

# California pensions next state financial crisis

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Wed Jul 29, 2009 5:01pm EDT

By [Jim Christie](#) - Analysis

SAN FRANCISCO (Reuters) - On the heels of closing a \$24 billion state budget deficit, California faces new financial trouble -- from its public pensions.

The loss incurred by California's biggest pension fund in the last year is more than half the size of the state's spending plan, and financial analysts say the market on its own will keep the pension hole open for years or longer, a challenge public pension funds across the United States will also face.

"Pensions will be a major issue, sooner more likely than later, because they're going to bankrupt many jurisdictions," said Bob Stern of the Center for Governmental Studies in Los Angeles.

Governor Arnold Schwarzenegger on Saturday in a radio address put the California Public Employees' Retirement System, the biggest U.S. public pension fund that is best known as Calpers, on notice that its cost to the state government is in his sights.

"In these challenging economic times, we cannot afford everything we have funded in the past," he said. "And we will take on pension reform to cut down on unfunded liabilities and save the state billions of dollars."

By Monday, Calpers officials were discussing how to respond to Schwarzenegger -- and others who may take aim at the fund.

## HARD SLOG FOR FULL FUNDING

A political showdown would come as Calpers tries to recover from a record 23.4 percent drop in the value of its assets last year to \$180.9 billion from \$237.1 billion a year earlier.

At a fund meeting on Monday, Chief Investment Officer Joseph Dear told Calpers' board the fund could be fully funded in 15 years if it posts annual returns of more than 8.0 percent and contributions grow by more than 4.0 percent.

Such returns are unrealistic amid slow growth in an economic recovery, advisor and BlackRock CEO Laurence Fink told the board. "It's going to be subpar for many years," he said, and Calpers may need to ask members to swallow benefit cuts.

State employee unions would surely oppose that and resist demands for higher contributions to retirement accounts from their members. Meanwhile, government employers paying Calpers to manage pensions may also balk at higher contribution rates.

Voters in Pacific Grove, a seaside town of 15,000, backed a November measure calling for officials to explore withdrawing from Calpers. The plan is under review.

## PENSION OVERHAUL ON BALLOT?

At Monday's meeting, State Treasurer Bill Lockyer warned fellow Calpers board members of a statewide initiative aiming at cutting public pension costs. Amid California's 11.6 percent unemployment, voters would be receptive, analysts said.

"In a recession emotions are raw ... 11.6 percent of voters will be especially resentful and anyone who compares their own 401(k) is a very attractive audience," said Dan Schnur of the Unruh Institute of Politics at the University of Southern California.

Former Assemblyman Keith Richman is mulling a ballot measure to require existing public employees to increase their contributions to retirement accounts and have new public employees work longer to secure full retirement benefits.

"They would be working on average six more years than they do today," said Marcia Fritz of Richman's California Foundation for Fiscal Responsibility. "That would save \$500 billion over 30 years, gradually."

Richman is battling brain cancer so an initiative is uncertain. But his group is causing a stir by naming on its website individuals with annual pensions through Calpers of \$100,000 and more. It has found more than 5,000 six-figure recipients, including one getting just under \$500,000 a year.

Headlines generated by the effort caught Calpers flat-footed. The fund responded on Tuesday in a statement on its website that those retirees

are not typical: "They represent about 1.0 percent of the 476,000 Calpers retirees."

Fritz said the effort will expand and that she expects the list to grow to 15,000 when county and city pension funds along with the California State Teachers' Retirement System are included.

<http://www.reuters.com/article/reutersEdge/idUSTRE56S6UB20090729?sp=true>