

Public Employee Pension And Retiree Health Costs In California



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The State of California Has Huge Financial Liabilities

- **Budgetary Liabilities: Over \$35 Billion**
 - Includes deficit bonds that addressed budgetary problems earlier this decade
Unemployment fund insolvency also an issue
- **Infrastructure Bonds: About \$67 Billion**
 - Over \$64 billion of authorized, unissued bonds
 - \$11.1 billion water bond on ballot in November 2010
- **Retirement Liabilities: Over \$100 Billion**

California's Retirement Liabilities

- **CalPERS Pension Programs**

State and California State University (CSU) employees

More generous than most or all other states

Unfunded liabilities (UAAL) of \$18 billion as of June 30, 2008

UAAL will be much higher as of June 2009



California Highway Patrol

California's Retirement Liabilities

- **CalSTRS Pension Programs**

School and community college teachers and administrators

Costs paid by state, districts, and employees

UAAL of \$22.5 billion as of June 30, 2008

UAAL will be much higher as of June 30, 2009



Eastern Valley Center (Indio, California)
Desert Community College District

California's Retirement Liabilities

- **UC Pensions and Retiree Health**

July 2009 valuation: about \$2 billion expected UAAL would be the first since 1987
Nearly 20-year pension “funding holiday” continues
UAAL of \$13 billion for pay-as-you-go retiree health benefits



University of California, Riverside

California's Retirement Liabilities

- **State and CSU Retiree Health Benefits**

Prior to 2009, completely “pay-as-you-go”

UAAL of \$48 billion

Up to 100 percent of retiree and dependent premium costs are covered by state

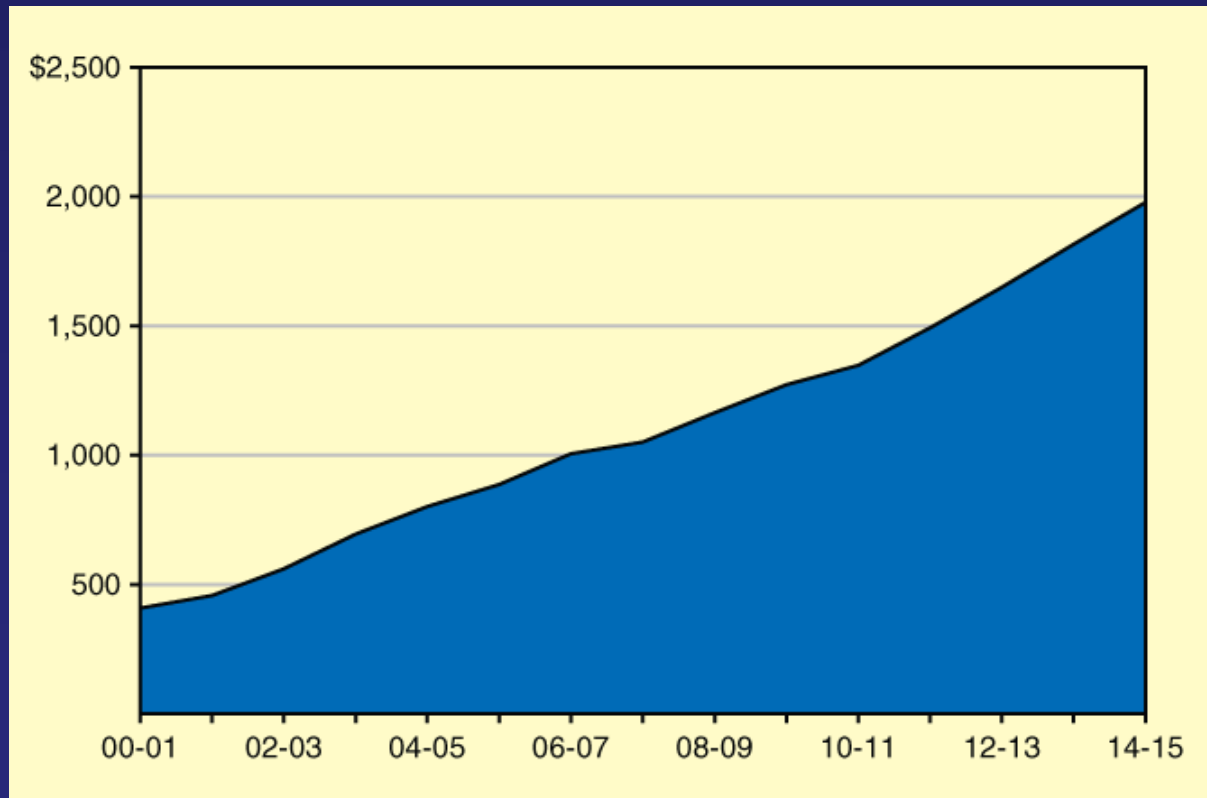
Often, higher contributions by state for retirees than for active employees



Caltrans Road Maintenance
Siskiyou County

Retiree Health and Dental Costs

General Fund (In Millions)



Legislative Actions to Date

- **Local Government OPEB Trust Funds**

2006: AB 2863 (Karnette), authorizes county retirement systems to establish funds

2007: AB 554 (Hernandez), authorizes CalPERS to offer OPEB trust to public employers

2009: SB 11 (Negrete McLeod), authorizes San Bernardino County retirement system to offer OPEB trust to any public employer statewide

Local Governments Begin to Take Action

- **2006 survey: California's local governments had at least \$58 billion of unfunded retiree health liabilities**
- **CalPERS OPEB fund now has over \$1 billion of deposits from 211 local entities**
- **CalPERS reports that 42 local governments (out of thousands statewide) have OPEB liabilities with funded ratios of 80 percent or higher...**

Some Local Entities With OPEB Funding of 80 Percent or Higher

- **Cities**

- Palm Desert (Riverside County)

- Carlsbad (San Diego County)

- Dublin (Alameda County)

- Manhattan Beach (Los Angeles County)

- Menlo Park (San Mateo County)

- **School and Community College Districts**

- Yreka Union High Schools (Siskiyou County)

- Barstow Community Colleges (San Bernardino County)

Some Local Entities With OPEB Funding of 80 Percent or Higher

- **Water and Wastewater Districts**

 - Indian Wells Valley Water District (Kern County)

 - South Placer Municipal Utility District (Placer County)

- **Transportation and Transit Districts**

 - Alameda Corridor Transportation Authority (Alameda County)

 - Riverside Transit Agency (Riverside County)

- **Other Special Districts**

 - Napa County Mosquito Abatement District

Local Governments Begin to Take Action

- **Some local governments have decided to reduce retiree health benefits for current employees, future employees, and/or current retirees**

Orange County

Fresno Unified School District (Fresno County)

State Government Takes a Small Step Toward Addressing OPEB



CHP Emergency Vehicle Operations Course
Yolo County

- **2009: CHP Officers Union Agreement**

Officers and state to begin paying to a CalPERS trust fund for CHP officers' benefits over next several years

Will cover major portion of "annual required contribution" for this group
SB 519 (Ashburn)
approved agreement

Major Issues Ahead

- **Huge increases in funding requirements for pension systems**

CalPERS (which is independent of the Legislature and the Governor) is “smoothing” local governments’ contributions again

No plan to fully address CalSTRS liabilities

No plan to fully address OPEB liabilities

Funding holiday continues for UC pensions

CalPERS Rate Stabilization Plan

- **2005: Gains and losses in CalPERS assets built into actuarial calculations over 15 years in most cases...instead of the previous period of three years**
- **2009: For local governments, a new policy that delays big increase in contributions that otherwise would happen in 2011-12**

Likely to result in even higher rates by 2013-14, which may persist for the next three decades

CalPERS Rate Stabilization Plan

- **Contributions for non-safety workers may often reach 25 percent of payroll**
- **Contributions for safety workers (law enforcement, firefighters, and others) may often reach 40 percent to 50 percent of payroll**
- **CalPERS' Chief Actuary noted that such costs seemed "unsustainable"**

The Bottom Line

- **Huge retirement liabilities and rising retirement costs at both the state and local levels**
- **For most California governments, no plan to address OPEB liabilities**
- **California's public finances already are severely strained**
- **These liabilities will put further pressure on public finances for years to come**