Pension Talking Points

Pensionomics

Resources: www.calstrsbenefits.us www.calstrs.com www.calpers.ca.gov www.calpersresponds.com www.nirsonline.org

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect. Pension benefits also provide billions in tax revenue.

In 2009, $8.6 BILLION dollars were distributed to CalSTRS retirees. (www.calstrs.com)

2007 Findings of the Applied Research Center at CSU Sacramento:

> 60,867 jobs were created due to economic activity of retirement benefit payments.
>
> $607 million generated in state and local revenue.
>
> $4.5 billion in value added to state's economy from generated business activity.

According to the National Institute of Retirement Security:

> Each $1 in taxpayer contributions to California's state and local pension plans equates to a return of $7.91 in total output to the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share. (2006 NIRS data)
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> Each $1 in state and local pension benefits paid to California residents ultimately supported $1.47 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy. (2006 NIRS data)

CalSTRS Facts

Most teachers will receive reduced or no Social Security benefits due to federal offsets. Social Security spousal survivor benefits are almost always eliminated due to members receiving CalSTRS benefits under current federal law.

> Almost 850,000 members and beneficiaries.
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> Average age of retirement is 61.6 years.
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> Average years of service credit is 29 years.
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> 70% of CalSTRS members are women. 62% of retired members are single women.
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> Average benefit payment is $4,396 (monthly); $48,180 annually *(2008-09 average retiree benefit).*
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> CalSTRS benefits provide an average replacement of 62% of pre-retirement salary.
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> CalSTRS does not provide Health Benefits for retirees.

PENSION MYTHS:

"TEACHERS RETIRE TOO EARLY AND WITH EXTRAVAGANT PENSION BENEFITS"

2009 data from CalSTRS currently reports 224,000 benefit recipients.

Only 1.3%, or 3,100 CalSTRS benefit recipients, receive a pension of $100,000 or more, known as the $100,000 Club.

- These are usually administrators and superintendents.
- 80% of these recipients have worked 35-45 years in the profession.

Pension Spiking

This activity rarely occurs in CalSTRS, and it is virtually impossible for teachers to spike their pensions. CalSTRS Board has had language that allows them to audit cases that are suspected of spiking and deny higher benefit distributions if spiking is verified.

The Unfunded Liability

The Unfunded Liability was not created by any benefit enhancements in the CalSTRS system. The current downturn in the Market—stock, real estate and financial institutions—has caused the increase in the Unfunded Liability.

What is a rate of return?

Rate of return refers to the percentage of your investment that you would earn in a year. It's similar to the concept of interest in a bank account. If an 8% rate of return is expected on $100, you would earn $8 in a year, and the value of your investment would grow to $108. CalSTRS is looking at adjusting the current rate of 8% to 7.75% or 7.5% as they look forward. This change in rate, however, will cause the reported unfunded liability to jump significantly. Many pension funds are looking to change their investment assumptions, as the Market performance is unprecedented and may not reflect historical performance.

Why the attacks on CalSTRS and CalPERS?

The two largest public employee pension systems, CalSTRS and CalPERS, have been watchdogs against bad corporate behavior. They put significant pressure on Wall Street to be transparent, meet corporate governance standards, have corporate board diversity, meet better accounting standards, and address excessive executive compensation. If these two systems were to be eliminated, so would this oversight of Wall Street. Investment companies would have access to billions of our dollars through individual investments. The reality is that greed and self-interest in the Wall Street world drives this "behind the scene" attack on public employee pensions. They want your money and to implement higher fees.

Gubernatorial Impacts

Gov. Schwarzenegger has stated he will not pass a state budget without pension reform.

Both Brown and Whitman have stated in their campaigns that public pensions need reform. Brown has not stated his ideas. Whitman has advocated a change to the defined contribution (401(k) or 403(b)) system. The new governor will appoint up to five new members to the STRS Board in the next two years.