TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on Federal Legislation ITEM NUMBER: 7b

ATTACHMENT(S): 1

ACTION: ___ MEETING DATE: October 11, 2001

INFORMATION: X PRESENTER: Ed Derman

SUMMARY

The California State Teachers' Retirement System (CalSTRS) is watching or working on a number of issues at the federal level. However, as with the nation generally, the attention of Congress has been focused on the events and aftermath of the recent terrorist assaults in New York and Washington, D.C. As a result of the terrorist acts, Congress passed a war powers resolution authorizing the President to take appropriate military actions. Congress is expected to complete action promptly on the necessary spending bills for the 2002 fiscal year, consider an economic stimulus package and leave the remainder of the legislative agenda for consideration next year.

Efforts to Restructure Social Security

The President's Commission to Strengthen Social Security held a field hearing in San Diego on September 6 to discuss proposals for reforming Social Security, including partial privatization of Social Security accounts. CalSTRS and other groups interested in the mandatory State and local coverage issue requested to testify before the Commission on the mandatory coverage issue, because mandating coverage could serve as a means to finance the transition to private accounts. However, it became clear that the Commission's focus was privatization of Social Security accounts, and CalSTRS and the others groups were turned away by the Commission.

Even though live testimony on the mandatory coverage issue was precluded, CalSTRS is developing a statement to be filed with the Commission and circulated among key supporters to address the harsh cost impact of mandatory Social Security coverage on California school districts. The recent updated analysis of the cost impact prepared by Milliman USA is quite useful on this point. Included in the statement will be the statement that was prepared by the Superintendent of the Hemet Unified School District for the Commission hearing in San Diego, which identifies the real world impact of the increased costs of mandatory Social Security on an individual school district. In addition, the State Superintendent of Public Instruction is updating for transmittal to President Bush and the Commission the very compelling letter she sent to former President Clinton in December 1998 describing the high cost impact that mandatory coverage would have on education is California.

While the Commission is unlikely to waver from the drive toward private accounts, it is important to place the employer cost perspective regarding mandatory coverage on the table to highlight the probability of a major legislative and political confrontation by determined State and local government group opponents.

Elk Hills Compensation

Both the House and Senate versions of the Interior Appropriations measures contain the necessary funding for the fourth $36 million installment of Elk Hills funding for CalSTRS. It is expected that this $36 million installment for fiscal year 2002 will be payable on October 1, 2002. The House-Senate Conference proceedings will continue to be monitored to ensure that no unforeseen issues develop with respect to the Elk Hills funding.

Mr. Derman will provide a verbal update at the meeting.

MEMORANDUM FOR
THE CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Washington Monthly Report

As with the nation generally, the attention of Congressional lawmakers has been riveted on the events and aftermath of the terrorist acts in New York and Washington, D.C. Congressional attention has been focused on speedy enactment of a $40 billion spending package to assist in recovery efforts, bolster national security, and prepare for the expected military response. In addition, Congress passed a war powers resolution authorizing the President to take appropriate military actions against the terrorist groups and those governments that harbor them.

The partisan rancor over who lost the Federal budget surplus and who would be the first to break into the Social Security "lock box" – which had reached a crescendo when Congress returned to session after Labor Day – has faded into the distant background. Apart from enactment of the 13 appropriations measures necessary to keep the Federal Government operating during the new fiscal year that begin October 1, the remainder of the legislative agenda appears murky. Prior to the September 11 attack, the expectation had been that partisan budget wrangling could prolong the Congressional session all the way to Thanksgiving, perhaps even to Christmas, providing ample opportunity to consider other legislation along the way. Now the President has indicated that his Administration will be focused for the foreseeable future on responding to the September 11 attack. There is a growing expectation that Congress will move much more promptly to complete action on the necessary spending bills for FY 2002 by the end of October, consider an economic stimulus package and go home, leaving the remainder of the legislative agenda to spill over until next year.

The President's Commission and Mandatory Social Security

The President's Commission to Strengthen Social Security held a field hearing in San Diego on September 6. Since the asserted purpose of the hearing was to hear from the real people in the field regarding issues of concern with respect to the reform of Social Security, STRS along with other groups interested in the mandatory State and local coverage issue – the National Conference of State Legislature (NCSL) and the Coalition to Preserve Retirement Security – requested to testify before the Commission on the mandatory coverage issue.

However, it soon became clear that the Commission's "field hearing" was not a good faith exercise in fact-gathering and certainly not a forum to give voice to opposition on new fronts such as mandatory State and local coverage.
Rather, the Commission's agenda and witness list were prepared to give the veneer of an "on-the-one-hand/on-the-other-hand" debate over issues related to the use of private investment accounts, while at the same time stacking the witnesses with the pro-privatization crowd and relegating the critics to a sparse few with predictable viewpoints and arguments.

Ironically, the Commission journeyed across the country to this "field hearing" to hear from a group of Washington think tank promoters of privatization who were just a cab ride away in D.C. Even the representatives of the "general public" appear to have been carefully hand-picked on the basis of fidelity to the cause of private accounts. As one of the hardy few anti-privatization witnesses, Roger Hickey of the Institute for America's Future, noted about the Commission's hearing: "This is sort of like Kabuki theater. They pretend to be listening. We pretend that they're listening. But the fact is, the President has given them a mandate, and they're going to ignore the testimony."

Perhaps most comical to representatives of State and local government plans was an early version of the hearing witness list which, under the panel entitled "Social Security Investment: By Individuals or By the Government?", included the following entry: "Expert in government investing: ? ". While any one of the 50 States could have provided a representative to describe just such an investment process by State and local plans, success was not the type of experience that the Commission evidently wished to hear about on this front. Ultimately, this witness slot was filled by someone from a Washington think tank who turned in a two-page statement of bullet points that theorized that such government investing could be overseen by "an independent board of trustees".

While the Commission may have had trouble finding an "expert in government investing", it managed to pinpoint the handful of local governments that had dropped out of Social Security and adopted "private accounts" in the form of defined contribution plans providing for self-directed investments. These witnesses included a retired judge from Galveston, Texas and Valerie Vandeweghe, the Benefits Administrator for the City of San Diego. Ms. Vandeweghe described the City of San Diego's "Supplemental Pension Savings Plan", which is a mandatory defined contribution plan to which city employees (other than public safety) must contribute 3 percent of compensation and may make voluntary contributions of an additional 3-4.5 percent of compensation, with a 100 percent match by the employer. Ms. Vandeweghe extolled the virtues of the self-directed defined contribution plan approach for San Diego employees in her testimony.

In light of this pre-wired "show trial" approach to the "field hearing" hearing, it should not be surprising that NCSL, STRS, and the other groups wishing to speak on the mandatory State and local coverage issue were turned away by the Commission.

But that is not the end of the matter. Even though the Commission thus far has precluded live testimony by the State and local government groups to challenge what is expected to be serious consideration of mandatory State and local coverage by the Commission, we are working with STRS staff and the Association of California School Administrators (ACSA) to lay down the card of employer cost in strong fashion for the record. We are working with STRS staff to prepare a statement for STRS to file with the Commission and to circulate among key supporters on Capitol Hill laying out the harsh cost impact of mandatory Social Security coverage on California school districts. The recent updated analysis of cost impact prepared by Milliman is quite useful on this point. We also will be requesting that the State Superintendent of Public Instruction update for transmittal to President Bush and the Commission the very compelling letter that she sent to President Clinton in December, 1998 describing the harsh cost impact that mandatory coverage would have on public education in California. In addition, through ACSA's efforts, the Superintendent of the Hemet Unified School District in Riverside County has prepared a forceful statement to the Commission describing the onerous impact mandatory coverage would have on the budget of a typical school district already stretched thin by efforts to accommodate a growing student body and the class-size reduction and education accountability initiatives recently adopted by the State. The facts of a specific case are often the most compelling.

While the Commission is unlikely to waver from its relentless drive toward private accounts, it is important nonetheless to place the employer cost perspective regarding mandatory coverage on the table to signal that it will not quite be the "free money" that some Commission members may have envisioned, but will be the subject of a major legislative and political battle by determined State and local government group opponents. In addition, all of these materials regarding the adverse cost impact on public education in California will serve as a very useful, up-to-date resource for briefing key Members of the California Congressional delegation and the Governor's Office in Washington.

Elk Hills Compensation

The House of Representatives is expected in the next several days to finally appoint its representatives to serve on the House-Senate Conference Committee that will meld into final legislation the House and Senate versions of the Interior Appropriations measure for FY 2002. Both the House and the Senate versions of Interior Appropriations contain the necessary funding for the fourth $36 million installment of Elk Hills funding for STRS and its retired teachers. While the Conference Committee will have to iron out the final details of the Interior Appropriations measure, we expect that this $36 million installment for FY 2002 will be payable to STRS on October 1, 2002. We will continue to monitor the House-Senate Conference proceedings to ensure that no unforeseen issues develop with respect to the Elk Hills funding.

John S. Stanton

Washington, D.C.
September 20, 2001