

K-14 Pension Rate Relief Proposals

PRESENTED TO:

Budget Conference Committee
Hon. Holly J. Mitchell, Chair



LEGISLATIVE ANALYST'S OFFICE



Overview of K-14 Pension Rate Relief Proposals

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■ All Plans Provide Pension Rate Relief for Schools and Community Colleges

- Governor provides \$850 million to cover a portion of schools' and community colleges' pension costs for two years. This proposal would reduce districts' pension contribution rate for teachers, administrators, and other certificated employees by 1.4 percentage point in 2019-20 and 1 percentage point in 2020-21. (Pension contribution rates are linked to a percentage of district payroll.) The Governor has no proposal to cover a portion of districts' pension costs for classified employees (such as clerical staff and paraprofessionals).
- Senate provides \$949 million more than the Governor. This amount includes \$562 million that would be set aside as part of the 2020-21 budget. The Senate proposal would reduce districts' contribution rate for both certificated and classified employees by 1.8 percentage point in 2019-20 and 2020-21.
- Assembly provides \$350 million more than the Governor. The Assembly provides the same district rate relief as the Governor for certificated employees. For classified employees, the Assembly reduces districts' contribution rates by at least 1.2 percentage point in 2019-20 and 2020-21. (The rate reductions could be larger because of additional state payments related to reducing unfunded liabilities for classified employees.)

■ All Plans Also Pay Down Unfunded Liabilities

- All three plans provide \$2.3 billion to pay down districts' share of unfunded liabilities for certificated employees.
- Assembly provides an additional \$1.2 billion to pay down unfunded liabilities for classified employees.



K-14 Pension Rate Relief Proposals: Budget Comparison

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State Costs Under the Three Plans^a

Non-Proposition 98 General Fund (In Millions)

	2019-20		2020-21		Total
	CalSTRS	CalPERS	CalSTRS	CalPERS	
Governor	\$500	—	\$350	—	\$850
Senate	630	\$257	648	\$264	1,799
Assembly	500	175	350	175	1,200

^a Under the plans proposed by the Governor and the Assembly, all of the funds to pay for these costs would be set aside in the 2019-20 budget. Under the Senate plan, some of the costs associated with 2020-21—consisting of \$298 million related to CalSTRS and \$264 million related to CalPERS—would be set aside as part of the 2020-21 budget.

CalSTRS = California State Teachers' Retirement System (covers certificated employees) and CalPERS = California Public Employees' Retirement System (covers classified employees).

- **Rate Relief Proposals Help Districts Now but Not Over the Long Run**
 - The pension rate relief proposals would reduce pressure on district budgets for the next two years, freeing up funding districts could use for any priority.
 - The rate relief proposals do not make progress toward addressing unfunded pension liabilities. If the pension systems are to reach full funding over the next few decades, district rates very likely must increase above their current levels. The rate relief proposals in the three plans allow these rate increases to be deferred for a couple of years but do not eliminate the need for them.
- **We Encourage Conference Committee to Prioritize Payments to Address Unfunded Liabilities**
 - Making additional payments toward unfunded pension liabilities would provide significant savings to districts over the next few decades. Though such payments would not provide as much relief over the next few years, they would tend to lower pension rates in the long run and make district budgets easier to balance on a sustained basis.