Pension Costs: Rising and Squeezing Essential Services in California

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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)
## City of Sausalito

**Summary Table, FY 2015**

<table>
<thead>
<tr>
<th>Category</th>
<th>CalPERS Plans</th>
<th>All Plans</th>
<th>All Plans (incl. NA POB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Liability</td>
<td>$146,694,995</td>
<td>$146,694,995</td>
<td>$146,694,995</td>
</tr>
<tr>
<td>Value of Assets</td>
<td>$65,840,027</td>
<td>$65,840,027</td>
<td>$65,840,027</td>
</tr>
<tr>
<td>Market Pension Debt</td>
<td>$80,854,968</td>
<td>$80,854,968</td>
<td>$80,854,968</td>
</tr>
<tr>
<td>Discount Rate for Market Liability</td>
<td>3.250%</td>
<td>3.250%</td>
<td>3.250%</td>
</tr>
<tr>
<td>Market Funded Ratio</td>
<td>44.9%</td>
<td>44.9%</td>
<td>44.9%</td>
</tr>
<tr>
<td>Actuarial Liability</td>
<td>$87,136,777</td>
<td>$87,136,777</td>
<td>$87,136,777</td>
</tr>
<tr>
<td>Actuarial Pension Debt</td>
<td>$21,296,750</td>
<td>$21,296,750</td>
<td>$21,296,750</td>
</tr>
<tr>
<td>Actuarial Funded Ratio</td>
<td>75.6%</td>
<td>75.6%</td>
<td>75.6%</td>
</tr>
<tr>
<td>Market Pension Debt/ Household</td>
<td>$20,113</td>
<td>$20,113</td>
<td>$20,113</td>
</tr>
<tr>
<td>Market Pension Debt/ Capita</td>
<td>$11,299</td>
<td>$11,299</td>
<td>$11,299</td>
</tr>
<tr>
<td>Actuarial Pension Debt/ Household</td>
<td>$5,298</td>
<td>$5,298</td>
<td>$5,298</td>
</tr>
<tr>
<td>Actuarial Pension Debt/ Capita</td>
<td>$2,976</td>
<td>$2,976</td>
<td>$2,976</td>
</tr>
</tbody>
</table>
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
Valuing Life and Safety
Combined With Assets, Clear Picture Emerges

Source: CalPERS Comprehensive Annual Financial Reports
Employer Contributions Increasing Sharply In All Communities

City of Richmond, All Plans

Graph:

- Employer Total Pension Contribution ($)

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

City of Beverly Hills, All Plans

Graph:

Employer Total Pension Contribution ($)

Year


$0 $5,000,000 $10,000,000 $15,000,000 $20,000,000

NA data are not graphed.
School Districts Facing Wall of Pension Expenditures

Source: CalSTRS
Valuing Life and Safety

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