

PUBLIC PENSIONS— THE DEBATE CONTINUES

Treasurer Bill Lockyer Speaks About Public Pensions



The discussion of public pensions has taken a bit of a back seat in recent days. An on-time budget has provided for a mostly quiet summer in Sacramento, and the federal credit downgrade has steered attention to the financial markets. Nevertheless, don't expect pension reform to stay in the background. As the 2012 campaign cycle begins to heat up, look for the debate to be front and center here in California. With it will come misleading information and political agendas masquerading as academic studies and thoughtful analysis.

Case in point: the recommendation to lower public pension funds' discount rate from the expected return on investments to a risk-free rate tied to US Treasuries. That's somewhere in the low 4% range. The proposed rate is unreasonable and would inflict unjustified harm. By unnecessarily deflating expected returns, it would require government employers' contributions to rise substantially. And that would further strain the budget and hurt taxpayers.

Both CalPERS and CalSTRS currently use a 7.75% expected rate of return. That is not an arbitrary figure pulled out of a hat. It's a well thought out target provided by investment professionals after detailed study and

analysis. Given that CalPERS has managed to average an annual return of 8.9% over the last 21 years, I'd say they are doing ok.

Former California State Assemblymember Joe Nation is directing a Stanford Institute for Economic and Policy Research (SIEPR) study to measure the impact of pension costs on state and local government budgets. This is a follow-up study to last year's SIEPR report on pension liabilities, which used an arbitrarily low discount rate to measure California's public pension liabilities. If the current SIEPR study uses the same methodology, it will produce results showing pension costs to be a bigger burden than they actually are.

The recession devastated the portfolios at both CalPERS and CalSTRS. However, both funds have started to recover in the last couple of years. CalSTRS posted gains of 12.2% and 23.1% for the fiscal years ending in 2010 and 2011 respectively, while CalPERS earned 11.6% and 20.7% over the same period.

However, the funds' investment officials do not expect these return rates to continue. In fact, each has lost billions of dollars since July 1 because of the recent turmoil in the stock market. Can you see the roller coaster? The point is that funds' investment strategies should draw a line that cuts through the middle of all the ups and downs. History shows CalPERS and CalSTRS have done a good job of plotting the long view and not reacting wildly to volatility. Reformers would do well to mind that principle.

There are serious problems that must be solved. We must continue to fight corruption in California's public pensions systems and improve transparency. To ensure retirement payouts are fair and sustainable, we must end practices that unfairly inflate compensation.

At a time when our state and local governments are facing unprecedented fiscal challenges and so many Californians are un- or underemployed, it is important for us to think about how some of the \$400 billion in CalPERS and CalSTRS investible assets might be better focused to help build and sustain the state's economy beyond the impact made by paying benefits to members throughout the state.

At my urging, both CalSTRS and CalPERS investment experts are working to identify more good investment opportunities in California that can provide the excellent returns we need and also meet the long-term economic objectives of the state, produce lasting employment opportunities, vital state and local economic growth, and the sustainable revenues we need to provide public services.

Ensuring that our public pension funds are efficient, reliable and built to succeed over the long-haul in keeping the promise of a secure and adequate retirement after a career in public service is in the best interest of all Californians. Much work remains, and it will take a sincere and thoughtful effort by all to finish the job. Let's make sure their efforts are guided by genuine evidence and not mythology. ^[2]



Bill Lockyer was elected on November 7, 2006 as California's 32nd State Treasurer and re-elected on November 2, 2010. The Treasurer is the State's banker. It's a bank that processes trillions of dollars in transactions every year.

The Treasurer sells California's bonds, invests its money and manages its cash. In addition, the Treasurer manages financing authorities that help provide good-paying jobs, better schools, improved transportation, quality health care, more affordable housing and a cleaner environment. And the Treasurer handles those duties while sitting on the governing boards of the nation's two largest public pension funds – the California Public Employees' Retirement System and the California State Teachers' Retirement System.

Lockyer graduated from the University of California, Berkeley. Lockyer earned his law degree from McGeorge School of Law in Sacramento while serving in the State Senate. He also received a teaching credential from California State University, Hayward. He is married to Nadia Maria Lockyer and has a daughter and a son.

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