California’s Local Pension Systems Over $130 Billion in Debt

Stanford Study Shows Independent Pension Systems Far More in Debt than State Systems

Stanford, CA (February 21, 2012). The Stanford Institute for Economic Policy Research (SIEPR) and California Common Sense (CACS) released a report today documenting public pension challenges among California’s independent, or non-CalPERS pension systems. The report is authored by California Common Sense (www.cacs.org) researcher and Stanford junior Evan Storms and Stanford Professor of the Practice of Public Policy Joe Nation.

The study covers the top 24 independent systems across California, ranging from large systems such as Los Angeles County Employees Retirement Association (LACERA) and San Francisco Employees’ Retirement System (SFERS) to smaller systems such as the city of Fresno systems and the Stanislaus County Employees’ Retirement Association (StanCERA). These 24 systems account for more than 99 percent of independent system assets.

Among the findings from the report:

- The June 2011 funded ratio for the aggregated 24 systems is 53.6 percent, based on an assumed rate of return, or discount rate, of 5%. This is higher than the 45.1 percent estimated under the same assumptions for CalPERS.
- The City of Fresno’s two systems have an aggregate funded ratio of 78.5 percent, while the Kern County system is only 41.5 percent funded. None of the systems is at or above 80 percent funded, which is the conventional benchmark for the minimum funded ratio.
- The unfunded liability for the aggregated 24 systems is $135.7 billion.
- Benefit levels vary significantly. The average annual pension benefit in 2009-2010 for miscellaneous members was $34,461; for safety members, it was $67,718. This includes all beneficiaries, regardless of the number of years of service.
- For retired miscellaneous employees, the highest annual average benefit in 2009-2010 was $46,211 in Los Angeles City, and the lowest is $24,179 in Stanislaus County.
- A majority of independent systems base final average salary on the last one year of work, while a minority base it on the final three years. All systems contain some form of cost of living adjustment.
- Average benefits for retired safety employees range from a low of $48,732 in Fresno County to $90,612 in the City of San Jose.
- The aggregate reported 2011-2012 employer contribution rate is 23.8 percent. About one-half of this rate is due to contributions for unfunded liabilities.
- Aggregated pension costs were 4.1 percent of aggregate municipal spending in 1999; by 2011, that figure had more than doubled. The highest share is 17.7 percent in San Mateo County and the lowest is 6.0 percent in Los Angeles County.
• Between 1999 and 2010, pension spending grew at 11.4 percent per year, more than the rate of growth for any other expenditure category.
• If the investment rate of return is 6.2 percent annually, which is a typical rate of return for private pension systems, total pension costs would total 17.4 percent of all municipal expenditures by 2012.
• The 24 systems discount their liabilities at an expected rate of return, typically 7.75 percent. This practice is at odds with that used in the private sector, and it is also at odds with standard practice in economics, which holds that pension liabilities are full-recourse obligations that must be paid without regard to the performance of pension fund investments. As such, each of the systems substantially understates liabilities and overstates funded ratios.

The study is available on the SIEPR website at siepr.stanford.edu.

Visit www.cacs.org/transparency_pensions.php to see a suite of interactive data visualizations created by California Common Sense that illustrate the findings of this report and the funding status of pension systems throughout California under a range of assumptions.

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SIEPR is a non-partisan economic policy research organization and does not take policy positions. The recommendations in this report are those of the authors. SIEPR scholars conduct studies on important economic policy issues in the United States and other countries. SIEPR’s goal is to inform and advise policy makers and the public and to guide their decisions with sound policy analysis. In the course of their research, SIEPR faculty train, educate, and support Ph.D. students as future economic policy analysts.

California Common Sense (www.cacs.org) is a non-profit founded by Stanford students and alumni to open government finances to the public, engage Californians in data-driven discourse, and catalyze a grassroots movement for better governance.

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