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Labor agreements cut state CalPERS rate again

By Ed Mendel

New labor contracts that take a bigger bite out of state worker paychecks to help pay for their future pensions could help lower the annual state payment to CalPERS for a second year, dropping $169.8 million to $3.5 billion.

The new rate in a report prepared by CalPERS actuaries for a board meeting next week is lower than the $4.1 billion payment expected in the state budget Gov. Brown proposed in January.

About $2.4 billion of the $4.1 billion was in the general fund, which has a deficit of roughly $10 billion, and the rest in special funds such as transportation. Brown is scheduled to issue a revised budget plan Monday for the new fiscal year beginning July 1

"This decrease in expected contributions is mainly driven by the increase in member contributions," CalPERS actuaries Alan Milligan and David Lamoureux *said in the report*.

The CalPERS rate for the current fiscal year was originally expected to be $3.9 billion, up from $3.3 billion the previous year. In December, approval of new agreements with 16 bargaining units enabled the CalPERS board to cut the rate by $200 million.

Six bargaining units, including the prison guards, did not settle with the Schwarzenegger administration. The new Brown administration negotiated five contracts with the holdouts that Republicans say do not save the state enough money.

The *contracts in SB 151* by Sen. Lou Correa, D-Santa Ana, passed the Senate on a minimum vote earlier this month, with two Republicans joining all 25 Democrats. Now at least two Republican votes also are needed in the Assembly.

If the five new contracts are not approved by the Legislature, the actuaries said, the state payment next fiscal year would still be $72.8 million lower than the current state rate.

The new labor agreements, varying among the 21 bargaining units, increase worker contributions to 8 to 11 percent of their pay, up from 5 to 8 percent of pay under the previous contracts.

The state contribution is double or triple what the workers contribute. For example, the new worker rate for most "miscellaneous" workers is 8 percent of pay, up from 5 percent. The state rate is 18 percent of pay, down from 20 percent.

For the California Highway Patrol, which unlike most state workers does not receive Social Security in addition to a pension, the rate paid by officers is 10 percent of pay, up from 8 percent. The state rate is 31 percent of pay, down from 33 percent.

Increasing worker contributions is the common, and perhaps only, way to immediately lower employer pension costs in California as state and local governments struggle with deficits, which ballooned after tax revenue fell during a deep economic recession.

Once a public employee in California is vested in a pension, it's generally believed that the courts have said the pension is a contract that cannot be cut, unless replaced by an equal benefit.

The courts ruled in an Orange County lawsuit last month that a pension increase given a worker shortly before retirement can be retroactive to the date of vesting decades before, even though no employer or employee rates paid for the pension increase.

Most of the new labor contracts reduce pension benefits for new hires. But the cost savings for government employers are years or decades in the future as the current workforce is slowly replaced.

The watchdog Little Hoover Commission, warning in February that pension costs could "crush" government, suggested that the courts be asked to revisit the issue of whether pensions not yet earned by current workers can be cut.

Pensions workers have already earned by years of service under the current formula (a percentage of final pay for each year served on retirement at a certain age) would not be cut. But the pension earned during future service would be reduced.

Public pensions also face cuts through potential initiatives. Former Assemblyman Roger Niello, R-Fair Oaks, *filed a proposal.* California Pension Reform led by Dan Pellissier is working on a pension initiative, possibly a switch to a 401 (k)-style plan.

Part of the defense of the current pension system is the argument that public employees, who have taken pay cuts through furloughs and other means, are helping reduce government costs by paying more for their pensions.

Public pension boards, with a few exceptions such as the California State Teachers Retirement System, have the power to set an annual contribution rate that must be paid by an employer. Worker rates are set through bargaining with unions.

The giant Public Employees Retirement System, which covers about half of the non-federal government workers in California, has taken unusual steps to avoid shocking employers with sudden rate increases.

A "smoothing" policy adopted by CalPERS in 2005, as former Gov. Arnold Schwarzenegger briefly backed a 401(k) plan, spreads investment gains and losses over 15 years, well beyond the industry average of three to five years.

The CalPERS investment fund, after peaking at $260 billion in the fall of 2007, dropped to $160 billion in March 2009 before bouncing back to $237 billion this week. A rate increase to cover much of the loss is being phased in over three years.

A long-term projection given the CalPERS board more than a year ago showed the average state rate, then around 17 percent, climbing to about 25 percent of pay and staying there for about a decade.

But that was before the new labor agreements and strong investment returns since the economic downturn and stock market crash in the fall of 2008.

The actuaries said the CalPERS funding level was 62.8 percent last June 30, up from 58.4 percent the previous year mainly due to investment earnings in fiscal 2009-10 averaging 14 percent. That's still a long way from the funding level before the downturn, 96.6 percent in June 2007.

CalPERS uses the "market value" of assets to calculate the funding level because of its unusually long 15-year smoothing policy.

A widely used "actuarial value" of assets, based on a much shorter conventional smoothing period, probably would give CalPERS a funding level of around 80 percent, regarded as an acceptable minimum for public pension funds.

CalPERS officials say a key indicator is the direction of funding levels, whether they are going up or down. With strong investment returns again so far this year, the CalPERS market-value funding level is said to be approaching 70 percent.

Schwarzenegger and others have argued that CalPERS, by keeping rates artificially low, is passing debt to future generations, who will pay the retirement costs for government services being provided now.

The president of the reform group, Pellissier, *said in a newspaper* article in February that a CalPERS decision to remain underfunded is a "Ponzi scheme" and "intergenerational theft," legal but immoral.

Reporter Ed Mendel covered the Capitol in Sacramento for nearly three decades, most recently for the San Diego Union-Tribune. More stories are at http://calpensions.com/ Posted 11 May 11

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5 Responses to “Labor agreements cut state CalPERS rate again”

1. *roger* Says:
   May 11, 2011 at 12:54 pm

   The ‘average’ State retiree is not the problem;the ‘SAFETY’ catagory w/3%@50 is the reason the problem exists.

2. *Tough Love* Says:
   May 11, 2011 at 5:50 pm

   Quoting ….”The president of the reform group, Pellissier, said in a newspaper article in February that a CalPERS decision to remain underfunded is a “Ponzi scheme” and “intergenerational theft,” legal but immoral.”

   That next generation should tell the recipients of this intergenerational theft to ..”go stick it” ….. and not pay !

3. *Reilleyfam* Says:
   May 11, 2011 at 6:51 pm

   The initiatives will be overturned by the Court. Look up the term “Promissory Estoppel” and see why. Also, do you really think the CA judges are going to rule to cut their own pensions? Not going to happen. All these initiatives are doing is giving false hope.

4. *SkippingDog* Says:
   May 11, 2011 at 10:44 pm

   And just how would the “next generation” do that, TL? Overturning contract law? Anarchy?

   I’m always amused to see you adopting fringe arguments and suggestions.

5. *Doug* Says:
   May 14, 2011 at 5:13 am

   “Public pension boards, with a few exceptions such as the California State Teachers Retirement System, have the power to set an annual contribution rate that must be paid by an employer. Worker rates are set through bargaining with unions.”

   Sorry, Ed, that statement is flat wrong.

   The contribution rates for BOTH employer and employee—-with the exception of CALSTRS as you point out—-are set by the Public Pension Boards. They set those based on their assumed rate of return and actuarial assumptions. The employer and employee can have input on the rates and their effect—but have zero role in the final rate choice.

> Employers over the years, in lieu of raises or other benefit increases, agreed to “pick up” the employee contributions in whole or in part. In recent contracts statewide, the amount of that employer pick up was reduced or eliminated. That is why the amount the employer pays in was reduced, not because the employee contribution rate changed in collective bargaining.

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