

Q & A about Pensions

What caused the pension crisis we are hearing so much about?

The economic collapse in 2008 devastated all investment plans, including 401Ks and public pensions. Most of the increased employer costs to CalPERS are attributable to the market collapse. Yet public pension plans have been viable for more than 70 years, and losses will be recovered as the economy improves. In fact, pension fund asset values have been growing since March 2009.

Aren't public pensions the root cause of our state/county/local budget problems?

No. Pension obligations are a small part of state budgets. Employer pension contributions averaged 2.5% of state and local government spending over the past 10 years. (*U.S. Census Bureau*). That means there's another 97.5% of government spending we need to be looking at for inefficiencies and savings.

Are California's pension systems in danger of collapsing?

According to the Pew Center's report, California's pensions are better funded than most states, at 87%, well above the danger line of 60% and even the agreed upon standard of a healthy fund – 80% or higher.

Aren't all public workers retiring with bloated pensions?

The media is saturated with stories about six-figure pensions. The fact is that seven out of 10 public employees receive retirement income of less than \$2,500 a month, and most public employees don't receive Social Security or retirement health care benefits.

A survey by the National Institute of Retirement Security found that the average pension in California was \$2,008 per month, or \$24,097 per year.

Why should taxpayers pay for public workers' pensions?

Taxpayers pay only a fraction of the tab for public employee pensions. Only 27 cents of every pension dollar paid to public sector retirees comes from state and local government contributions. The rest comes from employee contributions and investment earnings. (Sources: U.S. Census Bureau, Public Fund Survey, and Callan Associates)



Aren't public workers overpaid already?

Despite current rhetoric, THREE independent studies released last year found that state and local government employees are paid *less* in total compensation than their private sector counterparts when comparing similar work and with factors like education, experience, and age considered.

Why shouldn't public workers have the same plan as most in the private sector do: a defined contribution plan like 401Ks?

401(K)-style private accounts are no substitute for defined benefit pensions and Social Security. Defined benefit plans work for taxpayers: they provide the same level of retirement benefits at about half the cost of defined contribution plan. [The National Institute on Retirement Security estimates that defined benefit plans produce 46 percent savings for taxpayers.] Defined benefit plans work for participants: their pooling of risk and longer investment horizon provides protection.

Do the current pension systems need reforms?

Yes, we support reforms to make the systems strong and sustainable. The starting point for any reform effort should be to end the abuses that are found at the top of the pension scale: double-dipping, spiking, and over-the-top managerial pensions. We also support requiring employer agencies to contribute every year, regardless of funded status.

Are taxpayers going to have to bail out public pension funds?

While every investor was affected by the 2008 financial market disaster, state and local retirement systems have a strong track record in managing their assets and a much greater time period to recover than do other retirement plans. Pension fund asset values have been growing since March 2009, and none have sought a federal bailout, like Wall Street banks. CalPERS, whose pension fund assets sank from \$237 billion to \$160 billion, has in less than two years almost fully recovered from those losses and sits at \$234 billion today.

Why should we have a secure retirement system?

After a lifetime of hard work, everyone deserves a secure retirement. Instead of talking about how to take retirement security away from those who have it, we should be trying to make sure all working people can retire with dignity and security.