THE STATE OF CALIFORNIA

The plans:

California has two large state-administered pension systems, the University of California Retirement System, three small state-administered systems, and many locally-administered systems. The state also maintains one retiree health plan for state government employees. For this analysis, we focus primarily on the two large state-administered pension systems – the California Public Employee Retirement System (CALPERS) and the California State Teachers' Retirement System (CALSTRS) – which together make up nearly 75 percent of active public plan membership in the state.

The impact of the crisis:

As a result of the economic crisis, the payments required to amortize unfunded liabilities increased for both CALSTRS and CALPERS. For CALSTRS, these payments more than tripled during the crisis, jumping from 4 percent to 15 percent of payrolls. CALSTRS' statutory contribution was consistently well below the annual required contribution (ARC) over the period, exacerbating the impact of the crisis on plan finances. By comparison, the jump in the payments for CALPERS, which fully pays the ARC, was much smaller. It increased from 5 percent to 6 percent of payroll. For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 5.5 percent to 8.2 percent.

The impact of pension plan reforms:

Both systems responded to their increased costs by reducing benefits for new hires. The reductions included lowering the age-related benefit factor, increasing the age for normal retirement, and lengthening the final average salary period. Also, both systems increased employee contributions for new hires. For current employees, contributions are set as a fixed percent of payroll which covers about 40 percent of the total normal cost. Going forward, employee contributions for new hires will be set as 50 percent of the total normal cost.

Benefit reductions for new hires are projected to gradually reduce the employers' contributions to the normal cost by 2046, at which point all active employees will be covered under the new benefit structure. If employers pay the full ARC and assumed returns materialize, their unfunded liability payments will also decline. Taking both elements into account, the share of state and local budgets devoted to pensions is projected to drop from 8.2 percent today to 5.7 percent by 2046. Overall, pension reforms were commensurate with the challenges caused by the crisis and are projected to return total costs near pre-crisis levels by 2046.

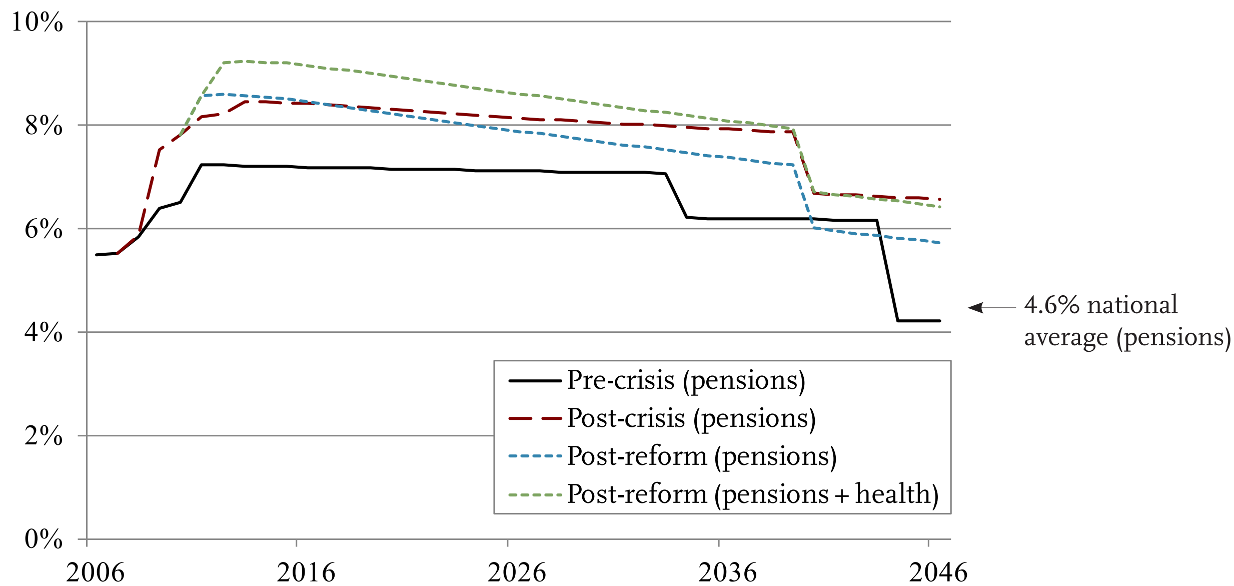
Total state costs:

In California, the state government also provides health benefits, which amount to about 0.6 percent of state and local budgets. When retiree health and pension costs are combined, California's total retirement benefit costs as a percent of state and local budgets equaled 6.1 percent prior to the crisis, increased to 8.8 percent during the crisis, and are projected to drop to 6.4 percent in 2046 after the pension reforms take full effect.

PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

CALIFORNIA: TOTAL PENSION AND RETIREE HEALTH COSTS

Figure 1. Employer Pension and Retiree Health Costs as Percent of Budget: Pre-Crisis, Post-Crisis, and Post-Reform



Note: Budget = general own source revenues of all California state/local governments. Retiree health costs assumed pay-as-you-go.

Table 1. Employer Pension and Retiree Health Costs as Percent of Budget, by Plan

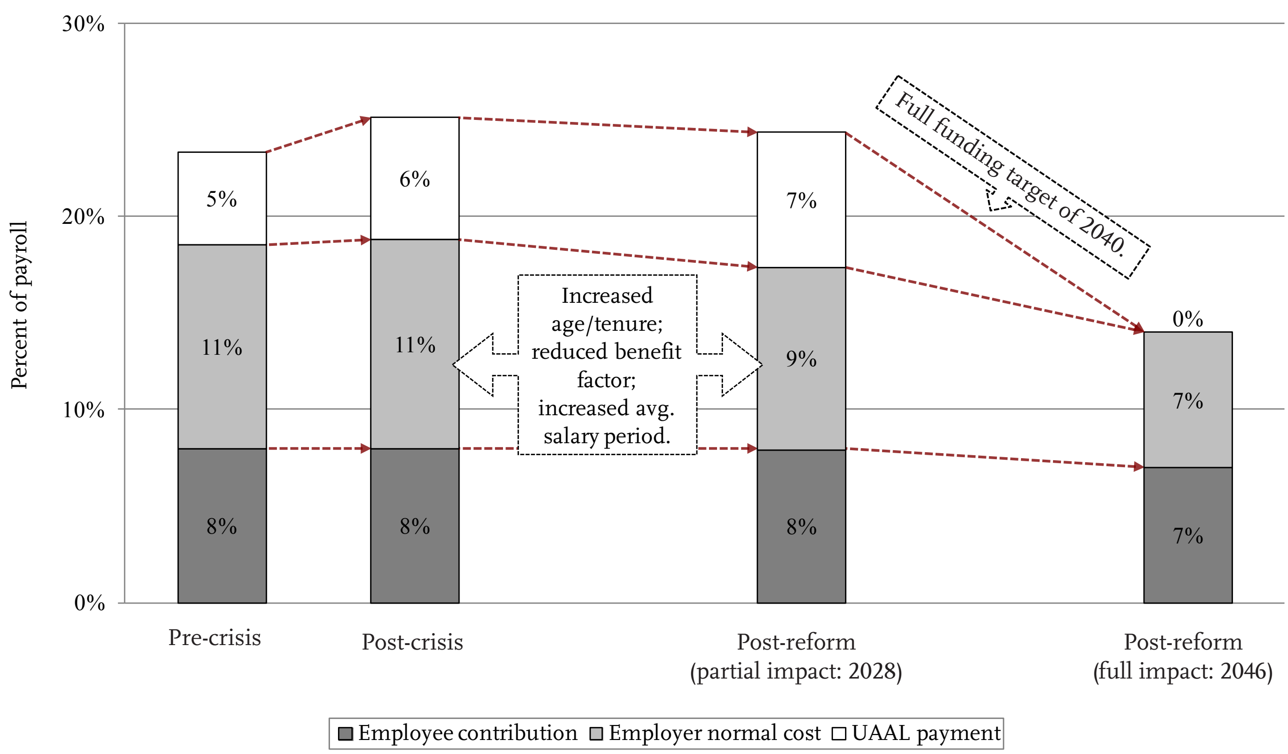
Plan	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Total pensions	5.5 %	8.2 %	7.8 %	5.7 %
California PERF[a]	2.4	3.1	2.8	1.3
California STRS	1.5	2.2	2.1	1.5
Other pension plans[b]	1.6	2.9	2.9	2.9
Total retiree health	0.6	0.6	0.7	0.7
California retiree health	0.6	0.6	0.7	0.7
Total	6.1	8.8	8.5	6.4

[a] California PERF represents more than 95 percent of CalPERS's total assets and 90 percent of CalPERS's total membership.
[b] Includes four state-administered plans to cover University of California employees, judges, legislators, and volunteer firefighters.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems.*

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT FUND (PERF)

Figure 2. Pension Costs as Percent of Payroll: Pre-Crisis, Post-Crisis, and Post-Reform



KEY FACTS

Structure of retirement system

- ☑ Social Security coverage
- ☑ Defined benefit
- ☐ Defined contribution/hybrid

Funding method and history

- ☐ Set by statute
- ☑ Actuarially determined

Has always paid 100 percent of its GASB required ARC.

Plan design changes

- ☐ Cut COLA
- ☐ Increased employee contribution
- ☑ Increased age/tenure eligibility: new hires only
- ☑ Increased average salary period: new hires only
- ☑ Reduced benefit factor: new hires only
- ☐ None

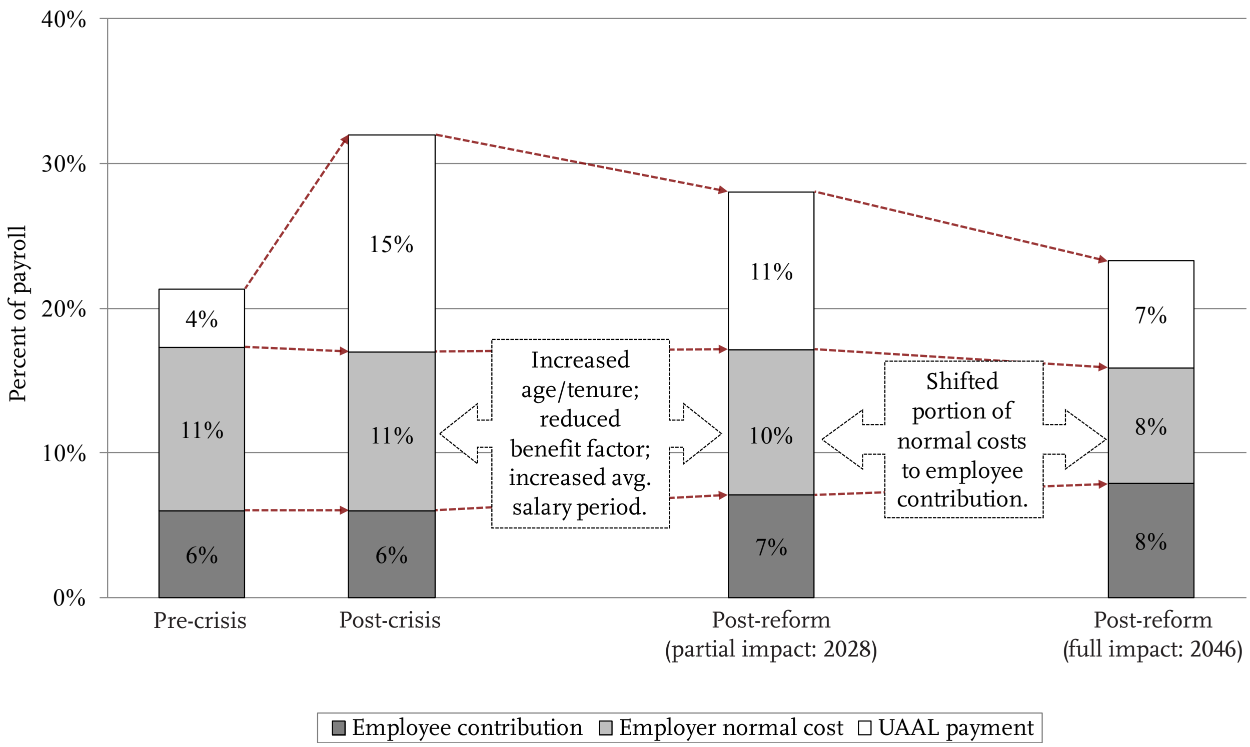
Table 2. Pension Finances and Actuarial Assumptions

Item	Pre-crisis	Post-crisis	Post-reform 2028	Post-reform 2046
Plan finances				
Funded ratio	87.2 %	83.4 %	–	–
Employer ARC rate	15.3	17.2	15.7	7.9
Percent of ARC paid	100.0	100.0	100	100
Assumptions				
Discount rate	7.75	7.50	7.50	7.50
Payroll growth	3.25	3.25	3.25	3.25
Amortization period	27 yrs.	29 yrs.	12 yrs.	0 yrs.

Sources: Actuarial valuations and CRR calculations.

CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM (CALSTRS)

Figure 3. Pension Costs as Percent of Payroll: Pre-Crisis, Post-Crisis, and Post-Reform



KEY FACTS

Structure of retirement system

- ☐ Social Security coverage
- ☑ Defined benefit
- ☐ Defined contribution/hybrid

Funding method and history

- ☑ Set by statute
- ☐ Actuarially determined

Pre-crisis, averaged 82 percent of GASB-required ARC. Post-crisis, the rate has averaged 58 percent.

Plan design changes

- ☐ Cut COLA
- ☑ Increased employee contribution: new hires only
- ☑ Increased age/tenure eligibility: new hires only
- ☑ Increased average salary period: new hires only
- ☑ Reduced benefit factor: new hires only
- ☐ None

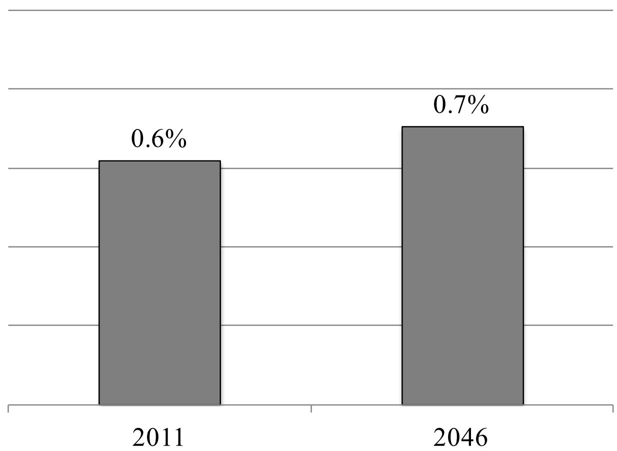
Table 3. Pension Finances and Actuarial Assumptions

Item	Pre-crisis	Post-crisis	Post-reform 2028	Post-reform 2046
Plan finances				
Funded ratio	88.8 %	69.1 %	–	–
Employer ARC rate	15.3	26.3	22.3	17.9
Percent of ARC paid	67.0	47.0	100	100
Assumptions				
Discount rate	8.0	7.5	7.5	7.5
Payroll growth	4.25	3.75	3.75	3.75
Amortization period	30 yrs.	30 yrs.	30 yrs.	30 yrs.

Sources: Actuarial valuations and CRR calculations.

STATE OF CALIFORNIA RETIREE HEALTH BENEFITS PROGRAM

Retiree Health as Percent of Budget



Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

Average Annual Benefit

Source: CRR calculations from plan actuarial valuations.

Retiree health funding and costs

- Funding method: Pay-as-you-go. However, the program plans to prefund retiree health benefit obligations starting in 2012.
- Medical inflation rate: 9 percent, drops to 4.5 percent by 2020.
- Employer contribution: 0.5 percent of compensation in 2010 and have agreed to raise employee and employer contributions to 4 percent of compensation in 2013. Updated annually.

Benefits and membership

- Benefit eligibility: Any member who retires within 120 days of separation from employment and receives a monthly CalPERS pension benefit.
- Benefits for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Active employees: 259,440
- Beneficiaries: 152,734
- Most recent actuarial valuation: 6/30/11