# California's biggest government pension funds lose almost $100 billion

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By Marc Lifsher
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Marc Lifsher Reporting From Sacramento -- With a state budget agreement at hand, look for Gov. Arnold Schwarzenegger to tackle the state's troubled retirement system.

On Tuesday, the country's two biggest public pension funds reported losing almost $100 billion in the fiscal year that ended June 30. And the governor is expected to highlight the new numbers as he renews a campaign to trim the cost of providing lifetime, fixed benefits to hundreds of thousands of government retirees.

"No long-term fix is more important to our state's solvency," Schwarzenegger wrote in an opinion column in The Times this month. The governor plans to ask the Legislature to approve changes in the system.

The state, he said, would save money by giving smaller pensions to new state workers through changing "our unsustainable retiree pension formulas."

The governor's push for a pension overhaul took on a new urgency when the California Public Employees' Retirement System and a sister agency, the California State Teachers' Retirement System, separately announced that they'd lost about a quarter of the value of their investment portfolios. CalPERS' preliminary losses were $56.2 billion, while the teachers' retirement system lost $43.4 billion.

Schwarzenegger told reporters last week that the big pension funds could face an estimated $300-billion shortfall in covering the cost of pensions to current and future retirees.

The financial hemorrhaging underscores the risk to taxpayers of ensuring generous fixed benefits to retired government workers, said Marcia Fritz, vice president of the California Foundation for Fiscal Responsibility, which seeks to revamp the pension system.

"It's crazy to put so much of our resources into such a generous retirement," said Fritz, a certified public accountant in the Sacramento suburbs.

The tremendous drop in the portfolios' value is expected to have a direct effect on the amount of money that the state and about 2,000 local governments and school districts must contribute in coming years to pay for pensions for more than 1.6 million government workers, retirees and their families.

As income from the pension investments falls, the governments would have to make up the difference to meet the state's pension obligations to workers and retirees. CalPERS expects to hike government contributions for the state in 2010 and for local governments in 2011.

According to CalPERS actuaries, it must earn an average of 7.75% annually to avoid such annual increases. That target is reachable over time, CalPERS said in a statement Tuesday, noting that its "long-term 20-year investment return remained positive at 7.75%" despite the current global economic crisis.

The most recent losses were not a surprise, CalPERS Chief Investment Officer Joseph Dear said Tuesday.

"The system has more than enough cash through contributions and income from investments to meet our present liabilities, so we are in a good position to ride out the current downturn and come out stronger," Dear said.

CalPERS has modified its investment mix and risk-management policies in an effort to boost earnings, Dear said. The pension fund, he noted, already has rebounded by $20 billion since dipping to a recent low of $160 million in March.

As of June 30, 2008, CalPERS' holdings in stocks, private equity, real estate and commodities positions were worth $239.2 billion. The value fell to $180.9 billion by the end of last month, according to preliminary results.

CalPERS hit a record-high balance of $247.7 billion two years ago after earning double-digit returns for the five fiscal years that ended June 30, 2007.

To ease the damage on cash-strapped cities and counties, CalPERS' board has approved a plan that would spread the latest fiscal year's deep losses over the next 30 years, beginning in mid-2011.

The teachers' fund, which provides retirement benefits for 833,000 public school educators and their families, reported investments worth $118.8 billion on June 30, down 25% from $162.2 billion a year earlier.

It suffered severe losses across its portfolio, which was hit hard by a 43% decline in its real estate values, a 28.2% drop in the value of its stock holdings and a 27.6% loss in private equity holdings.

Investment earnings over time won't be enough to meet all the fund's obligations to retirees, Chief Executive Jack Ehnes said.

"We are not in a crisis to resolve the contribution gap," he said. "But the sooner a solution is found, the lower the cost."

http://www.latimes.com/business/la-fi-calpers22-2009jul22,0,5416427.story