



California Public Employees' Retirement System
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Key Observations of the Little Hoover Commission Report on Public Pensions

REPORT IGNORES THE RECENT INVESTMENT RECOVERY OF PENSION ASSETS

- CalPERS investment portfolio has gained back \$70 billion since the financial crisis.
- Current assets stand at \$230 billion (as of February 28).
- The fund earned a 13.3 percent return on investments last fiscal year, and a 7.9 percent annual return for the last 20 years.

RECOMMENDATION TO ALTER CURRENT PENSIONS IS CONTRARY TO THE CONSTITUTION

- The Little Hoover Commission Report correctly notes that California courts have recognized that public pensions are essentially contracts between the employers and their employees.
- For over 60 years, as the report acknowledges, the courts in this state have recognized that these contracts are protected from impairment by the California and United States constitutions.

THE STATEMENT "PENSION COSTS WILL CRUSH GOVERNMENT" IS A GROSS EXAGGERATION

- CalPERS pension costs represented 1.8 percent of the State's \$87.2 billion general fund budget in FY 2009-10. In comparison, the cost of debt service amounted to 5.3 percent of the general fund budget in the same year
- For every pension dollar paid over the last 20 years, 64 cents comes from investments, 21 cents from employers, and 15 cents from members.

REPORT IGNORES THAT PENSION REFORM IS ALREADY HAPPENING AND FAILS TO ACCOUNT FOR COST SAVINGS

- State employees are paying 2-5 percent more under new bargained agreements, saving the general fund \$300 million annually.
- Significant rollback of pension formulas for all new State hires and pensions are now being calculated using three-year final average compensation.

- More than 150 cities, counties and districts have reduced pensions for new hires, increased member contributions, or are in the process of doing one or both.
- Some 300 valuation estimates for reducing pensions for local governments have been processed.

PRESCRIBING AN 80% FUNDED STATUS AS THE LOW THRESHOLD OF A STABLE SYSTEM MISSES THE POINT

- A better measure of a pension fund's health is the steady progress toward a higher funded status level, not a snapshot in time.
- Understanding how a plan reached a funded level is more important than the absolute level.
- Nevertheless, Fitch Rating Agency recently stated that a 70 percent funded status or above is adequate and under 60 percent is weak.
- The report fails to show CalPERS funded status is rising; current estimate is nearing 70 percent funded based on market value of assets.