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...CALPERS AND CALSTRS UPDATE

The market downturn has had a dramatic effect on PERS' funding status. While the value of pension assets has plummeted over the past 18 months (from \$250 to \$167 billion) so too has the funded status. PERS staff recently reported that the plan's funded ratio, as of December 31, is 66%. In addition, PERS is also considering changing both its investment portfolio and its assumed rate of return to keep up with changing market conditions. Any decrease in the return rate assumption will also cause a further drop in the funded status of PERS.

Under PERS' asset smoothing method, annual investment gains and losses are spread out over a 15-year period - meaning that employers will be much less impacted by recent investment losses. However, when the funding ratio drops below 80%, employer contributions will be adjusted in order to bring the plan's funded status immediately back up to that 80% level. The current 66% funded ratio means there may be a greater immediate impact on employer rates than anticipated. However, this will depend on contracting agencies' individual funding situations.

As for school districts, PERS does not expect 2009-10 rates to increase, despite a negative 5.1% return for 2007-08, when PERS sets its 2009-10 School Pool rate in May. But employer rates will likely increase for fiscal 2010-11 since PERS is anticipated to have a negative return for the 2008-09 fiscal year. A negative 20% return for the fiscal year ending June 30, 2009 would translate into a 2-3% payroll rate increase.

STRS' funded status has fared no better. Most of the funding status information on the STRS website is at least a year old and still states that STRS is 88% funded. However, that number is based on an asset value of \$162 billion from June 2007. A recent STRS report discloses the total assets of the fund as of February 27, 2009 to be about \$114 billion. Extrapolating from the liability of the fund in 2007, that would put the funded level for STRS around 65 percent (give or take a few points) - very near the status of the PERS fund. Unlike PERS though, STRS does not have the ability to change employer rates at will. The STRS contribution rate is set in statute and any increases would need to be made through the legislature.

...UPDATE ON RICHMAN INITIATIVE

We previously reported in the February issue of the Legislative Alert that former Assemblyman Keith Richman, was gearing up for another attempt to reform and reduce public pension and post-retirement health benefits. His "California Foundation for Fiscal Responsibility" organization is now trying first to work the legislative route to make changes. If not successful on that front, the Foundation plans to attempt to get an initiative on the ballot – likely next year. The Foundation is currently trying to find someone in the Legislature to carry reform legislation but have found no one willing to do so as of yet. The organization is advocating for uniform, lower benefits statewide for all state and local government workers that would be similar to defined benefits for federal workers except that the ages for full retirement would be increased to Social Security age for miscellaneous workers and 55 for safety workers.

...UPDATE ON RETIREMENT-RELATED BILLS

The following bills are the few retirement-related bills we had yet to report in February and March Alerts that have been introduced for the 2009-10 Legislative Session. The bill filing deadline has now closed, but it is important to keep in mind that new language can be amended into previously unrelated bills as the session continues. Most bills are still being heard in their policy committees though the last day for those committees to report bills is May 22. Therefore, we will update the status of all retirement bills in next month's Alert.

AB 8 (Brownly) Education Finance

AB 8 would require the Finance Director and the Legislative Analyst to convene a working group to make findings and recommendations to the Legislature and the Governor on or before December 1, 2010 regarding restructuring California's school finance system.

AB 446 (Niello) PERS Service Credit

PERS members are allowed to purchase up to 5 years of additional retirement service credit. This bill would require PERS to prepare a report on the use of the additional retirement service credits, and to file that report with the Legislature by February 1, 2010.

AB 637 (Hill) Interest on PERS Payments

This bill would require that PERS contributions be made via electronic fund transfers. It would also require PERS to charge interest at the actuarial interest rate on any amount due and unpaid by a contracting agency until payment is received.

AB 1477 (Krekorian) PERS School Member Death Benefit

This bill would increase the death benefit paid to the designated beneficiary of a retired PERS school member to \$6,163 from \$2,000 currently.

...LEGISLATIVE CALENDAR

Following are important dates/deadlines for the rest of the 2009 legislative year:

May 1 – Last day for policy committees to hear and report fiscal bills to fiscal committees.

May 15 – Last day for policy committees to hear and report non-fiscal bills to the floor.

May 22 – Last day for policy committees to meet on bills introduced in their house.

May 29 – Last day for fiscal committees to hear and report bills introduced in their house to floor.

June 5 – Last day for bills to be passed out of their house of origin.

June 15 – Budget must be passed by midnight. (Yeah, right.)

July 10 – Last day for policy committees to meet and report bills.

July 18-August 17 – Summer Recess

August 28 – Last day for fiscal committees to meet and report bills to the floor.

September 11 – Last day for each house to pass bills.

October 11 – Last day for Governor to sign or veto bills.

Feel free to **contact PARS** with any question or requests for further information. Additional news and an archive of past Legislative Alerts is available on the PARS website at www.pars.org.

Thank you,
Maureen Toal
Vice President, Public Affairs
Public Agency Retirement Services (PARS)
mtoal@pars.org
(800) 540-6369 ext. 135

PARS HAS ESTABLISHED TWO INNOVATIVE MULTIPLE-EMPLOYER TRUSTS TO ASSIST PUBLIC AGENCIES WITH PRE-FUNDING THEIR OPEB (POST RETIREMENT HEALTH CARE) OBLIGATIONS UNDER GASB 45. FOR MORE INFORMATION, CONTACT:

MAUREEN TOAL
(800) 540-6369 EXT. 135
MTOAL@PARS.ORG

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