



California Public Employees' Retirement System
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Top Five Facts You Should Know About CalPERS and Public Pensions

BACKGROUND

CalPERS recognizes that pensions and pension costs are a source of fiscal concern for the State and local government budgets. In the debate and discussion over pensions, it's important to make decisions based on facts. These are the top five facts you should know:

FACT #1 – PENSIONS ARE A SHARED RESPONSIBILITY

- Public pensions are funded through three sources – investment income, member contributions, and employer contributions
- For every dollar paid in pension benefits over the last 20 years the vast majority came from investments:
 - Investment earnings 64 cents
 - Employer contributions 21 cents
 - Member contributions 15 cents
- 78 percent of CalPERS members earn a pension of \$36,000 annually or less

FACT #2 – STATUS OF PORTFOLIO AND FUNDING

- The fund earned a 12.5 percent return on investments for the one-year period ended December 31, 2010
- CalPERS investment portfolio has gained back \$70 billion since the financial crisis
- CalPERS was 61 percent funded as of June 30, 2009
- Today's estimate based on market value of assets is nearing 70 percent funded
- Experts agree that a funded status of 80 percent for a pension fund is healthy

FACT #3 – PENSION REFORM IS HAPPENING

- State employees are paying 2-5 percent more under new bargained agreements, saving the general fund \$300 million
- Significant rollback of pension formulas for all new State hires that includes pensions being calculated using three-year final average compensation.
- 130 cities, counties and districts have reduced pensions for new hires, increased member contributions, or are in the process of doing one or both
- CalPERS has responded to requests and prepared approximately 300 valuation estimates for reducing pensions for local governments
- CalPERS pension costs represented 1.8 percent of the State's \$87.2 billion general fund budget in FY 09-10 compared with the cost of debt service which amounted to 5.3 percent of the general fund budget

FACT #4 – PENSIONS ARE A VESTED RIGHT

- Under the case law interpreting California and U.S. constitutions, public employee retirement benefits are a vested contract right
- Bargained at the State and local level. Local governments can contract from a listing of optional benefits set through legislation
- CalPERS and its Board are fiduciaries and the assets are held in public trust

FACT #5 – CALPERS IS RESPONDING TO THE CHALLENGES

- Advanced laws around placement agents and initiated an independent review of placement agent activity
- Established an enterprise risk management platform, new Chief Risk Officer position and enterprise risk management function and launched a 24-7 Ethics Helpline to identify fraud and abuse
- Established a new investment asset allocation model based around risk management
- Banned gifts to staff and now require contractor and vendor disclosure of business relationships and gifts
- Restructuring the organization to enhance customer service, innovation and policy and planning