







Pension “Reform” Discussion

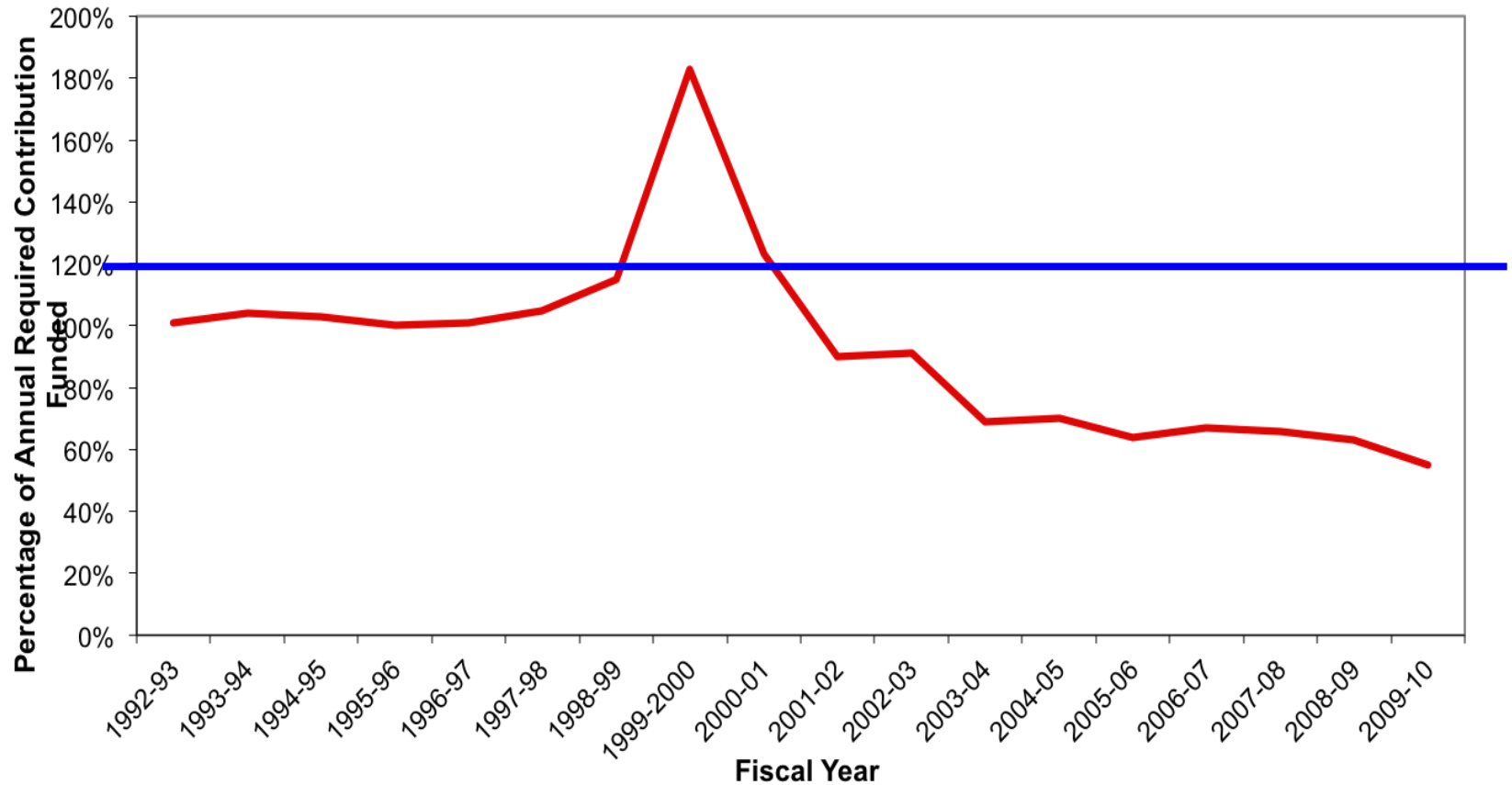
May 19, 2011

Key Financial Indicators

- **Unfunded Obligation \$56.0B ('10)**  (up \$15.5 billion)
- **Funded Ratio (Smoothed – '10) 71%** 
- **% ARC Paid by State (2010): 55%** 
- **Investment Assumption 7.75%** 
- **Median Monthly Benefit (09-10) \$4,085** 
- **# Retirees pensions > \$100,000: 4,801** 

State has not paid ARC for 8 yrs.

History of Payment of Annual Required Contributions (ARC)



Pension “Reform”

What’s it mean?

What’s legal?

What do the voters think?

What’s likely?

What’s not?

Los Angeles Times | LOCAL

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IN THE NEWS: APPLE IPAD | TOYOTA | STATE OF THE UNION | CHRIS MATTHEWS | HOWARD ZINN

Los Angeles officials consider a ballot measure to scale back pensions

The city's benefits and forcing drastic



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Board Approves Reforms for Colo. State Pensions

Public Employees' Retirement Association board OKs reform plan for Colorado state pensions

DENVER January 8, 2010 (AP)

The Associated Press

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The board that oversees Colorado's troubled state pension plan has approved a proposal by lawmakers to fix it.

Proposed changes to the Public Employees' Retirement Association include increasing employee and employer contributions by 2 percent and reducing cost-of-living increases for current retirees from 3.5 percent this year, capping them at 2 percent.

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Acai Berry Diet (SHOCKER)

Warning! This Shocking Health Report Reveals The Truth About Acai Berry

State Senate President Brandon Shaffer and Senate Minority Leader Josh Penry say their proposed deal offers security for 450,000 current and former public employees whose pension plan was rocked by the recent economic crisis.

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Proposal to increase contribution to teacher pensions jeered

A Springboro school board member says 'our community would be outraged'

Hot Topics

- Help the people of Haiti
- The Wine Loft joins in RestaurantWeek
- Lowest area gas prices

By Anthony Gottschlich, Staff Writer

Updated 6:23 PM Saturday, January 2, 2010

After voters rejected four straight levies for new operating money, Springboro school officials cut wherever they could.

They closed an elementary school, laid off 30 workers, set fees of up to \$1,900 a family for extracurricular participation and limited busing to students beyond a two-mile radius from school.

One area they couldn't touch — the district's employee pension funds for teachers and other staffers. State law forbids it. The

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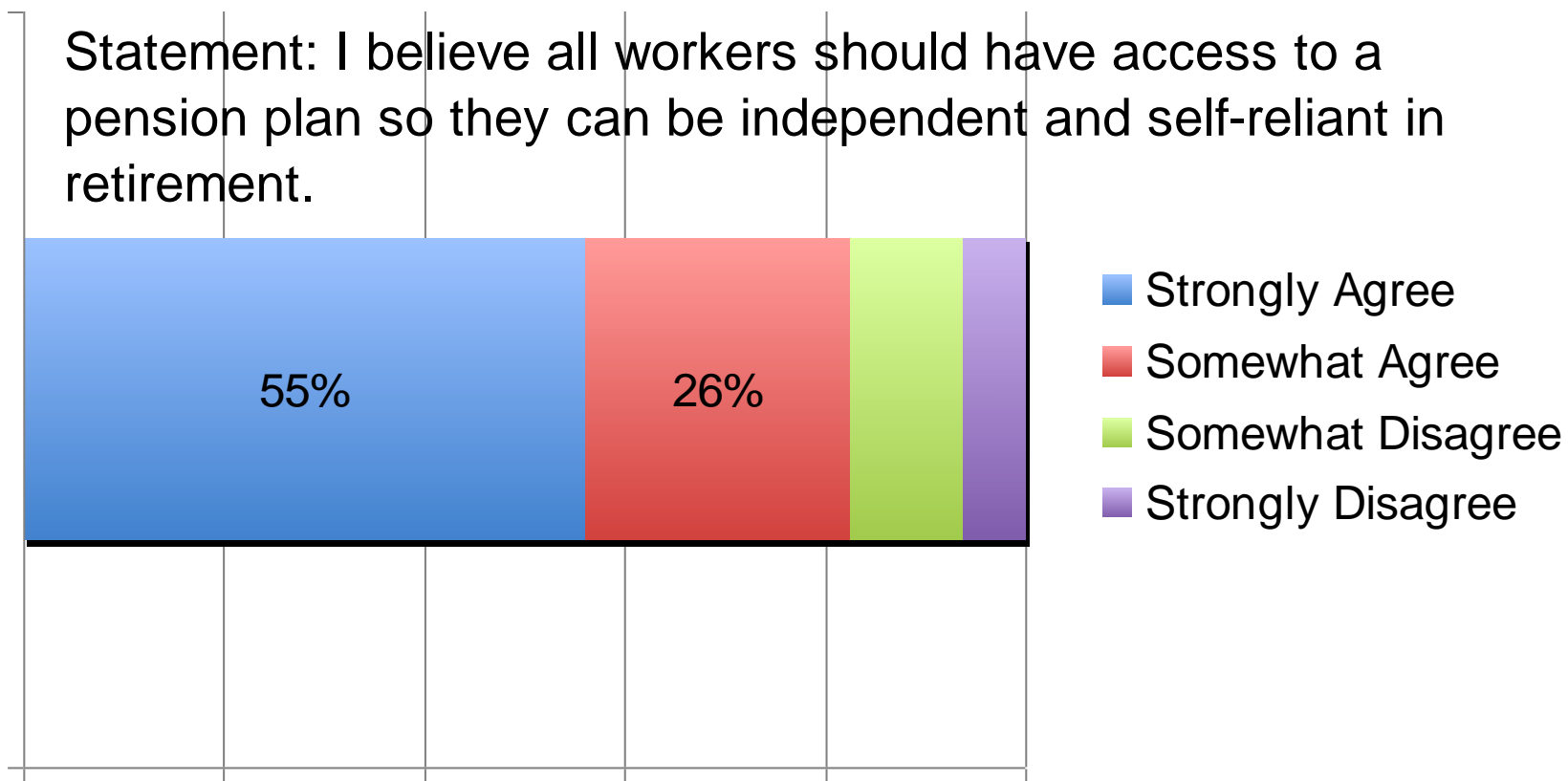
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“Retiring Boomers find 401(k) plans fall short.” WSJ 2/24/11

- Median household age 62-64 with 401(k) has less than one-quarter of what is needed to maintain standard of living.
- Median household would need \$74,545 per year in retirement for 85% replacement ratio.
- Social security will provide 40% at \$35,080
- Median plan held \$149,400 which would equate to an annuity of \$9,073 or one-quarter of what is needed!!

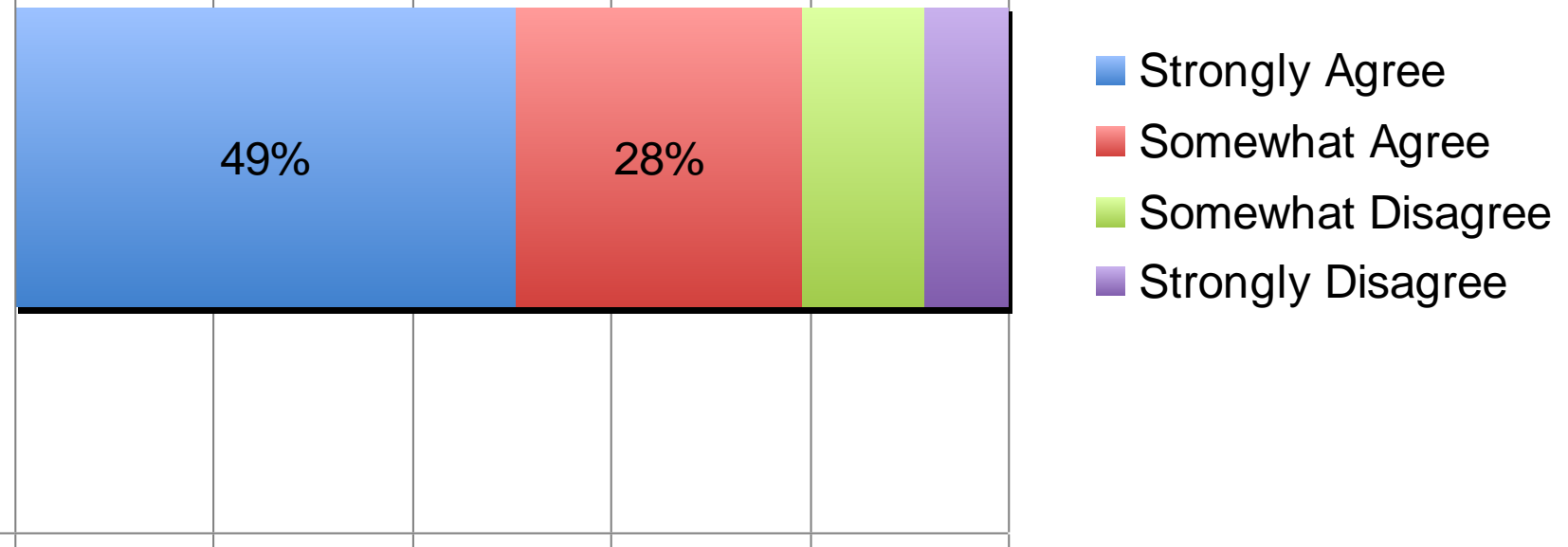
NIRS U.S. Survey (Mar. 2011)

Statement: I believe all workers should have access to a pension plan so they can be independent and self-reliant in retirement.



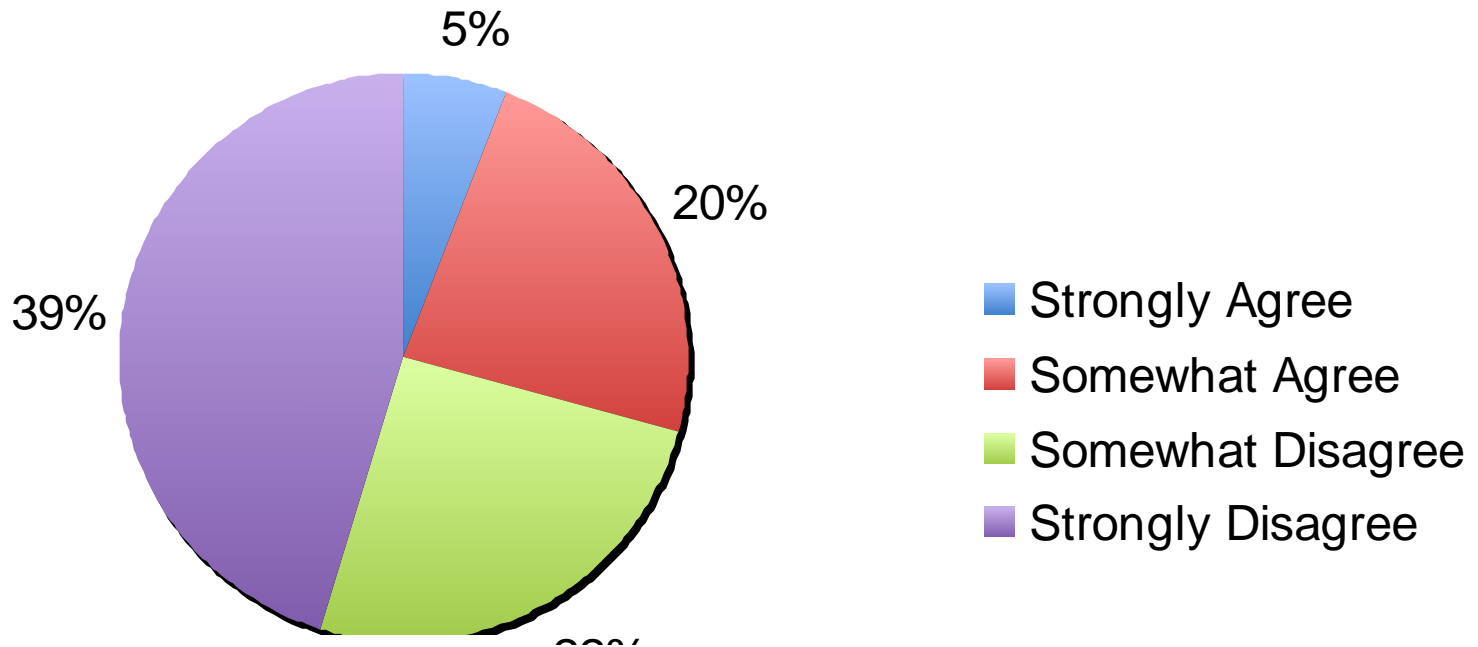
NIRS U.S. Survey (Mar. 2011)

Statement: The disappearance of traditional pensions has made it harder for workers to achieve the American Dream.



NIRS U.S. Survey (Mar. 2011)

Statement: Most Americans will be able to make up any financial losses before they retire.



NIRS Survey (Mar. 2011)

Conclusions

1. Americans are **highly anxious** about retirement
2. Americans have **low return expectations**.
3. U.S. retirement system under stress, **needs reform**.
4. **Pensions relieve anxiety**, reliable.
5. **Washington disconnected** from pension anxiety.

A Growing Body of Critical Studies

- Milken Institute
- Reason Institute
- Stanford Institute for Economic Policy Research
- Manhattan Institute
- New America Foundation
- Joshua Rauh, Northwestern University
- Pew Institute
- Little Hoover Commission
- Mercatus Center

Colorado, South Dakota and Minnesota cut retiree benefits.

- Public workers in Colorado, South Dakota and Minnesota are already suing their states, which are among 18 that want to pare pension costs by increasing employee contributions, raising the retirement age or curbing cost-of-living increases.
- “We believe it’s unconstitutional,” said Gary Justus, 63, a retired mathematics teacher in the Denver public schools who’s a plaintiff in the Colorado suit. “These are contracts that I and 100,000 other retirees worked for.”

A Change of Focus



California Polling Data

Public opinion has reached a tipping point, with most voters now supporting reduced benefits for newly hired public employees.

California voter willingness to reduce the pension and health care benefits for newly hired public employees.

Position	Oct 2009	July 2010	Change
Support	48%	59%	+11%
Oppose	44%	33%	-11%
Undecided	8%	8%	No Change

Field Poll (March 2011) details voter reaction to various pension reform proposals

- 73% approve of upper limit (salary cap) on benefits
- 69% approve public sector workers paying more
- 60% approve increasing retirement age
- 58% approve reducing benefits for new workers and for future un-worked years of current employees
- 56% approve replacing system with 401(K)
- 52% approve giving governments the legal authority to modify existing pension agreements for current workers
- 26% approve passing tax to build up funds for paying public pensions.

Reform Ideas Gaining Mainstream Attention

- Reduce or Eliminate Spiking.
- Eliminate one year highest average salary.
- Set salary or benefits cap significantly below the IRS limit.
- Increase employee contributions to 50% of cost.
- Lengthening retirement age (Illinois moved to age 67).
- Lengthening vesting periods (some states have moved from 5 to 10 yrs.).

The
Economist

APRIL 9TH-15TH 2011

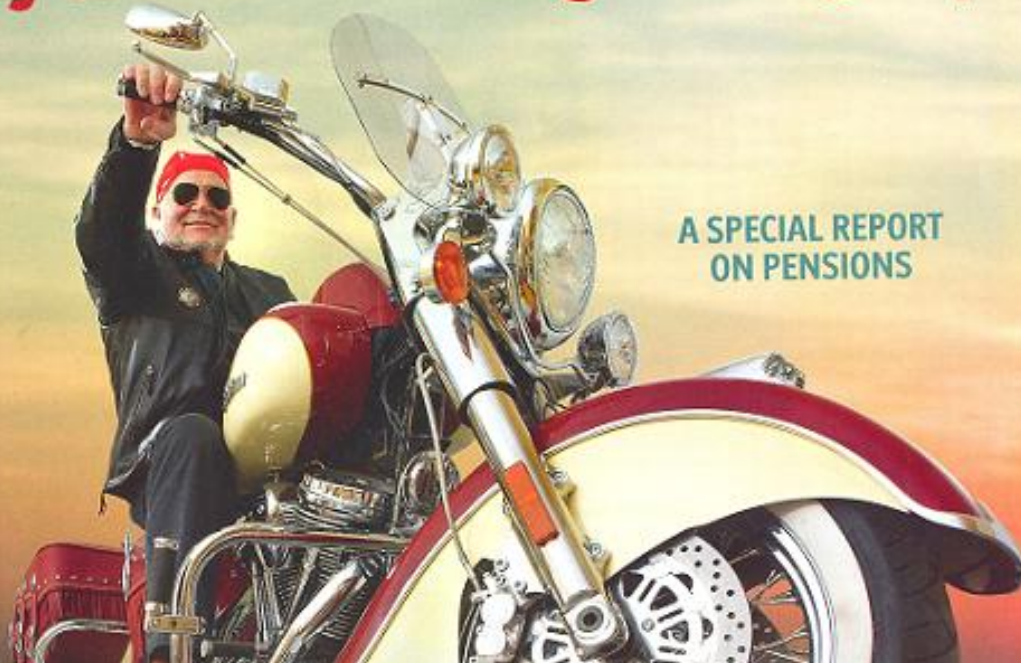
Economist.com

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70 or bust!

Why the retirement age must go up

A SPECIAL REPORT
ON PENSIONS



Little Hoover Commission

“California’s pension plans are dangerously underfunded, the result of overly generous benefit promises, wishful thinking and an unwillingness to plan prudently. Unless aggressive reforms are implemented now, the problem will get far worse, forcing counties and cities to severely reduce services and layoff employees to meet pension obligations.”

Little Hoover Recommendations

- The Legislature should give state and local governments the authority to alter the future, unaccrued retirement benefits for current public employees.
- The Legislature must create pension options for state and local governments that would retain the DB – but at a lower level combined with an employer-matched 401(k) DC plan.

Governor Releases 12 point plan on March 31, 2011

- Eliminate airtime
- Prohibit pension holidays.
- Prohibit employer pick-up of employee contributions
- Prohibit retroactive pension increases
- Prohibit spiking (3 year final comp)
- Prohibit spiking (compensation means regular rate of pay)
- Prohibits payment of benefits to those with felony convictions

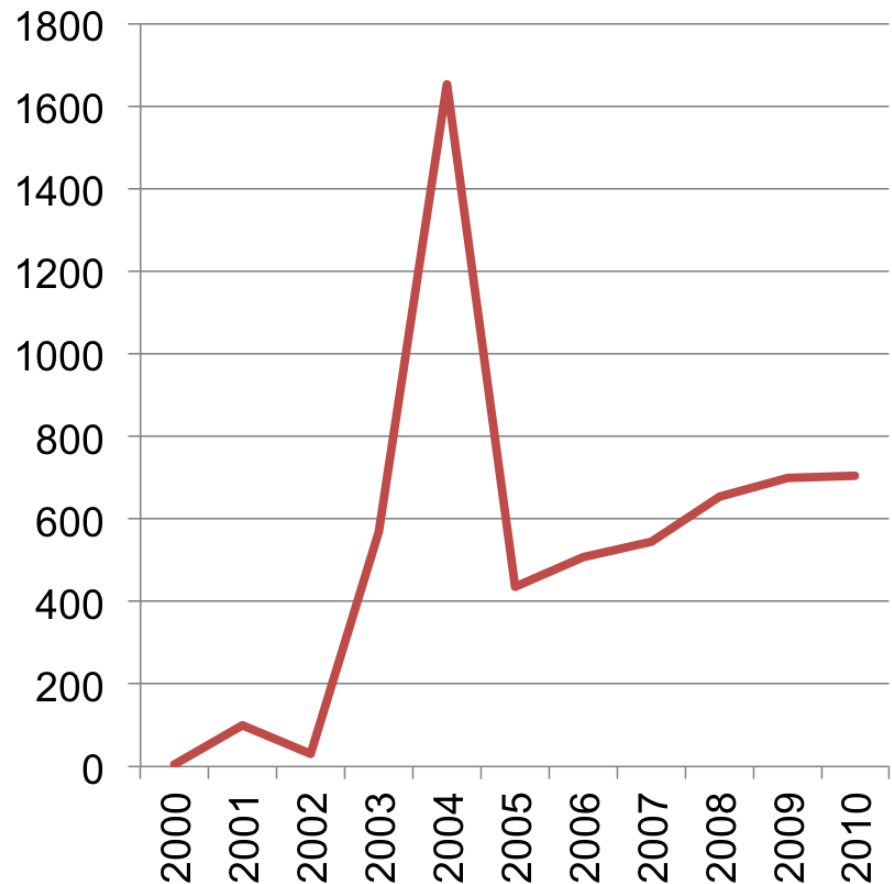
Governor's Proposals Under Development

- Impose pension benefit cap
- Improve retirement board governance
- Limit post-retirement public employment
- Hybrid option
- Address CalSTRS unfunded liability

Air time

- Began in 2000 under IRS rules
- Costs equal present value of increased benefit fully paid by member.
- Average purchased is 3 yrs. at \$55,000
- Average age 56
- Not available in private sector pensions

**Air time Purchases
(2000 – 2010)**



Anti-Spiking Actions

- Gov. Schwarzenegger vetoes anti-spiking bill in 2010.
- CalSTRS staff presents “as is” anti-spiking measures to Board in February 2011.
- CalSTRS staff presents process improvements to Board in April 2011 – some could be done administratively, some require legislation.
- Legislature introduces new anti-spiking bills in 2011.

Highest Average Salary

- CalSTRS uses a 3-yr highest average salary unless you have 25 years of service in which case it is a 1-yr highest average salary.
- 55% of 2009-10 retirees have a 1 yr. highest average salary.

Constitutionally Guaranteed:
Core benefits for current
members and retirees

Can contributions for current active members of the system be increased by legislation?

No, the Education Code sets the contribution for members at 8% and are therefore a component of the member's vested rights (contract).

This is not true for CalPERS members however.

Can the core benefits (basic retirement benefits, retirement age, income limits, disability and survivor benefits) be altered for current active and inactive members?

NO!

These are all elements of the employees' vested rights (contract) protected by the state and federal constitutions.

Can the improvement factor (annual 2% adjustment) be eliminated for current retirees?

Yes, the Education Code provides that “the Legislature reserves the right to adjust the amount of the improvement factor up or down as economic conditions dictate.”

But what would happened to the SBMA fund?

Economy on the rebound

- CalSTRS assets of \$154 billion
- 12.7 percent gain during calendar year 2010.
- Fund up nearly 22% YTD.

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KNOW YOUR BENEFITS

What Sets CalSTRS Apart

CalSTRS differs from other pensions in three significant ways. Be sure you know.

[Read more](#)

Strengthen Your Retirement

Add to your retirement benefit by increasing one or more of the elements in the retirement benefit formula.

[Read more](#)

CalSTRS Members Speak

CURRENT NEWS

CalSTRS Leaders Share Ideas on Improving the State

CalSTRS Board Chair Jerilyn Harris was a panelist at the Milken Institute's 2010 State of the State Conference on October 19 in Southern California. Harris, a retired science teacher, took part in a panel discussion called *Public Pensions: How to Protect Workers and Taxpayers*.

[Read more](#)

BLOG ENTRY

Pension Changes in State Budget Do Not Apply to CalSTRS

CALSTRS POLL

How well do you understand the retirement benefits provided by CalSTRS?

I'm very clear on my retirement benefits
4% (1 vote)

Satisfied, but interested in learning more
39% (11 votes)

Neutral
0% (0 votes)

Dissatisfied and need to

ASK JACK: MEMBER QUESTIONS

Can the Governor and Legislature change the CalSTRS plan before I retire?

Oct. 12, 2010

Based on the recent valuation, how many years worth of money does CalSTRS have to pay benefits?

Sep. 23, 2010

I've read horror stories about unethical actions by boards governing other pension plans. Is your house clean?

Sep. 10, 2010

JOIN THE CONVERSATION

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