California Pensions Have Become the State's Next Fiscal Crisis

Written by Chris H. Sieroty

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At a time when the state government has reduced education spending, cut back services to the poor and implemented workplace furloughs to close a $24.6 billion deficit, California faces additional financial problems from its public pensions.

The nation's largest pension fund, the California Public Employees' Retirement System, or CalPERS, reported a record 23.4 percent drop in the value of its assets last year to $180.9 billion from $237.1 billion a year earlier.

Even before the recession, the annual taxpayer contribution to the fund increased from $4.2 billion in 2003-04 to $7.2 billion last fiscal year.

"Pensions are a major issue, because unfunded liabilities could bankrupt a number of cities and counties," Bob Stern, president of the Center for Governmental Studies in Los Angeles told PublicCEO.com.

"The recent rebound in the stock market has eased the pressure on pension funds. But pension funds will have to seek additional payments from cities and counties to cover unfunded liabilities as more employees reach retirement age."

Gov. Arnold Schwarzenegger has cautioned CalPERS that his administration will push for pension reform.

"In these challenging economic times, we cannot afford everything we have funded in the past," Schwarzenegger said recently. "And we will take on pension reform to cut down on unfunded liabilities and save the state billions of dollars."

CalPERS officials continue to discuss how to respond to the governor and others who may take aim at the fund.

At a fund meeting last month, Chief Investment Officer Joseph Dear told CalPERS' board the fund could be fully funded in 15 years if it posts annual returns of more than 8.0 percent and contributions grow by more than 4.0 percent.

The California State Teachers' Retirement System (CalSTRS) investment portfolio ended the fiscal year set to ride out historically bleak economic times.

Preliminary estimates are that CalSTRS saw a loss of 25 percent in the fiscal year ending June 30, with its market value of assets totaling $118.8 billion. The news from the second-largest public pension fund in the U.S. comes in the face of an unprecedented worldwide economic downturn. Global markets declined 30.8 percent for the year, according to Standard & Poor's Global Equity Indices.

"Despite the recent losses suffered by public pension funds, defined benefit pensions remain the bulwark of our economy with trillions of dollars in the marketplace," said CalSTRS Chief Executive Officer Jack Ehnes. "As patient, long-term investors designed to withstand market turmoil, we provide financial security to our members and essential liquidity to the market."

Stein cautioned that CalPERS and other public pension funds might have to ask members to accept benefit cuts. State employee unions would surely oppose that and resist demands for high contributions to retirement accounts from their members.

Meanwhile, government employers paying CalPERS may ask decline to pay higher contribution rates.

Voters in Pacific Grove backed a November advisory measure calling for officials to explore withdrawing from CalPERS and switch new city employees to a 401(k) style retirement plan. City officials blamed CalPERS for an annual pension payment that took 15 percent of the general fund in 2006.

There are estimates that leaving CalPERs could cost Pacific Grove $8 million to $25 million to pay for future pension obligations. The plan is under review.

Santa Barbara County is among the first to have an outside expert look at how the declines in the stock market will increase retirement costs.

Annual pension costs were 6.3 percent of the county budget five years ago and are estimated to increase to 9.1 percent next fiscal year.

Two years from now, pension costs were expected to cost between 10.9 percent and 17.6 percent of the county's budget, according to the report by Mercer Human Resource Consulting.

While counties and cities debate the future of their defined benefit pension plans, voters may get the chance to decide the issue by statewide initiative.

"Right now we are planning on doing a survey to see how our initiative would be worded to sell it to the voters," said Marcia Fritz, vice president of the California Foundation for Fiscal Responsibility. "We expect to file our title summary with the state Attorney General's Office in October. We are shooting for the November 2010 ballot."

Fritz said the initiative would seek to require existing public employees to increase their contributions to retirement accounts and have new public employees work longer to secure full retirement benefits.

California Foundation for Fiscal Responsibility estimates that by making a public employee work an average six years more than they do currently would save $500 billion over 30 years.

"It's obvious to everybody that it needs to be done today," she said. Based in Citrus Heights, the group caused a stir by naming on its Web site individuals with annual pensions through CalPERS of $100,000 and more.

According to data it posted online, it has found more than 5,000 six-figure recipients statewide. In response, the fund issued a statement, saying, "They represent about 1 percent of the 476,000 CalPERS retirees."

In an interview with PublicCEO.com, Fritz said she expects the list to grow to 15,000 when county and city pension funds along with the California State Teachers' Retirement System are included.

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