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California cuts \$170M from pension fund payment

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SACRAMENTO -- California's largest public employee pension fund on Wednesday cut \$170 million from the amount the state must pay in the next year toward retirement benefits, mostly because new union contracts shift some of the costs to state workers.

The new labor pacts have employees contribute more to their pensions. The cost savings from that and slower-than-expected salary growth would have been larger, but the California Public Employees' Retirement System is still absorbing the effects of billions of dollars in investment losses from the recession.

The change would trim the state's contribution from \$3.7 billion for the budget year that ends June 30 to \$3.5 billion for the 2011-12 fiscal year.

That's still more than the state was paying before the market fell; CalPERS has regained much of the share value in lost in 2008, but those gains will be folded into financial models over several years, just as the losses were.

The reduction reflects new state worker contracts that boosted the amount union workers pay by anywhere from 2 percent to 5 percent of their salary. Most of the state's 21 labor contracts were renegotiated last year, with Gov. Jerry Brown signing the last six contracts on Monday.

The state's payment this year was reduced by about \$300 million from the previous year.

"State employees are expected to contribute \$1.3 billion next year to help fund their retirement benefits -- more than one-third

of the state's contribution," said George Diehr, chair of the CalPERS benefits and program administration committee, which recommended the changes Tuesday.

The change comes amid debate about public employee pensions in California and across the nation.

Critics say the pension funds guarantee a level of benefits to retirees that's richer than most workers can expect. But they say the pensions aren't adequately funded and potentially leave taxpayers on the hook for shortfalls.

Backers say they provide modest retirement security for most government retirees, using money they earned throughout their employment.

Brown has proposed some pension changes to prevent abuses and cut costs as he tries to close a \$10.8 billion budget deficit, but Republican lawmakers are pushing for much more sweeping changes, such as freezing benefits and shifting to a hybrid retirement system that works more like a 401(k) investment account.

CalPERS has more than \$235 billion in assets, making it the largest U.S. public pension fund. It oversees pension benefits for more than 1.6 million state and local government workers and retirees, and their families.



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