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RETIREMENT COSTS

## **California, other states face problem of growing pension liabilities**

**State governments can help ease a \$1-trillion shortfall by reducing future benefits, requiring greater employee contributions and raising retirement ages, a Pew report says.**

By Marc Lifsher

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Reporting from Sacramento

California has plenty of company when it comes to not being able to pay its growing public pension costs, a Washington think tank says in a report to be released Thursday.

Coming up with the money to pay for future obligations is expected to burden state and local governments and school districts with huge retirement costs that could translate into higher taxes and fewer basic services for the next generation of taxpayers.

In all, state governments face a \$1-trillion shortfall, the difference between what they owe current and future retirees and what they expect to have available to pay promised benefits.

California's two big systems accounted for \$122 billion of the deficit as of June 30, 2008. Unfunded pension costs totaled \$59.5 billion while unfunded healthcare costs were \$62.5 billion.

But the outlook has darkened in the last 18 months with the onset of the recession of 2008 and 2009.

Both the California Public Employees' Retirement System and the California State Teachers' Retirement System lost more than a fifth of their portfolio values in the 2008-09 fiscal year, when they had about 87% of needed pension funds in their portfolios.

Since then, CalPERS' funding ratio dropped to 61% on June 30, 2009, while CalSTRS' was 77%.

"California has a troubling pattern of not paying its annual required pension contributions in recent years," said Susan Urahn, managing director of the Pew Center on the States.

And pensions are only part of the problem: The two retirement funds have set aside less than 1% of the \$62 billion they need to cover lifetime health insurance benefits for retirees.

California and other states need to act quickly to address their pension liabilities that they are contractually obligated to pay.

"They are not going to go away," Urahn warned. "States can defer payments and that liability will still be there.

"But, states do have the opportunity to make changes for new employees coming in. That might not necessarily have an immediate impact, but over a period of time, [it] will have a substantial impact."

States could trim future obligations by reducing benefits for future employees and requiring greater employee contributions to retirement funds, the Pew report says. They also could raise retirement ages and improve the way pension funds are managed.

Minnesota has saved \$650 million over the last 10 years by raising the retirement age for new hires by one year, the report notes.

Calls for similar changes are growing louder in California. Three proposed initiatives are gathering signatures for the November ballot. The ballot measures, among other things, would limit the amount of pension a retiree could draw. They also would raise the minimum retirement age and reduce benefits for newly hired state and local government workers.

Raising full retirement from the current 60 years to 66 would save California \$500 billion over the next 30 years, said Marcia Fritz, president of the California Foundation for Fiscal Responsibility, a Sacramento group that is sponsoring two of the initiatives.

What's more, actuaries estimate that the change would increase a public worker's lifetime earnings by more than 10%, she said.

CalPERS, the teachers retirement system and public employees unions are expected to wage vigorous campaigns against the initiatives should they make it to the ballot. CalPERS already is holding informational sessions with its 1.6 million members to give them more information about the health of their system and its benefits.

The teachers retirement system is readying a yearlong educational and lobbying campaign ahead of a planned legislative drive next year to ask lawmakers and the governor to raise employer pension contributions by 14% to fill a \$43-billion funding gap.

Some combination of those benefit reductions or contribution hikes needs to happen soon, Urahn said.

"We have a significant problem now that can be solved by taking modest steps," she said. If not, "we will have an unmanaged crisis on our hands."

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