



Four More Years!

CFA's Bargaining Strategy Chair has brought powerful advocacy and analytical skills—as well as credibility—to the state public employee retirement system at a tumultuous moment in its history.

BY IRV MUCHNICK

- Leadership
- Experience
- Dedication
- Knowledge

Re-elect
George Diehr
to CalPERS
Board

During his three-plus years on the Board of Administration of the California Public Employees Retirement System, state workers from all walks of life have come to learn about George Diehr what fellow CFA activists have known for years: this is one number-cruncher you can't slip a decimal point past.

Administering CalPERS' \$200 billion in assets is a staggering and complex responsibility—a position of trust made more crucial than ever in an era of relentless attacks on the pension and health care benefits of public employees.

Colleagues say the secret of Diehr's success is that he is a lot more than the sum of his parts. Grounded in experience as the CFA Board's Contract Development/Bargaining Strategy Committee chair, he is never content to spew commonplace "lies, damned lies and statistics." His figures dance to the tune of empirical reality.

Diehr has earned such a high level of collegial respect that the five other elected PERS board colleagues already have endorsed him for reelection. An even more telling measure of his credibility, perhaps, are his cordial and professional relations with CalPERS staff, who know that this unassuming business professor from CSU San Marcos will always keep them on their toes, but without posturing or resorting to ideology.

At PERS headquarters in Sacramento's Lincoln Plaza, they like to illustrate Diehr's value by telling the proverbial story of the farmer, the sheep and the actuary. The farmer wants an estimate of the size of his herd; without hesitation, the actuary proclaims that there are exactly 1,007 sheep. How can you be so precise? the farmer asks. "Well," the actuary replies, "there are seven sheep in this area here. And there are about a thousand more sheep over there."

Mindful of the moral, Diehr hammers on the absurdity of mathematical

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PENSIONS

The bogeyman

Last year Gov. Arnold Schwarzenegger's laundry list of special election "reforms" nearly included a measure to curtail the "defined benefits" of public employee pensions in favor of the "defined contribution" systems favored in private industry. Even as he ultimately backed off, the governor with close ties to big business inside and outside California gave every indication that he would revisit the issue.

Meanwhile, over the course of the last year and a half Republican Assemblyman Keith Richman has introduced a series of bills designed to curtail defined benefits. Richman's proposals are gradually getting more moderate—and hence, according to CalPERS' George Diehr, more dangerous.

Most recently, Diehr has helped lead the PERS board's opposition to Richman's latest bill, which would mandate a "hybrid" of defined benefits and defined contribution.

"This was, and remains, a very bad idea," Diehr says. "If Richman has his way, public employees would be forced to work until the full retirement age under Social Security, which is now 67. In other words, if you had to stop working at 60 because of health, you'd lose your defined benefits."

Moreover, in lieu of the current formula of 2.5 percent multiplied by years of service accrued up to age 63, the Richman bill would mandate 1 percent multiplied by years at age 67. Overall, Diehr estimates that the value of the defined-benefit component would be about one-third of what CFA members now receive. (There also would be a defined-contribution component—but that puts the risk on the retiree.)

But as in other areas, Diehr's package of solutions is grounded in pragmatic, fiscally hard-headed enforcement of the existing rules. He's known at CalPERS as one of the most articulate voices against pension abuses. A notable one is what has been called "chiefs' disease," whereby captains of the Highway Patrol seem to get sick and retire early in disproportionate numbers, only to come out of retirement for other jobs and "double dip."

"The key to curbing whatever abuses exist is good, vigilant management," Diehr says. "I will continue to do that part of my job even as we resist efforts to gut a public employee pension system that has served both employees and the public so well for so long." ♦

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models that purport to project fixed costs of long-term health care programs down to the last dime, when the programs' total costs ultimately run into the tens of billions of dollars.

"Whenever I review a study, my approach is 'trust, but verify,'" he says.

It's an approach that has earned Diehr a national reputation. In addition to serving as chair of the CalPERS health benefits committee and vice chair of its investment committee, he is the representative to the National Coalition on Health Care, where he was also elected to the board of directors.

The constituents of this Washington-based organization run the gamut from pension funds to unions to private companies to the National Council of Churches. The coalition issues position papers analyzing health care costs and lobbying for improved quality as well as for access for an estimated 45 million uninsured Americans.

Diehr's surprise—and surprisingly resounding—victory in the 2002 CalPERS board election marked a major breakthrough for the political clout of not just CFA members but all CSU employees.

Charles Goetzl, president of Academic Professionals of California, the union representing CSU academic support staff (including, among others, student services specialists and library assistants), says that "almost to a person, those who seek employment in the CSU, and certainly those who stay for long careers in the CSU, cite two primary reasons for doing so in an era of less-than-adequate salary increases."

Those reasons are the health care and pension benefits available through CalPERS. With Gov. Arnold Schwarzenegger and corporate interests now working to overturn the system of "defined benefits" that historically have assured state employees a stable and predictable retirement income, strong voices inside CalPERS have never been more important.

"It gives all of us at APC a great deal of confidence knowing that George Diehr is there speaking on our behalf—not only offering a perspective we support, but also speaking as a fellow CSU employee," Goetzl says.

Dieter Renning, the retired faculty's representative on the CFA board, says: "George is well informed, up to date on everything, and—what impresses me most—able to look *behind* the numbers. That is very, very valuable for the faculty and, through his CalPERS work, for all of the state's public employees."

CFA President John Travis puts it this way: "Having George on the CalPERS board ensures that CSU faculty members and staff will have their interests represented. CSU employees greatly benefit from having such a knowledgeable and active colleague."

Diehr notes that the attack on the pension system has quieted down in recent months. Still, lobbying groups like the Howard Jarvis Taxpayers Association wait in the wings to stoke the debate again, even should Schwarzenegger lose the governor's race. (CFA has endorsed state Treasurer Phil Angelides in the gubernatorial election.)

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What it takes to get Diehr re-elected

George Diehr's first four-year term as CalPERS state board member will expire Jan. 15, 2007. Diehr is one of the six elected representatives on the 13-person board (joining three appointed representatives and four state officials who are ex-officio representatives).

Active CalPERS members are eligible to vote in this summer's elections for

state board member, public agency board member and school board members. All employees of the CSU as of July 1—including members of CFA—are eligible to participate in the vote for the state board member.

Mail ballots will be sent on Aug. 21, and you can submit your vote through Sept. 29. If you don't receive your ballot by Sept. 22, call the CalPERS Board Elections

Office: (916) 795-3952 in the Sacramento area; (800) 794-2297 elsewhere.

Beginning Oct. 2, the sealed and signed envelopes containing the ballots will be opened, and the ballots tabulated. Unofficial results will be posted online in mid-October. If there is a majority vote winner, the official results, certified by the secretary of state, will be posted near the end of the year.

If no candidate receives a majority vote, a runoff ballot will be mailed, beginning Nov. 13, and ballots will be accepted through Dec. 8. Active CalPERS members as of Oct. 1 would be eligible to vote in the runoff.

More information can be accessed online at: www.calpers.ca.gov/index.jsp?bc=/about/organization/board/2006-elections/state/home.xml ♦

INVESTMENTS

Thinking longterm

CalPERS' annual target for return on investment is 7.75 percent. For the first seven months—through Jan. 31—of the fiscal year that will end June 30, it was running at well over 8 percent.

That level of success is not anomalous. The rap against public employee pension funds is that they are not managed as well as private "professionally" run funds; the poster child for this argument is the grossly under-funded pension of the city of San Diego. But the argument doesn't hold water at CalPERS, where George Diehr is vice chair of the investment committee.

During the past 10 years the actual annualized CalPERS investment return has been 9.06 percent. For the last three years it was 15.55 percent. (Only if you break off the study at five years—a period including the 2000-2002 stock market meltdown, when all public and private funds suffered—does the annualized figure fall below target.)

Influenced by Diehr's advocacy of "appropriate" levels of risk, PERS has expanded into new areas of investment—for example, a flexible type of indexed fund that promises to improve returns by allowing so-called "short" selling. This is a complicated technique by which investors with smart timing can profit from the falling price of a stock.

Diehr advocates "appropriate" levels of risk. With public pension funds under political attack, he knows that passively sticking money under the mattress, rather than aggressively investing, carries its own kind of risk.

"If returns were to get too low, the plan would face the unpleasant prospect of termination by legislative action," he says. "The reason is that the lower the returns for CalPERS, the more must

be contributed by state and public agencies whose pension funds we manage. These increased contributions, supported by tax revenues, would create added pressure to reduce pension benefits and to shift risk to the employee."

With a background in statistics, Diehr educates other board members on the wisdom of long-term risk. On any given day,

or even year, a single equity security may tank. But in a diversified portfolio, over a period of 30 years, time tends to temper or "diversify" such negative individual outcomes, which become folded into a much lower portion of the overall investment scenario.

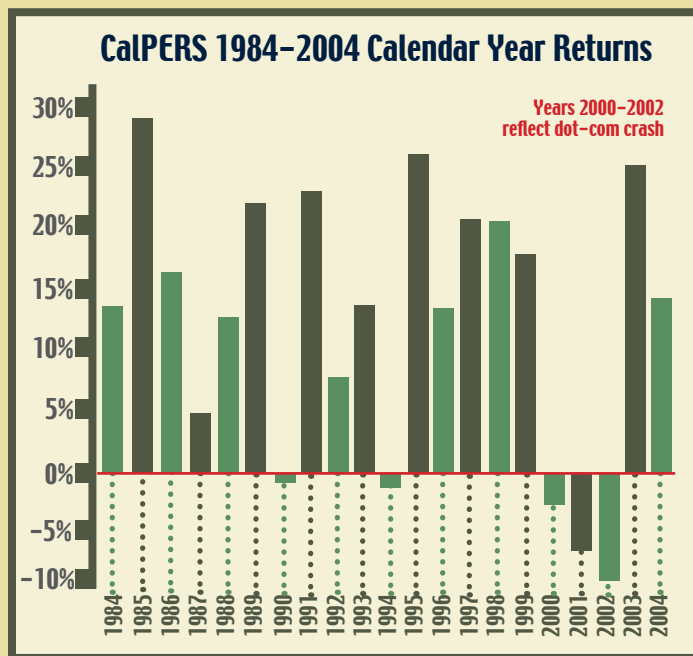
Or as Diehr puts it: "Expected returns increase linearly with time; expected risk goes up only with the square root of time."

That said, Diehr's investment philosophy does include a strong social-responsibility quotient, on practical as well as ideological grounds. CalPERS has

developed a policy to prevent investment in firms that privatize public jobs (i.e., private bus companies that supplant in-house school district bus services).

And during Diehr's tenure PERS has refined its practices in "emerging markets." Countries with bad labor records, unstable governments or restrictions on press freedom are deemed higher-risk and less worthy of creative investment. In the trendy gaze at Asia, Diehr counts himself as among those more enthusiastic about India than China.

"There are huge untapped markets out there," he says, "but I don't believe in hype. There's the feeling that if everybody else is investing somewhere, maybe PERS doesn't have to. We should be carefully targeting growth opportunities, not following the pack." ♦



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Institutions such as CalPERS also are under siege at the national level, and as Diehr points out, the takebacks being sought from unions in the public sector are part of a concerted campaign to change the rules of the game for workers in the private sector, as well. A prime example is President George W. Bush's on-again, off-again effort to dismantle Social Security.

Another, in Diehr's view, is the package of Bush "reform" ideas to promote what they falsely represent as consumer-driven approaches to controlling health care costs.

"Bush's health savings account plan is risky and inadvisable," Diehr says. "I'm extremely cautious about all this cost-shifting. Instead, we should be focusing directly on the costs themselves—things like unnecessary procedures, the profits reaped by so-called nonprofit hospital chains, and bringing overall accountability to hospitals and physicians. The first priority for

patients and their primary-care physicians is having readily available and understandable information about costs, quality and benefits so they can make informed choices."

Diehr understands public employees face continuing challenges to their CalPERS pensions, in part because of CalPERS' success and visibility. "CalPERS' corporate governance activism, including its focus on outrageous executive compensation, attracts a lot of attention from powerful people whose oxen are gored," he says.

Regarding health care, Diehr says the continuing upward cost spiral and the new requirement to account for long-term liabilities for retiree health coverage will intensify pressures to reduce benefits and shift costs. The answer to both attacks is to focus on fundamentals. "Corporate power must be realigned from executives to stock owners such as CalPERS. Likewise, our health care system must be reformed

'We can count on Diehr to help ensure continued retirement and health care security.'

to make it responsible to the people it serves, rewarded for successful outcomes instead of expensive, ineffective and even dangerous treatments and drugs."

It is this foresight that makes Diehr such an invaluable leader, according to CFA President Travis. "We can count on Diehr to provide leadership and vision to help ensure continued retirement and health care security for public employees." ♦

HEALTH CARE

The key is information

One of the most internally controversial actions by the CalPERS board during George Diehr's first four-year term was a decision to eliminate certain hospitals—notably the powerful Sutter group—from the PERS Blue Shield health maintenance organization plan.

Without question, this decision caused great pain to some public employees, especially in Northern California, where designated primary-care physicians often were affiliated with Sutter hospitals. Still, Diehr and other board members held their ground in light of a study showing that these facilities were nearly twice as expensive as Los Angeles-area hospitals, without a corresponding difference in quality of care.

To date, CalPERS' hospital reforms have saved the plan in the neighborhood of \$100 million. Though costs continue to rise, the rate of increase has been cut. "We had to take a strategic view and look five years into the future," he says.

Diehr also had to make a tough call in the related CalPERS decision to begin charging different rates to public agencies in different regions of the state. Differential premiums were painful for employees and employers in high-cost areas. But this had the side benefit of "bringing pressure on high-cost providers by highlighting their outrageous charges," Diehr says.

While more media attention has been focused on investments and pensions, he thinks that of CalPERS' three main product or business areas, health care may prove the most difficult future battleground.

Newly promulgated federal regulations require public agencies to begin accounting for future health care costs for retirees. In California, estimates for state retirees alone vary from \$40 to \$70 billion. These future liabilities will become part of accounting statements of all state and local agencies. Already we see op-ed pieces raising concerns about the impact these liabilities will place on taxpayers.

There's a further concern for public employee advocates: Though courts generally have upheld previously negotiated pension benefits as immutable, the legal grounds are less solid for permanently protecting retiree health benefits as currently provided.

"I will vigorously resist the pressure to shift costs to members," Diehr says. "And the so-called consumer-driven ideas, like the Bush administration's health savings account plan, are risky and inadvisable. But there's no doubt that getting a handle on those costs will be crucial for CalPERS and for the nation."

The process starts with better information. According to Diehr, we shouldn't be making fancy and abstract appeals to "choice"; rather, we should be cleaning up the errors of the current system and isolating the gross overutilization and underutilizing of health-care resources.

Toward that end, Diehr strongly supports the CalPERS-led effort called the California Hospital Assessment and Reporting Task Force (CHART). Research for CHART is being coordinated by UC San Francisco, and four out of five hospitals with more than 200 beds are participating. (The hospitals saw the handwriting on the wall and agreed that cooperating with a comprehensive study was a better option than what legislatures might have forced upon them.)

After public quality measures from these hospitals are documented, the next phase will involve getting this cost information to patients and primary-care physicians so they can start making informed decisions on optimal therapies and procedures. George Diehr is a national leader of these innovations. ♦