Stanford researchers find that pension funds for California state workers are still in peril - action needed now

December 15 2011, By Dan Stober

Almost two years ago, a Stanford study stirred up discussion statewide with the prediction that the pension funds of California's state workers were headed for a train wreck. The retirement system would eventually not have enough money to pay all that it owes to its retirees.

Since then, the picture has not improved, Joe Nation, a public policy expert at the Stanford Institute for Economic Policy Research, said Tuesday as he released a report on his latest research. "Perhaps surprisingly, the situation is even worse." The unfunded liabilities of the pension funds have increased by 15 to 20 percent.

All this could have a direct effect on state services as money is diverted to pay the pensioners. "That increased spending on pensions is virtually certain to continue to crowd out non-pension spending, including education and social services," the report warned.

The big state pension funds at the center of the huge financial problem are the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), and the University of California Retirement Plan (UCRP).

The combined unfunded liability for the three funds is $290.6 billion, presuming that the funds earn a 6.2 percent return from investments. That figure represents an unfunded amount per California household of nearly $24,000, Nation said.

Even if the retirement funds yield 7.75 percent, the situation would remain dangerous, he said.

The crisis was driven by pension funds that understated the costs of pension payouts and over-estimated the amount of money the funds would have in future years, Nation said. The strategy was, "If you can push costs off to the future, do it."

Board members of pension funds were typically not required to have any technical expertise. Contribution rates for employees were set too low – zero for some.

Any solution, Nation said, will have to involve current state workers: "There's just no way to solve this problem if that's not there." The cost to delay a solution for another year is $1.247 billion, or $3.4 million each day. The hope, he said, is that policymakers will step up and actually address the problem.

More information on the pension crisis will be released this week on the SIEPR website.

Provided by Stanford University

Citation: Stanford researchers find that pension funds for California state workers are still in peril - action needed now (2011, December 15) retrieved 17 May 2024 from https://phys.org/news/2011-12-stanford-pension-funds-california-state.html