# USA: Teachers pension fund is $43 billion short

By Marc Lifsher

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### The California State Teachers' Retirement System says that as of June 30, 2009, it could meet only an estimated 77% of its future pension obligations -- far less than the 100% recommended by actuaries

Reporting from Sacramento - Another pension alarm bell is ringing in Sacramento, this time at the teachers retirement system, where the nation's second-largest public pension fund is reporting a $43-billion shortfall.

The California State Teachers' Retirement System said that as of June 30, 2009, it could meet only an estimated 77% of its future pension obligations -- far less than the 100% recommended by actuaries.

Known as CalSTRS, the fund took a big hit during the 2008-09 fiscal year, losing a quarter of its value. Since then, its investment returns have improved, but the growth isn't strong enough to keep up with a widening funding gap.

What's worse, CalSTRS Chief Executive Jack Ehnes said in a report to be presented to the board Feb. 5, the fund could be broke in 35 years -- the length of a typical teaching career.

To avoid that calamity, Ehnes wants the state Legislature to raise employer pension contributions paid by the state and, indirectly, California's 1,043 school districts in the next few years.

In the meantime, income from CalSTRS investments isn't likely to fill the funding gap, he said. In recent years, the pension fund has estimated that it needs an average annual return on investments of 8% to keep up with teacher retirements. But the 8% is no longer sufficient, he said. Over the next five years, CalSTRS must earn more than 20% a year, a figure considered unrealistic by investment experts.

CalSTRS must increase its contributions -- from employers, employees or a combination of the two -- by 22% to be fully funded three decades from now, Ehnes said. But getting a contribution-hike bill through the Legislature and signed by the governor in the current election year is problematic, Ehnes acknowledged.

The state faces a $20-billion budget deficit, and the spending plan proposed by Gov. Arnold Schwarzenegger would reduce spending on schools from kindergarten to 12th grade by $2.4 billion on top of a cut of $13 billion last year.

At the same time, California voters could be considering as many as three initiative proposals, aiming for the November ballot, that would reduce pension benefits and delay retirement eligibility for newly hired workers at state and local governments, school districts, community colleges and the California State University.

Marcia Fritz, chairwoman of the group behind two of the initiatives, Californians for Pension Reform, said she wasn't sure of Ehnes' motive for sounding the alarm. Nevertheless, she praised his openness.

"To sugarcoat the numbers and ignore that there is a problem will only cause his situation to grow worse," she said. "I think he's correct in doing a 'Mayday, Mayday, Mayday' and trying to shore up the fund."

There's no reason for lawmakers and the governor not to help CalSTRS, said Dave Low, an official with the California School Employees Assn. and chairman of Californians for Health Care and Retirement Security, which advocates for better public pension benefits.

"The amount of money that goes for teachers' pensions right now as a percentage of the state budget is less than 1%," he said. "It's really insignificant."

Given the political climate, Ehnes is recommending to his board that a lobbying campaign in the Legislature to hike employer contributions be put off until 2011. This year should be spent organizing government-employee groups and unions and educating members about the value of their pension benefits, he said.

Fritz's group isn't the only one calling to rein in the state's growing public pension obligation. Schwarzenegger also wants to reduce benefits for future government workers. The governor hasn't publicly supported the Fritz ballot measures, although he campaigned for a similar 2005 initiative that failed at the polls.

The other big state pension fund, the $203-billion California Public Employees' Retirement System, also is facing a huge future liability but is in better shape to deal with its shortfall. CalPERS' board has the legal power to unilaterally raise employer contributions from the state and local governments it covers and does not have to get approval from lawmakers.

CalPERS reported that it was 86% funded as of June 30, 2008. That percentage could drop to about 65% in 30 years, according to a plan recently approved by the board that "smooths" -- and stretches over a longer time period -- the effect of severe investment losses from 2008. The so-called smoothing plan would moderate the increase in employer contributions but leave the pension fund with a bigger future liability.

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