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CA Pension Fund Earnings Up, but Crushing Debts Remain.

California's two immense public employee pension funds this month reported investment earnings higher than their assumed rate for the second straight year.

The California Public Employees Retirement System (CalPERS) said its investment portfolio earned 8.6 percent during the year that ended June 30, while the California State Teachers Retirement System (CalSTRS) topped that with an 8.96 percent gain.

That's certainly better than the minuscule earnings the two funds had seen earlier in the decade, but despite public crowing by union advocates, the earnings reports merely underscore the wide gaps between pension promises and assets to pay for them.

For one thing, making money on investments in the past year has been a no-brainer and relative to the stock market and other indices, the performance of both funds was modest.

That's because both were burned badly in the recession a decade ago when their speculative investments tanked and since then, both have adopted safer and more stable investment strategies that have limited upside potential.

Safer may be better in the long run, but modest earnings, by themselves, cannot cover the funds' asset shortages, called "unfunded liabilities." Both have scarcely two-thirds of the assets they would need to cover pension commitments, even assuming they meet their earnings projections of 7 to 7.5 percent a year.

CalSTRS' chief investment officer, Christopher Ailman, put it this way in a statement that accompanied its earnings report:

"We will rank high compared to similar funds, but it is only one year. We need to repeat that performance year in and year out, on average, over the next 30 years."

As they lower investment expectations, CalPERS and CalSTRS have turned to the state and other public employers to close their asset gaps, requiring them to raise their "contributions" by billions of dollars.

CalPERS is increasing its bite on employers on its own, as it is empowered to do, while the Legislature and Gov. Jerry Brown adopted a plan to prevent CalSTRS from slipping into insolvency by increasing payments from the state and teachers modestly while hitting school districts hard, more than doubling their mandatory payments into the fund.

Making the increased payments has caused financial turmoil in local governments, especially cities, and in school districts.

As CalSTRS was reporting its 2017-18 earnings, CALmatters published a deep dive into how pension payments are clobbering the state's school systems, focusing on those in Los Angeles, Fremont and Sacramento.

“Over the next three years, schools may need to use well over half of all the new money they’re projected to receive to cover their growing pension obligations,” CALmatters’ Jessica Calefati wrote, “leaving little extra for classrooms, state Department of Finance and Legislative Analyst’s Office estimates show.”

“Some districts are predicting deficits and many districts are bracing for what’s to come by cutting programs, reducing staff or drawing down their reserves – even though per-pupil funding is at its highest level in three decades and voters recently extended a tax hike on the rich to help pay for schools,” she continued.

Schools and local governments are feeling immense stress from ever-rising pension payments even though California’s economy has been booming and tax revenues have been surpassing projections.

That’s why we’ll see dozens of cities and other local governments asking their voters for tax increases in November, and why school officials are pleading with Brown and legislators for more money.

By Dan Walters | July 25, 2018

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