CSBA Pension Reform Task Force Background

In November 2011, the Board of Directors created a Pension Reform Task Force and assigned the following responsibility:

"The Task Force will review the status of certificated and classified employee pension plans, compensation, and additional information regarding labor markets and school personnel. The Task Force will make recommendations to the CSBA Board of Directors on CSBA's policy position on pension reform and related issues by no later than March 1, 2012."

Laura Canciamilla (Director Region 7) served as chair of the Task Force, and the following individuals were members:

Leighton Anderson, Delegate, Region 24 (Whittier Union HSD)
Don Iglesias, Retired Superintendent, San Jose USD
Diana Rodriquez, Delegate, Region 6 (Sacramento City USD)
James Schwerdt, Delegate, Region 2 (Shasta Union HSD)
Cathy Sciortino, Delegate, Region 18 (Corona-Norco USD)

In response to the Task Force's recommendations, the Board of Directors adopted 9 belief statements and 11 policy principles.

Issue Summary

Late in October 2011, Governor Brown issued a 12-point plan for pension reform. Most Capitol observers agree the major elements of the plan are the sharing of pension costs, the establishment of a hybrid pension system that combines defined benefit and defined contribution components, and an increase in the retirement age to 67. The hybrid system and the increased retirement age would apply to new employees.

Unfunded Liability

Currently, the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS – school pool) have unfunded liabilities of approximately $56 billion and $13 billion, respectively. CalPERS has the authority to increase contribution rates and school employers should expect increases to adjust for the unfunded liability from 11.2 percent of payroll in 2012-13 to as much as 18.7 percent of payroll in 2015-16. The actual amount of the increases will be determined by investment returns. If CalPERS investments achieve the target rate of return of 7.75 percent, employer contribution rates would increase slightly to 11.8 percent in 2015-16.

Unlike CalPERS, CalSTRS rates are set statutorily and thus changes require approval of the Governor and the Legislature. The Legislative Analyst estimates that $3.9 billion per year will be required for at least 30 years to pay for the CalSTRS unfunded liability. This scenario assumes CalSTRS investments achieve the target rate of return of 7.50 percent. In the analysis of the Governor's 12-point plan, the Legislative Analyst writes: "Given the state's budget problems, as well as the funding issues facing school and community college districts, it is very unlikely such funding can be identified immediately. The longer that a funding solution waits, however, the more that this $4 billion annual tab will tend to increase."

Governor Brown's 12-point plan would not affect the current unfunded liabilities for CalPERS and CalSTRS; the proposed hybrid pension plan and increase in the retirement age would only affect new employees.

The Task Force agreed that the Board of Directors and the Delegate Assembly should acknowledge the magnitude of the unfunded liabilities for these pension systems and the challenge the State faces in paying for retirement benefits that were guaranteed.