

The Cost of CalPERS – Going Up!

The California Public Employees’ Retirement System (CalPERS) administers the retirement plan for state employees and negotiates health care coverage with providers. It is the largest public pension fund in the U.S. Its membership includes more than 3,000 public agencies with 1.7 million members.

CalPERS recently reviewed its financial situation and actuarial assumptions for the future. Their conclusion was that state and local agencies are going to have to contribute more money to ensure that CalPERS will have sufficient funds in the future to pay the promised retirement benefits to its members and dependents. While costs will increase, this ensures the system’s financial stability in the future.

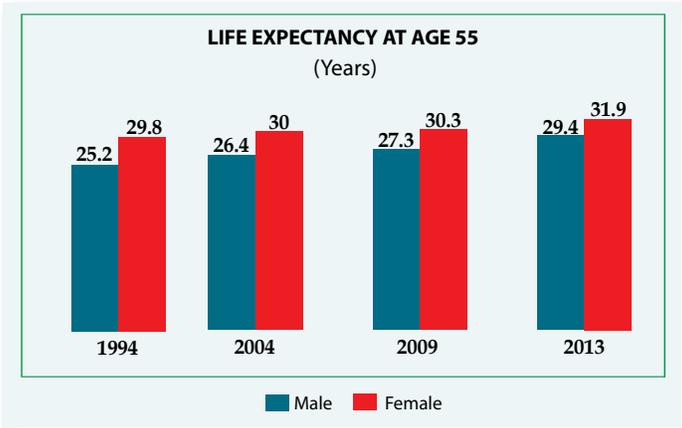
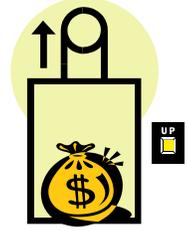
Why have the costs increased?

Some of the relevant factors remain unchanged. CalPERS assumes an earning rate on its investments of 7.5% per year, a figure which its investment returns have exceeded over the past 20 years. Their assumed inflation rate of 2.75% may be high and their assumption regarding increased salaries of 3% per year and annual Merit Salary Adjustment (MSA) costs at 0.5% are conservative over the long haul.

So what caused the increased cost of the system? One factor is the actual earnings during the recession. While CalPERS’ portfolio totals \$277 billion, an all-time high, the lost income

during the recession left a hole that they are working to fill.

However, **the main reason** for the increased cost **is increased life expectancy** of active and retired employees. As shown on the accompanying chart, life expectancy for women at age 55 has remained fairly constant (at 30 years after retirement) for the past two decades. The latest projections show an increase to 32 years.



Similarly, while life expectancy of men has gradually increased, the latest figures show a jump of more than two years (to 29.4) since 2009.

Thus, it is projected that both men and women will live longer during their retirement years, which means the system will be paying out more benefits for a longer period of time. This increase in life expectancy also increases what’s known as the unfunded liability of the plan from \$45 billion to \$54 billion for

state employees, triggering the need to increase contributions into the system.

This will have an immediate impact on **the state’s contribution**. Currently, the state pays CalPERS \$3.8 billion per year as the employer’s share, equivalent to 23.4% of payroll. Over the next three years, that will increase by \$1.2 billion, or 32%, to a level equivalent to 28.2% of employee pay.

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PECG Legislative Day -- and Evening!

Each year, PECG leaders from around the State come to Sacramento for a day to meet with their legislators to make or renew friendships. On February 12, meetings were held with 87 legislators and their key staff in their Capitol offices to discuss topics contained in the enclosed "PECG Public Policy Goals 2014."

In the evening, more than two dozen legislators and dozens of staff, administration officials, and members of Boards and Commissions joined PECG leaders and members at a Legislative Reception (co-sponsored by CAPS, representing state scientists) in a more informal, relaxed atmosphere under the Capitol Rotunda.



Reception attendees included (l-r) California Government Operations Agency Secretary **Marybel Batjer**, PECG President **Cathrina Barros** and **David Lanier**, Secretary of the Labor and Workforce Development Agency.



Assembly Member **Mark Stone** (left) talks with Bay Area Section Director **Chris Urkofsky**.



Enjoying the evening are (l-r) Insurance Commissioner **Dave Jones**, CalPERS Board member **JJ Jelincic** and PECG President **Cathrina Barros**.



Assembly Member **Paul Fong** (center) is flanked by PECG Treasurer **Margaret Shaeffer** and PECG Legislative Director **Ted Toppin**.



San Luis Obispo Section Director **Joseph Arnold** and Senator **Hannah-Beth Jackson** share a laugh.



Los Angeles Section President **Bahar Bakhtar** chats with Assembly Member **Jimmy Gomez**.

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How does this impact PEGG members? While the impact on local agencies and state safety employees may be substantial, PEGG members, who are in the large miscellaneous category, will not initially see any change in their monthly contribution to CalPERS. Employee contributions have been a portion of what is called the normal cost of the CalPERS program, which is not directly affected by the unfunded liability. It is anticipated the normal cost will increase by less than 1% of payroll. Whether the state will seek to require employees to pay a portion of that increase could be a factor in upcoming contract negotiations in 2015.

There will continue to be those who will seek legislation, ballot measures, or other procedures to attack the pensions and other benefits of retired public employees. **The good news** is that retirees (like the population in general) are living longer. CalPERS has adjusted its actuarial assumptions and required contributions to insure that the system is financially sound and the funding will be there to provide the benefits for current and future retired state employees.

PECG Thanks Rick Land



Retiring Caltrans Chief Deputy Director **Rick Land** was the guest speaker at the PEGG Board of Directors Meeting dinner on March 7.



PECG President **Cathrina Barros** presented Rick with a plaque of appreciation from the PEGG Board of Directors thanking him "for his many years of dedicated service to the people of California."



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