Breakout Session 1: Pension

National debt is 21 trillion dollars as of 1/17/18

- -$61,000 per person
    - -doesn't include federal & state & local debt
    - -pension funding issue

Defined benefit

- -guarantee what they will receive after retirement (also spouse)
- -designed to be prefunded

Normal cost:

-How much does it cost to provide employee (shared by employee & employer) w/ benefit, amount of paycheck deposited into retirement fund

Unfunded Liability:

- -Portion of accrued, relies on employer/tax payer

Employer contribution:

- -ADEC or ARC, which is employer's share of normal cost + amortized cost

Properly funded plan

- -contributions + invest returns= benefit & expenditure
- -but plans don't reach return, liquidating for assets

Annual retirement benefit= benefit multiplier * years of service * final average salary

- -risk more on employee than employers
- -all but 3 states have unfunded pension liabilities
    - -Wisconsin has good program
    - -define benefit plan, share risk w/ employees

All relies on assumptions

- -depends on discount of future liabilities
- -don't know losses deferred today will pile on top of other losses

-forecasts for future returns are significantly lower than past returns

-public pension plans are taking on more risk

- -3x the risk 10 years later to reach same rate of return
    - -investments spread out over categories

-markets have rebounded after recessions, pension funds have not

Causes of pension funding crisis

- -international under funding
- -poor management
- -market condition & the volatility
- -benefit design issues

Pension funding levels

- -CalPERS mountain of debt
- -CalSTRS 2016, 63.7% funded
  - -have different formulas, but still basic pension design, similar issues from state to state

California:

68% funded, since 200 net fiscal position of public pension liabilities has declined

- -assumed rates of adjustment have become less realistic

Pension funds have not changed their assumption to reflect market risk

How do we get down to 3% return rate?

Cost & risk of inaction rising pension expenditures

- -unable to hire new workers
- -won't raise wages
- -new tax & debt proposals
- -service level insolvency

Hope for solving problem?

California Supreme Court

- -accepted CalFire case
- -Brief schedule set, due 9/23

California constitution has no clauses protecting pensions

- -Court protection, not constitutional

Baby boomers not affecting pensions as much as expected

- -since employers are in charge of normal costs, not debt
  - -government needs to contribute some money at a different rate, depending on amount of people