with you!
- We want you to be successful!

Now Go Be Amazing!

THE CENTRE FOR ORGANIZATION EFFECTIVENESS

Questions / Answers / Thoughts