

Pension Costs: Rising and Squeezing Essential Services in California

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Feb. 15, 2017

Background

- SIEPR
- Pension Tracker (<http://pensiontracker.org>)

Pension Tracker Team

- John Shoven, Ph.D.—PI
- Greg Rosston, Ph.D.—PI
- Bill Sharpe, Ph.D.—Finance Prof. (Emeritus)
- Jeremy Bulow, Ph.D.—Economics Prof.
- RAs, including graduate and undergraduate students

Pension Tracker Objectives

- Detailed pension information on 1,700 California cities, counties, special districts (CalPERS, Independent)
- CalSTRS (forthcoming)
- OPEBs, or retiree health care (forthcoming)

Example Search Results

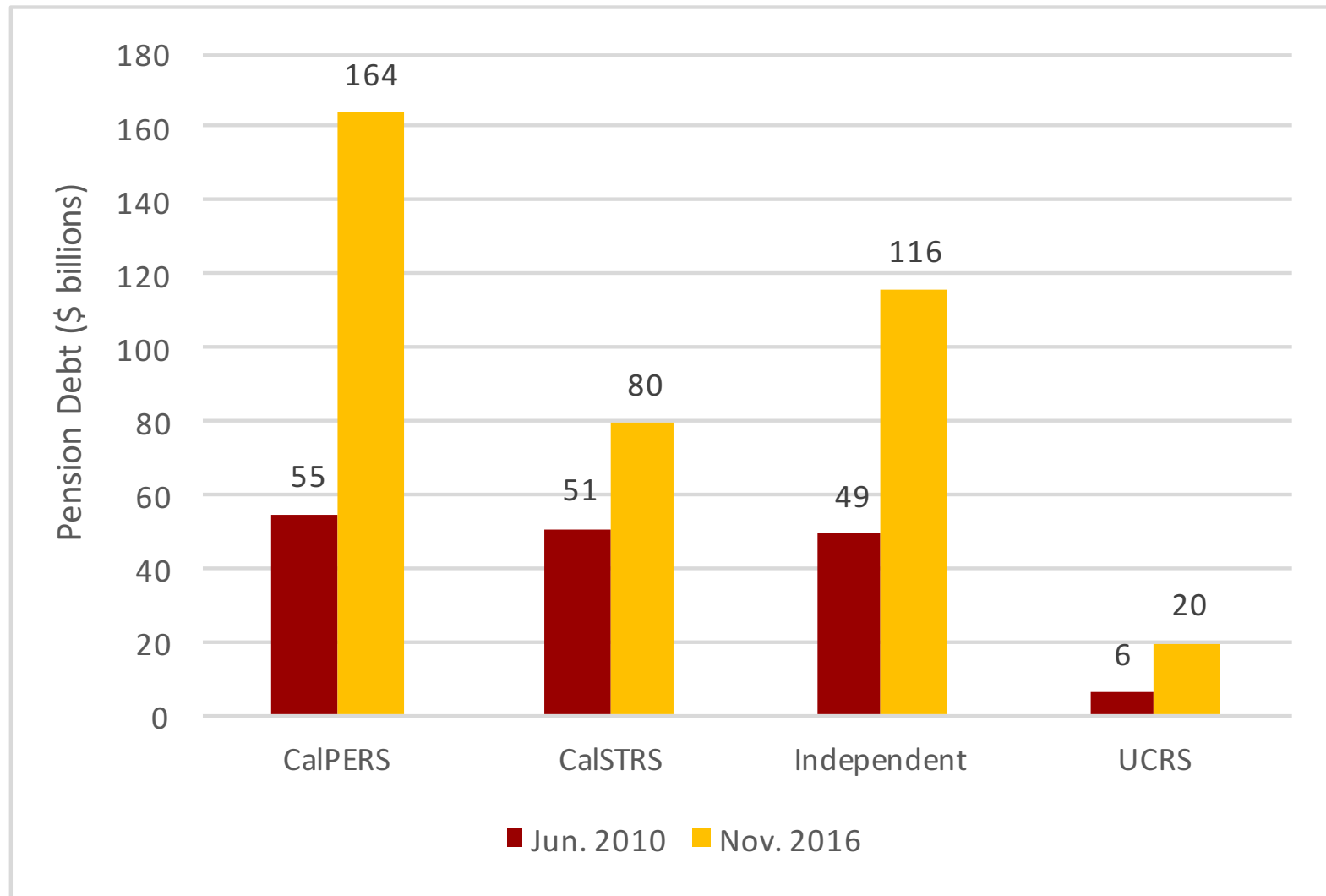
City of Sausalito



Summary Table, FY 2015

Category	CalPERS Plans	All Plans	All Plans (Incl. NA POB)	
Market Liability	\$146,694,995	\$146,694,995	\$146,694,995	<input type="checkbox"/>
Value of Assets	\$65,840,027	\$65,840,027	\$65,840,027	<input type="checkbox"/>
Market Pension Debt	\$80,854,968	\$80,854,968	\$80,854,968	<input type="checkbox"/>
Discount Rate for Market Liability	3.250%	3.250%	3.250%	<input type="checkbox"/>
Market Funded Ratio	44.9%	44.9%	44.9%	<input type="checkbox"/>
Actuarial Liability	\$87,136,777	\$87,136,777	\$87,136,777	<input type="checkbox"/>
Actuarial Pension Debt	\$21,296,750	\$21,296,750	\$21,296,750	<input type="checkbox"/>
Actuarial Funded Ratio	75.6%	75.6%	75.6%	<input type="checkbox"/>
Market Pension Debt/Household	\$20,113	\$20,113	\$20,113	<input type="checkbox"/>
Market Pension Debt/Capita	\$11,299	\$11,299	\$11,299	<input type="checkbox"/>
Actuarial Pension Debt/Household	\$5,298	\$5,298	\$5,298	<input type="checkbox"/>
Actuarial Pension Debt/Capita	\$2,976	\$2,976	\$2,976	<input type="checkbox"/>

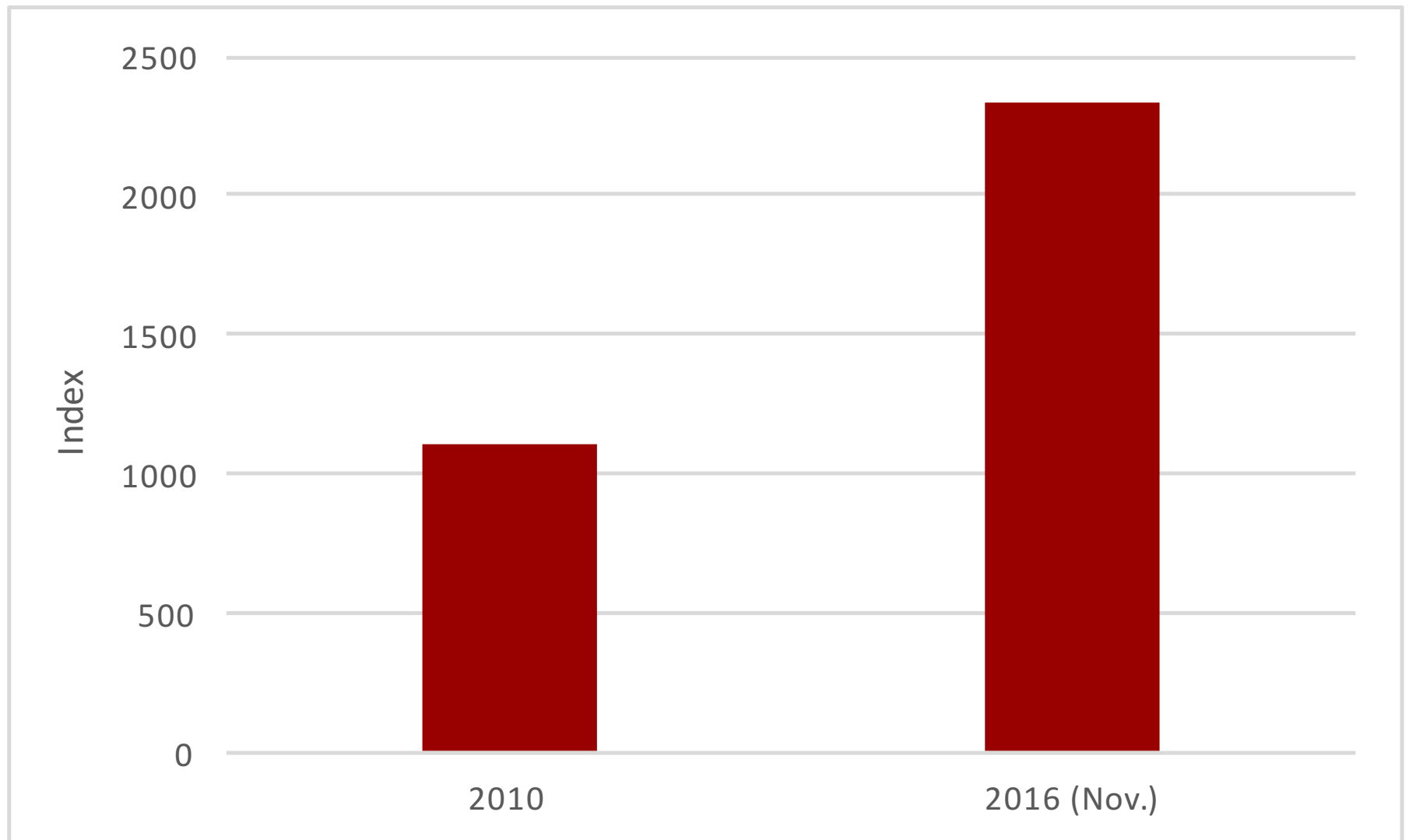
Why this Focus? Unfunded Liabilities \$379b* (vs. \$161b n 2010)



*This assumes 7.5% return on assets; at 2.75% (20 year Treasury), this increases to \$1.3 trillion. Independent systems estimated both years. Nov. 2016 estimates for others based on 2015 actuarial values, most current market assets values.

Source: PensionTracker.org

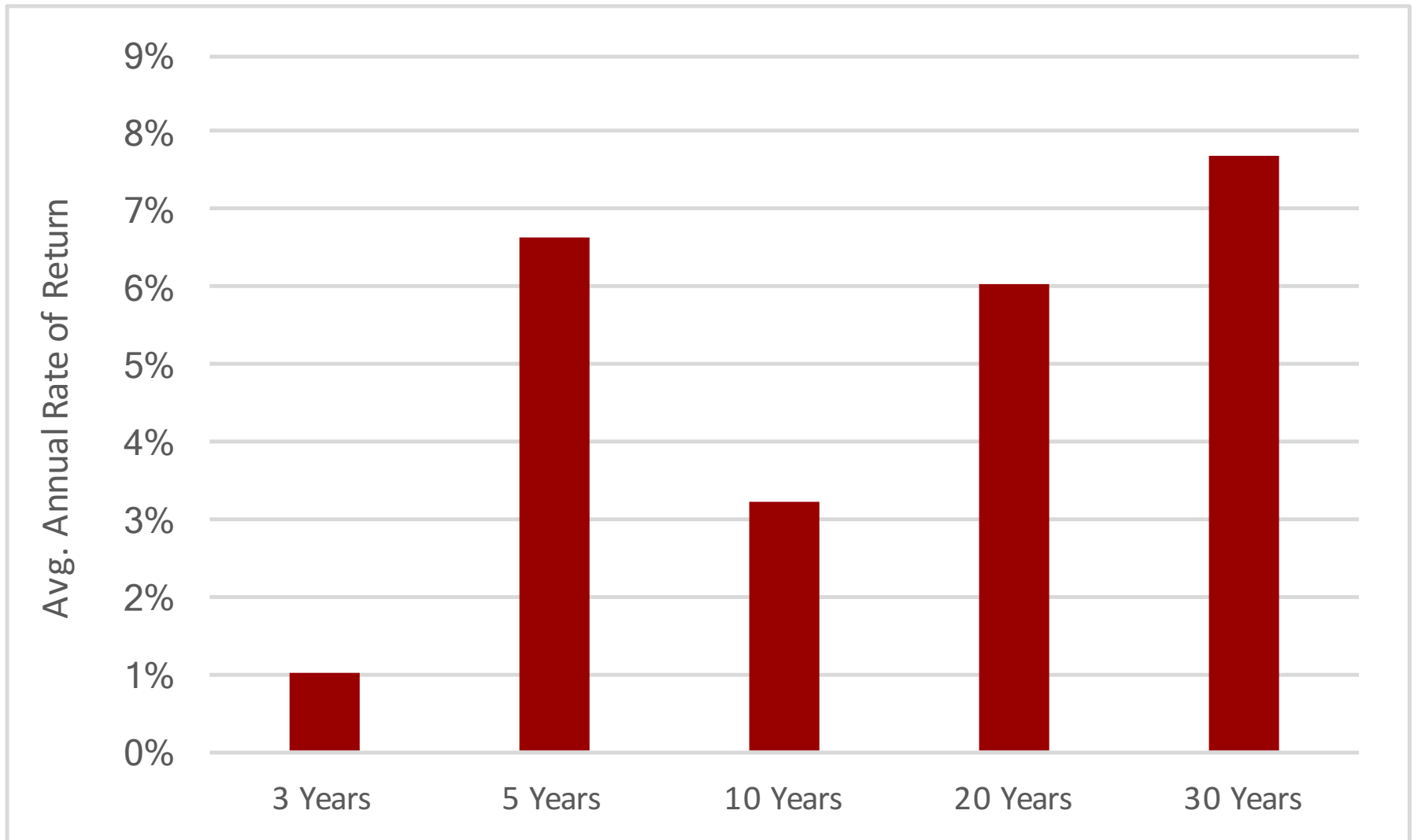
S&P 500 Grew 112% During Same Period



*This assumes 7.5% return on assets; at 2.75% (20 year Treasury), this increases to \$1.3 trillion.

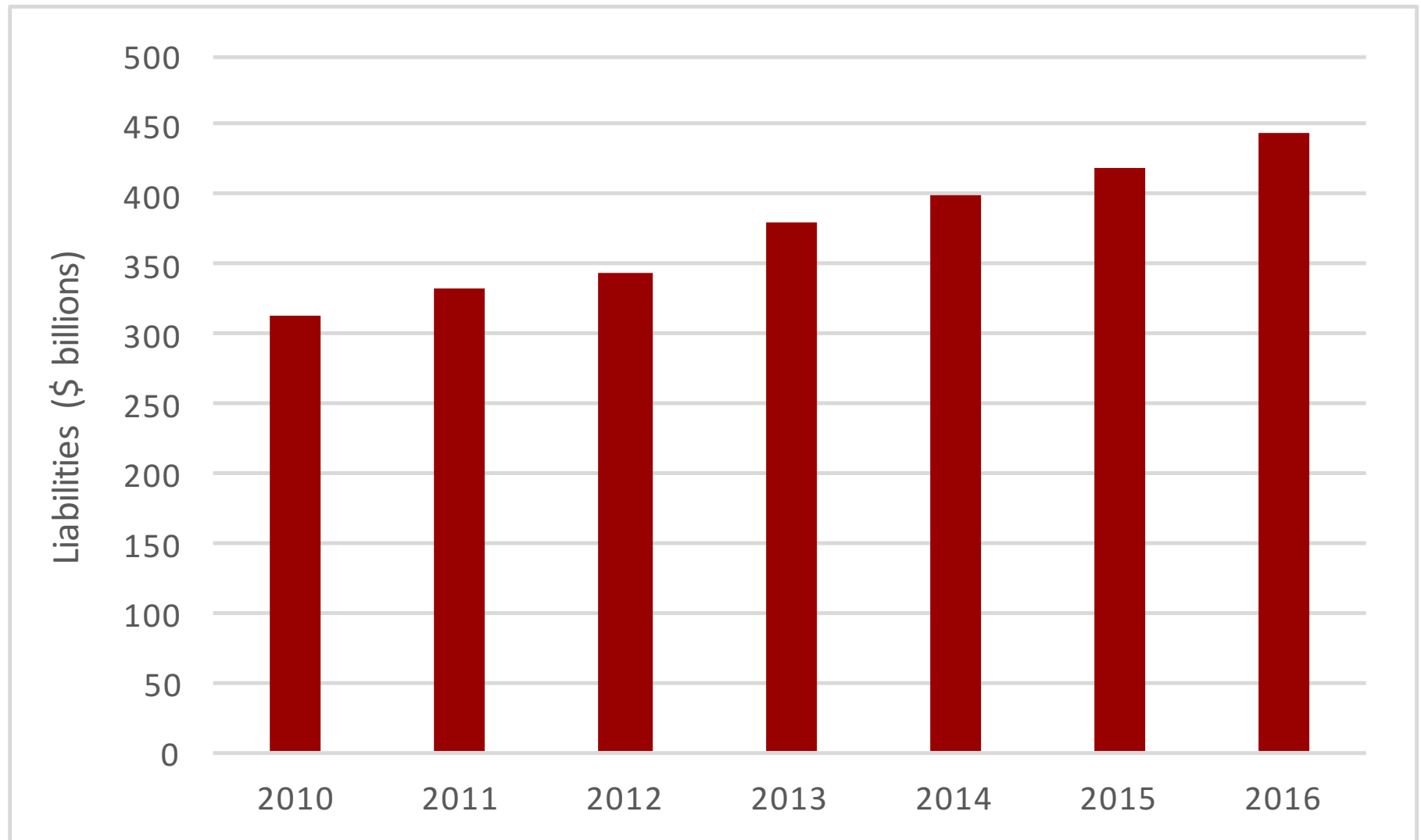
Source: <http://finance.yahoo.com>

CalPERS Returns Good Over Some Time Periods



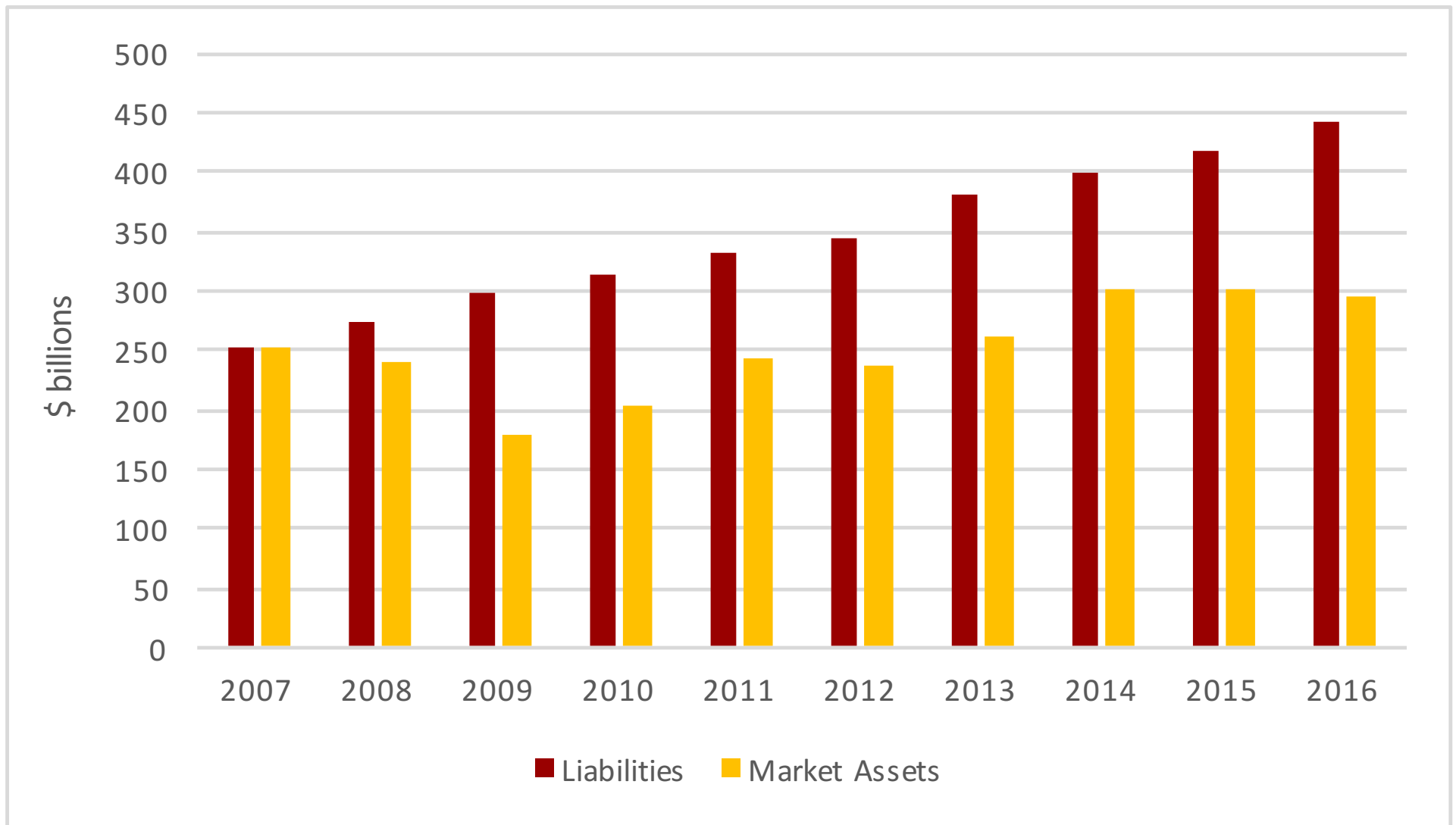
Source: CalPERS Comprehensive Annual Financial Reports

But CalPERS Liabilities Also Continue to Grow



Source: CalPERS Comprehensive Annual Financial Reports

Combined With Assets, Clear Picture Emerges



Source: CalPERS Comprehensive Annual Financial Reports

Employer Contributions Increasing Sharply In All Communities

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City of Richmond, All Plans

Graph :



Highcharts.com

NA data are not graphed.

Impacts and Projections

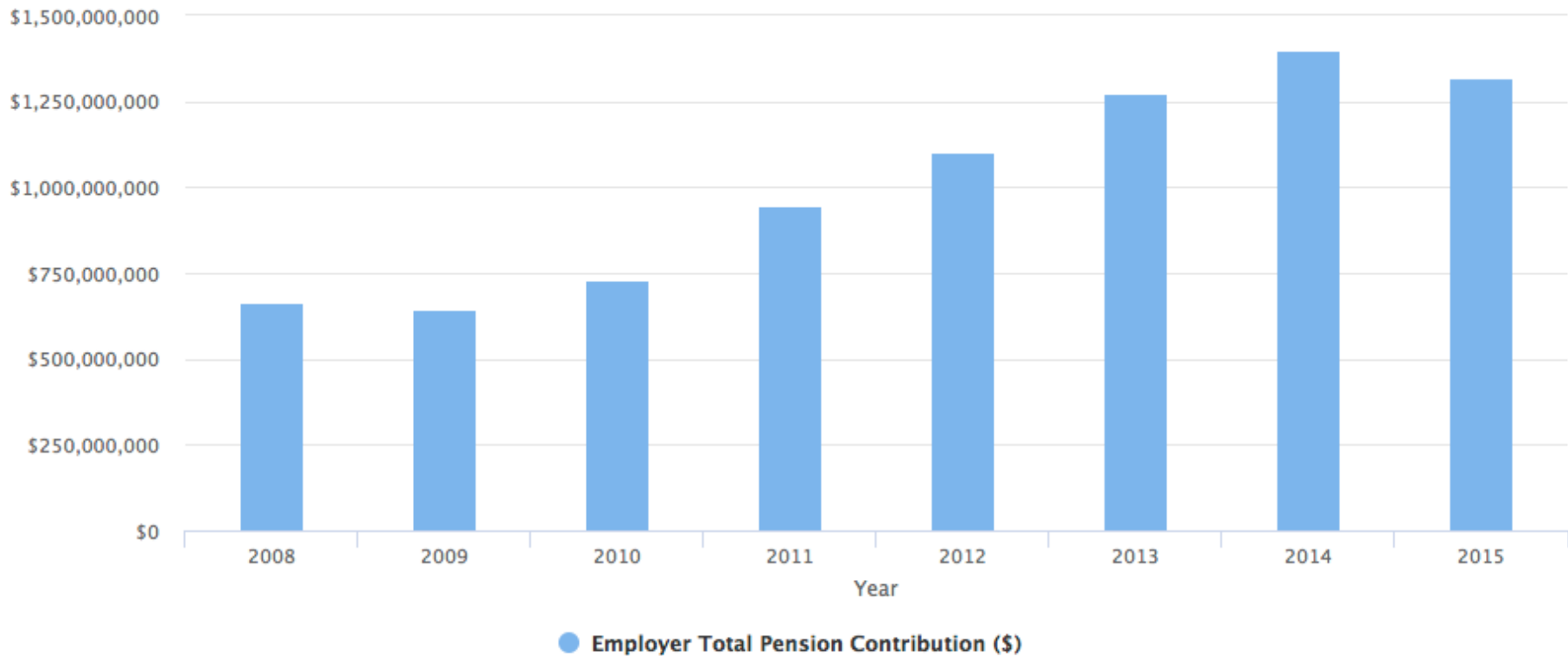
Example: City of Richmond

- Pension, retiree health costs from \$25m to \$44m, 2012-2017
- Could exceed \$70m in 2021, 41% of city General Fund budget
- Every dollar—and more—from new revenues will go to this debt
- 20% reduction in workforce to date
- Credit rating junk status

Employer Contributions In LA City \$1.3 Billion, Nearly Double 7 Years Ago

City of Los Angeles, All Plans

Graph :



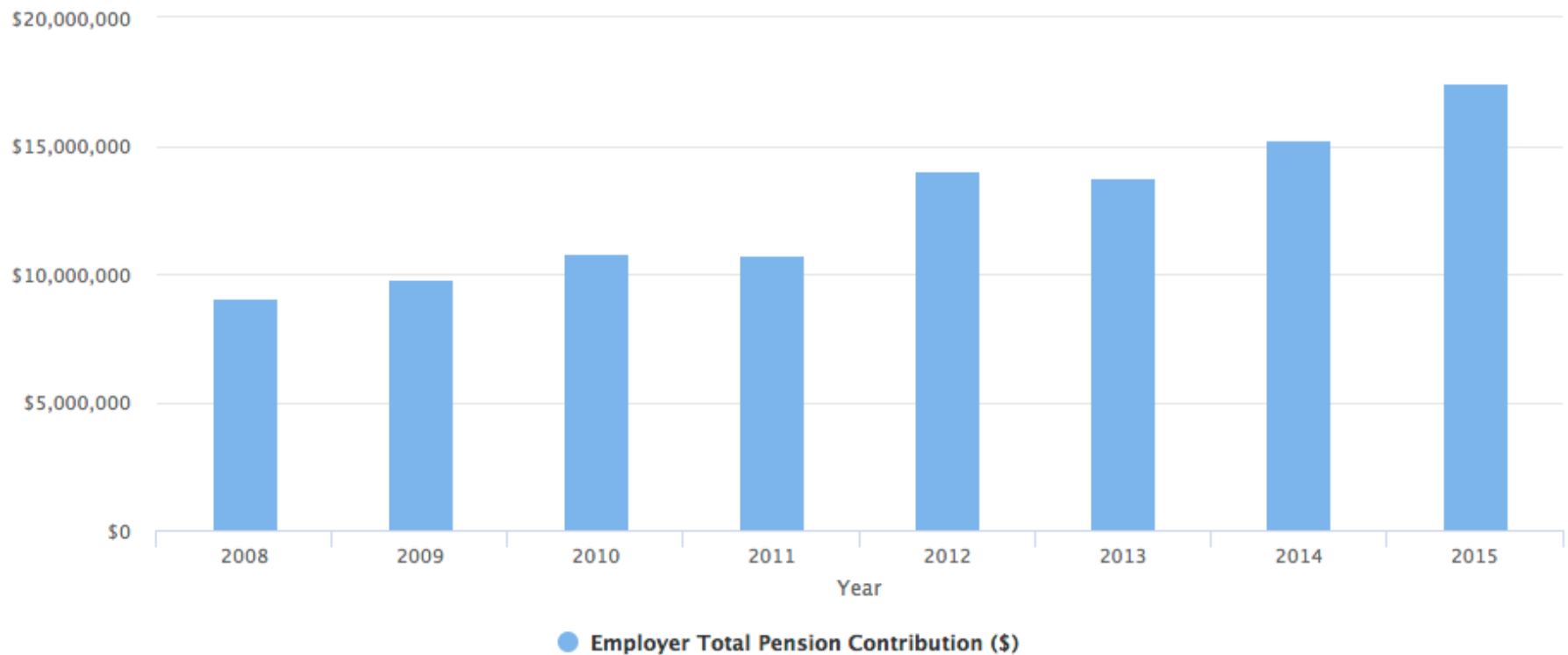
NA data are not graphed.

Contribution Amount Increases Don't Discriminate Based on Area Wealth

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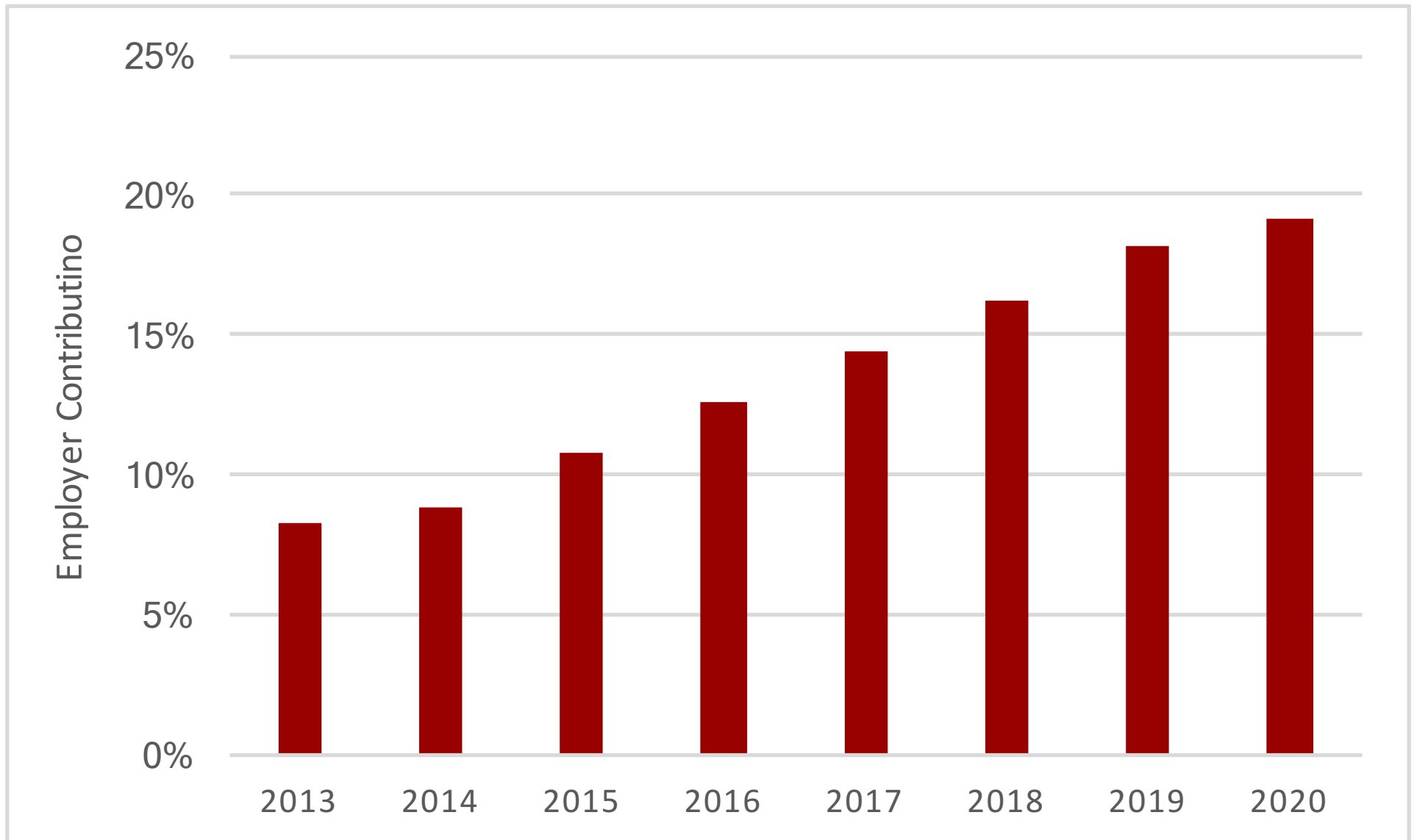
City of Beverly Hills, All Plans

Graph :



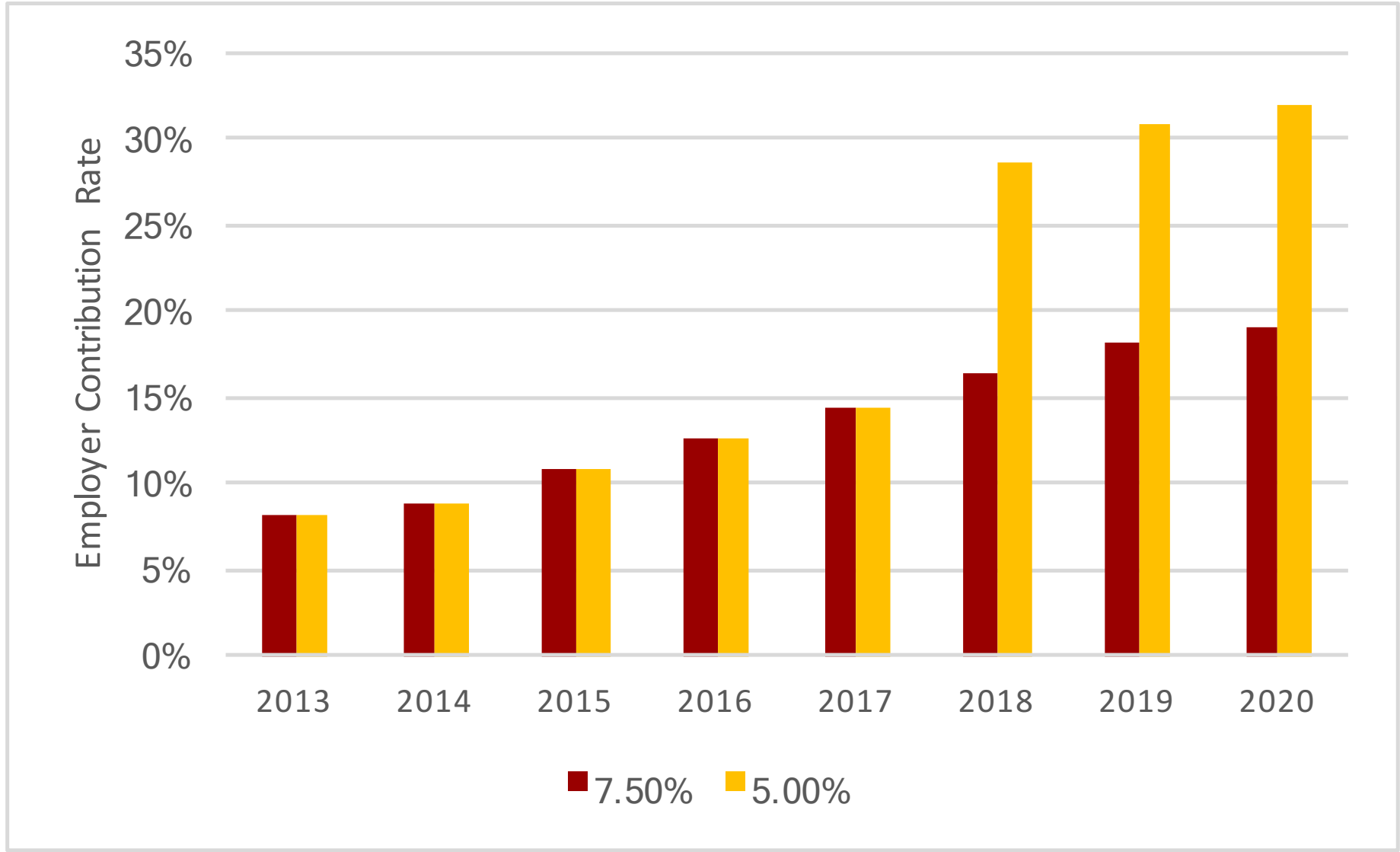
NA data are not graphed.

School Districts Facing Wall of Pension Expenditures



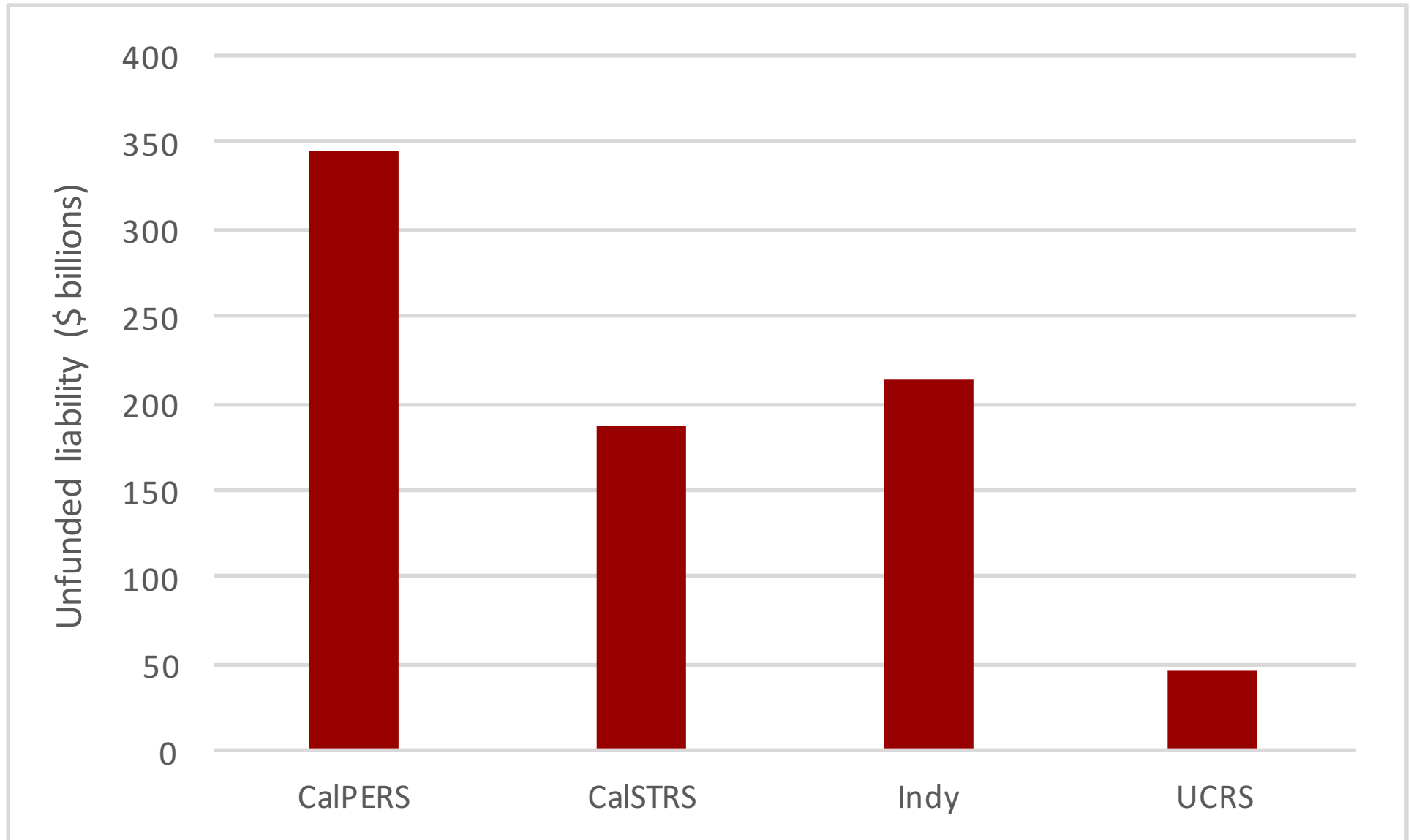
Source: CalSTRS

School District Contribution Rates Increase With 5% Investment Assumption



Source: CalSTRS, Author's estimates. MV increase from ~\$3m to ~\$7.5m in ~\$40m budget

State, Local Unfunded Liabilities ~\$800 Billion With 5% Investment Assumption



Source: Author's estimates

The Path to Reform.... ...Is Largely Through Sacramento

- CalPERS, CalSTRS boards controlled by labor
- Benefit levels set in statute
- 2012 “Reforms” didn’t move the needle
 - E.g., “PEPRA” created 2.7%_{@57} (vs. 3%_{@ 50 or 55})
 - No governance reform