California teachers' pension system labeled "high-risk issue" by state auditors

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The California state auditor issued a report last month branding the defined benefit program of the California State Teachers Retirement System (CalSTRS) a "high-risk issue." The pension fund is the eighth largest in the world and the largest teachers' pension fund in the US.

Teachers and administrators contribute a portion of their wages to the fund each year so as to collect pension benefits when they retire. To be considered fully funded, the defined benefit program of CalSTRS must be funded by at least 80 percent. The current funding level is 71 percent. According to financial projections, in 30 years CalSTRS will be depleted of funds.

As of June 30, 2010, the state's total estimated liability for CalSTRS was $59.9 billion, an increase of almost $12 billion since 2008.

As a result, the state auditor has recommended that CalSTRS raise the contribution rates for teachers and employers. CalSTRS, unlike the California Public Employees Retirement System (CalPERS), must obtain permission from the state legislature to raise contribution rates.

In response, CalSTRS spokesman Patrick Hill said the state auditors' report "reinforces the financial information we've been providing…. It really points out the need to work on that long-term funding plan."

The media has responded by demanding an end to "widespread abuse" of the pension system, a veiled call for cuts in teachers' benefits.

Typical is the August 11 editorial by the *Sacramento Bee* entitled "Finally, a Crackdown on Pension Spiking," which states: "Recent revelations about excessive payouts and questionable compensation calculations at CalSTRS suggest that the state's second-largest retirement system may be losing tens of millions of dollars annually in overpayments…."

Pensions have become one of the main targets for social cuts. A relentless government assault is accompanied by an assiduous media campaign vilifying working people for drawing money from social programs to which they have contributed.

The average CalSTRS member retires at age 62 after more than 25 years' service with a pension that replaces only 60 percent of salary. CalSTRS members do not receive Social Security benefits for CalSTRS-covered employment and normally do not receive employer-paid health benefits after age 65. The average CalSTRS pension for the 200,000 retirees is $37,619 and only 2 percent of retires receive a pension of $100,000 or more.

Despite this, the CEO of CalSTRS, Jack Ehnes, has responded to allegations of pension abuse by planning an "anti-spiking SWAT team" and setting up a toll-free hotline for people to anonymously report pension-spiking "suspicions."

Meanwhile, the state employees' retirement benefit system, CalPERS, the nation's largest pension fund, has lost nearly $17 billion since the start of the fiscal year that began July 1. On one day alone (Monday, July 25), losses totaled $6 billion. The month of July has eroded 40 percent of the fund's investment gains from the previous fiscal year.

Two thirds of CalPERS's portfolio is in stocks, making the pension fund especially vulnerable to the volatility of the stock market. CalPERS, with $237.5 billion in assets, is heavily invested in hedge funds and US and international equities.

CalSTRS has an estimated $152.7 billion in assets as of July 2011, 52 percent in global stocks.

The state's total pension liabilities are estimated to top $500 billion, according to a study last year by Stanford University. The study recommends that teachers contribute more money to the fund and that future employees receive lower benefits. Stanford suggests that the system switch from a fixed-benefit plan to a "hybrid" 401(k)-style investment account.

This would, of course, make state workers' retirement income dependent on the vagaries of the stock market and the speculative activities of Wall Street.

As part of the assault on pensions, Democratic Governor Jerry Brown last week vetoed a bill that would have increased survivor payouts for 13,000 CalPERS pensioners, saying "although the benefits increased by this bill are funded by substantial excess reserves, the changes this bill makes should be part of a more comprehensive pension reform."

What Brown is really saying is that the money is there to increase this benefit for a small number of retirees, but their well-being must be held hostage to a broader "reform" that will inevitably lower benefits across the board.

The bill, SB 350, would have only merged the first, second and third levels of a program that, like the Social Security survivors benefit program, pays the spouses and dependents of deceased government employees. Presently, a spouse under the oldest plan, Level 1, receives $180 per month, while a spouse under a later Level 3 formula collects $350. The bill would have merely increased payments to members presently covered at the oldest, least-generous level.

In another development, UC Santa Barbara economics lecturer Lanny Ebenstein is gathering signatures for three ballot initiatives that would eliminate collective bargaining for public employees, raise taxes on certain pensioners, and raise the retirement age for CalPERS and CalSTRS members.

Ebenstein, known for his biographies of right-wing, free-market ideologues such as Friedrich Hayek and Milton Friedman, is looking for investors to support his initiative, estimating he needs about $1.5 million to mount a drive to collect the signatures. He recently said he has "a couple of people who said they'd put in $100,000 each."