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Pension deficit rising

California taxpayers could bare the burden

[Ryan Orr](#) January 01, 2007

Costs of pension and healthcare obligations promised to California public employees are rising each year. It is a burden that many say is already out of control, and will likely fall in the laps of taxpayers.

The state's pension share went from \$160 million in 2000 to an estimated \$2.6 billion in 2005. In California in 2006 there was about \$5 billion in expenditures taken directly out of operating budgets to help pay for retirement healthcare for public employees, said Steven Frates of the Rose Institute of State and Local Government. "By 2019 we expect that number to reach \$30 billion," he said. "That's more money than the state spends on public safety."

San Bernardino County handles their own retirement program and doesn't offer healthcare benefits for retirees, said San Bernardino Public Information Officer David Wert.

The San Bernardino County Employees' Retirement Association is in relatively good shape. According to SBCERA Communications Officer Danielle Jaramillo their funding status is at 91 percent. That means if they had to pay out all benefits to all retirees right now, they could cover 91 percent of those obligations.

Most county and city governments are operated by the California Public Employees' Retirement System, better known as CalPERS. "There are many more of them under 80 percent funded than at 100 percent," said Frates.

Marsha Fritz is a certified public accountant and worked for Assemblyman Keith Richman, a major advocate of pension reform. "I don't think CalPERS are at all capable of doing what people need," she said. "Their safety plan is 77 percent funded as of two years ago." Any program under 80 percent funded is considered very unhealthy. In the last performance review of CalPERS, which was released in 2004, Victorville's Miscellaneous Pension was 90 percent funded. That is a good number but is a dramatic decrease from 2001 when their pension held a 125 percent funding status. Those actuary losses could have come from salary spikes, death or early retirement, said Fritz. According to the performance review,

Hesperia's pension was 90 percent funded in 2004 and Apple Valley Fire Protection District's pension was an alarming 82 percent funded.

Under a new accounting rule, governments will soon have to publicly disclose their longterm obligations to pay for retirees' health benefits and what it would cost to fund that liability.

"Anything that helps the public to be better informed on their financial obligation is a good thing," said Jon Coupal, president of the Howard Jarvis Tax Payers Association. "I think it could get a lot worse, and these new reports being forced on employers may be the wake up call." Coupal said that it is becoming increasingly clear how dangerous the problem is. "It's a ticking time bomb, the unfunded liability is massive

and could easily bankrupt the state of California,” he said.

Executive director of the Howard Jarvis Taxpayers Association Kris Vosburgh agreed. “It’s going to get a lot worse before it gets better,” he said.

For some governments, it may be too late. San Diego is very close to bankruptcy. Frates said that it as been called the Enron by the bay and, an insurance retirement company with a police department attached.

Some governments are thinking about cutting back retiree benefits to help balance the growing debt. Another solution would be for unions like CalPERS to think about making the transition to contribution based benefits packages, such as 401K. That is what most businesses in the private sector offer.

“A lot of companies are trying to get away from defined benefits packages,” said Tom Canchola of Raymond James Financial Services. “Offering sustained benefits puts the company in financial Jeopardy.” Canchola oversees the benefits package for Desert Community Bank and says they offer a 401K with a generous matching provision.

Until then the debt can only be covered by selling government property, cutting services — which has already begun — and raising taxes.

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