California teachers' pensions sink further into debt

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A new report released by the California Public Policy Center on November 12 reported that the California State Teachers' Retirement System (CalSTRS) added $4 billion to its unfunded pension obligations for the 2012 fiscal year.

CalSTRS, the largest teachers' pension fund in the United States, collected $5.8 billion from employees and employers last year. Of this, $4.7 billion was considered a "normal contribution," while $1.1 billion was used to pay unfunded liabilities, which by 2012 were estimated to be $71 billion in debt. As a result, plans to dismantle the pension fund in the name of fiscal solvency are being aggressively developed.

The study shows that the so-called "catch up" payment should have been 7 times higher based on unfunded liability payback terms recommended by Moody's Investor Services in April. The study also shows that if the rate of return projection drops to 6.2 percent, the unfunded liabilities recalculate to $107.8 billion and the catch-up payment increases to $9.6 billion, assuming a rate of return of 6.2 percent. Because of overly optimistic forecasts, the study estimates that CalSTRS actually increased its debt in 2012 by $4 billion.

Should CalSTRS lower its rate of return projections, its funded ratio of 67 percent will fall dramatically. The dependency on stock market profits thus sets the stage for volatility, even more indebtedness and, ultimately, privatization. While in Detroit, with President Obama's backing, banks are using the bankruptcy courts to tear up pensions and privatize city services, California's Democratic Governor Jerry Brown has pursued similar results by signing a pension "reform" last year which demands workers pay more toward their own pensions and work many more years before they collect it.

The corporate media is supporting the argument that there will be no money to fund pensions in another 30 years. This is the same strategy used to argue for the dismantling of Social Security and other basic entitlements. The claim is being made that pension enhancements from 1999 are responsible for the unsustainable obligations, when in actuality calculations were based on optimistic Wall Street investment projections. Now, in the aftermath of the 2008 economic crash, these same financial forces are trying to justify a "take back" of benefits.

In San Jose, Democratic Mayor Chuck Reed is being touted for his work on pension "reform." After a referendum was passed last year, the city will now force current employees to contribute up to 16 percent toward their pensions or switch over to an even more expensive private plan, and new workers will have a pension that pays even less, while they are required to contribute half toward their pensions.

Plans for the dismantling of these funds are clearly well advanced. In addition to Governor Brown's "reform" and various municipal initiatives, powerful lobbyists are pursuing similar plans which would ensure workers' loss of hard-fought, essential survival benefits.

One such initiative is the so-called Pension Reform Act of 2014, proposed by the Coalition for Fair and Sustainable Pensions, made up of a group of mayors from cities with similar problems (San Jose, Vallejo, San Bernardino). Based on San Jose Mayor Reed's brutal attack on municipal workers' retirement, the plan, according to its web site, "would amend the California Constitution to give government agencies clear authority to negotiate changes to existing employees' pension or retiree healthcare benefits on a strictly going-forward basis." In essence, it's open season for the demolition of pension benefits.

The premise that these funds, including CalSTRS, are going bankrupt, is a lie. First of all, workers have paid their whole lives into these funds, making it their money and no else's. Secondly, while the banks and major corporations were bailed out during the crash and continue to be supported to the tune of $85 billion a month, no one in the political establishment is arguing for pensions to be rescued, although these funds have also invested billions in the same "free market."

Lastly, there is plenty of money to be found. California is home to more billionaires than anywhere else in the world. One out of nine of the world's billionaires reside there. The total combined wealth of California's billionaires amounts to $1 trillion, nearly the total GDP of countries like South Korea or Mexico.

While in the post-war era the US economy was based on industrial production and pension fund operations were regulated in order to ensure a degree of stability, now the economy has been financialized and pension fund portfolios rise and fall with the gyrations of the stock market. Not only are they exposed to financial crises in the US, but to international fluctuations as well, such as the European debt crisis or derivatives markets. According to CalSTRS's website, the portfolio invests over 56 percent of its assets into global equity, 12 percent into real estate, and another 12 percent into private equity funds.

The situation for workers is now so desperate that many have to work until they are elderly to get a decent pension. According to a recent poll by Harris Interactive, 48 percent of middle-class Americans don't think they have enough money saved for a comfortable retirement and a full one-third think they will work "until at least 80."

The poll also found that more than half of the people said that paying monthly bills comes before saving for retirement. More than 4 out of 10 Americans say that saving for retirement and paying their bills at the same time is not possible.

For their part, the California Teachers Association (CTA) has been instrumental in the implementation of the pension "reform." It has been complicit with the Democrats in supporting these initiatives to dismantle pension funds. All it asks for is a seat at the table.

On the CTA website, under the headline, "Where we stand on Teachers' Retirement," they write on the estimated $56 billion shortfall that "this does not have to be paid overnight. Like a mortgage, this is an amount that will need to be closed over a 30-year period." The CTA does not bother to explain how, because, in essence, it agrees that teachers will have to pay for the shortfall by increasing their contributions to the pension fund.

Moreover, the CTA supported Prop. 30, which promised to restore funding to education at the expense of thousands of teachers being laid off and no budget cuts rescinded. The CTA also supports Common Core, which tailors school curriculum to the demands of big business.

In related developments, the California Public Employees' Retirement System (CalPERS) is also reporting $340 billion in liabilities with only $260 billion in assets as of September 2013. A 2011 study by Joe Nation, a former Democratic state legislator and professor at Stanford Institute for Economic Policy Research, estimated that the real number is closer to $170 billion in unfunded pension obligations, not $80 billion as previously assumed.

According to Nation, CalPERS uses an overly optimistic formula to calculate returns on investments averaging 7.5 percent annual growth. A more realistic figure would be 5 to 6 percent. Even with this model, both CalSTRS and CalPERS are expected to run out of funds by 2043.

CalPERS, like its CalSTRS counterpart, is intimately involved in Wall Street investments. As of April, the $263 billion fund was 65 percent invested into "growth investment" (i.e. stocks), with 52 percent in public equity, 12 percent in private equity, and 8 percent in real estate. For every dollar paid to CalPERS, 66 cents comes from "investment earnings," 21 cents from CalPERS employers, and 13 cents from CalPERS members. This last figure is likely to increase if the ruling class continues its policies unabated.