California pension system seeks $700 million in state funds

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On June 17, the board of the California Public Employees Retirement System (CalPERS), the largest pension fund in the US, voted to seek an extra $700 million from taxpayer funds and 1,000 school districts. The increase, beginning this month, comes at a time when the state faces a $19.1 billion deficit and would raise the state's contribution to CalPERS to $3.9 billion.

State pensions throughout the US are underfunded. The entire political establishment—the Democrats, the Republicans, and the trade unions—are in agreement that the long term strategy is to cut pension benefits.

As CalPERS seeks more assistance from the state to meet its pension obligations, it is the working class once again that will be forced to foot the bill for the financial aristocracy. Many state and municipal governments, already facing their own bankruptcy, will see their contributions go up even more. Meanwhile, school districts, many of which are being systematically dismantled, are being asked to give even more.

CalPERS, which oversees the retirement pensions of more than 1.3 million state workers, retirees, and their families, saw its $204 billion fund lose $56.2 billion in the value of its investments, a 24-percent drop from last year. The primary reason for this is due to the investments made in the volatile real-estate, bonds, commodities and private equity markets during the 2008-2009 financial collapse. At the same time, more state workers are living longer and retiring sooner. Both have proven to be a problem for the pension fund to meet its obligations.

The $700 million additional funds would increase employer contributions from the state and school districts, to about $5 billion in 2010-2011. The proposed boost would "only" cost the state's general fund $184 million more than the current year, according to the state's legislative analyst's office.

Governor Arnold Schwarzenegger supports CalPERS' request from the state as he seeks to create a two-tier system that would cut the state's pension costs. Under Schwarzenegger's plan, older workers would be allowed to keep the pensions they were guaranteed, while newer workers would receive reduced benefits. This would include rolling back pension benefits adopted in 1999 for new hires, a permanent 5 percent increase in employer contributions, and readjusting the retirement rate so that it is based on the average of the three highest years of wages instead of the highest single year.

State Senator Bob Dutton, a Republican from San Bernardino and Riverside counties, told *The Contra Costa Times*, "Public pensions have become very generous, and not only that, but unsupportable."

In fact, the average pension retirement check is a mere $25,000 a year. Retirees on average receive little more than $2,000 a month in benefits, which means cutting these meager checks for newer workers would be condemning them to outright poverty.

The main reason pensions are low is because wages are low. Although public sector employees are portrayed as over-compensated, the vast majority of retirees are forced to live on inadequate means. In 2005, the average CalPERS monthly benefit was $1,673.82, an amount that falls far short of the high cost of living in the state.

Schwarzenegger is currently negotiating with 19 of 21 public sector unions to bring down pension costs. The governor has already collaborated with four public sector unions representing 23,000 workers to drastically reduce their state pensions. The California Association of Highway Patrolmen (CAHP), the California Department of Forestry Firefighters (CDFF), the California Association of Psychiatric Technicians (CAPT) and the American Federation of State, County and Municipal Employees (AFSCME) have all agreed to a 5-year increase to the minimum retirement age, and a 10-percent hike in employee contributions.

Union officials told *The Los Angeles Times* that they did

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not “relish” the pension cuts, but cooperated in sacrificing their rank-and-files because of the state’s financial crisis. The financial elite are counting on the unions to implement their assault on public pensions. John Ross, executive director of the California Budget Project (a think tank specializing in fiscal and policy analysis as well as public education), told *The Contra Costa Times* that the governor should not issue ultimatums to the legislature to reduce benefits when “a collective bargaining process seems to be an appropriate way to deal with this issue.”

CalPERS is by no means alone in its budget woes. In a study by researchers Robert Novy-Marx and Joshua Rauh of the National Bureau of Economic Research, state pensions are undercapitalized by $3.12 trillion, assuming the systems were to meet all their pension obligations. An April study released by Stanford University’s School of Public Policy also shows that California’s three biggest pensions face a combined shortfall of $500 billion in pension obligations.

Stanford’s Institute for Economic Policy Research questioned whether the $700 million request will be enough for CalPERS to meet the 75 percent of every pension dollar needed to cover existing liabilities, stating, “There is less than a 20 percent likelihood that Calpers’ investment returns are sufficient to pay for all existing pension obligations.”

Politically, the $700 million request comes at an embarrassing time for CalPERS, which has seen many of its top board members accused of financial crimes. One former board member, Alfred Villalobos, Jr., is being investigated by the state attorney general and the US Securities and Exchange Commission for accepting bribes from well-connected private equity and real estate managers in exchange for multi-million dollar investments from CalPERS.

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