Presentation to THE CALIFORNIA PUBLIC EMPLOYEE POST-EMPLOYMENT BENEFITS COMMISSION

by Richard Stensrud

CEO – Sacramento County Employees' Retirement System

Chair – SACRS Legislative Committee

OVERVIEW

- ADDITIONAL INFORMATION ABOUT THE SACRS SYSTEMS
- DEBUNKING SOME MYTHS ABOUT PUBLIC EMPLOYEE RETIREMENT SYSTEMS
- LESSONS AND CHALLENGES
- CLOSING POINTS

ADDITIONAL INFORMATION ABOUT THE SACRS SYSTEMS

The 20 SACRS systems have many similarities but also some differences:

- Governed by the County Employees Retirement Law of 1937 (1937 Act)
- Range in size from Los Angeles CERA (with more than $35 billion in assets and approximately 145,000 active participants and benefit recipients) to Mendocino CERA (with approximately $315 million in assets and 2,300 active participants and benefit recipients)

- All feature local control through a Retirement Board comprised of key stakeholders
- Annual audits by independent, outside auditors
- Annual actuarial valuations by independent outside actuaries
- Subject to State Open Records/Open Meeting laws
- Administrative costs for managing the retirement systems limited by law to 0.18% of plan assets.
- BUT – a variety of benefit formulas.
  - Set at local level by County Board of Supervisors
  - Options established in 1937 Act

Each system independently manages its own assets through a diversified, professionally managed portfolio.

- SACRS systems collectively earned 11.84% in 2006
- 11.98% annually over the last 3 years
- 8.41% annually over the last 5 years
- 8.97% annually over the last 10 years
- 9.50% annually over the last 15 years

SACRS systems have substantial investments in the State of California

- For example, Sacramento CERS has more than $747 million invested in companies with headquarters in California or in California real estate
- SACRS is compiling data from all our systems to illustrate the scope of our investments in our state economy and will provide that information to the Commission

SACRS systems make $4 billion in benefit payments per year

- With 87% of recipients living in California, this means $3.5 billion in benefit payments flow into our local communities and local economies
- SACRS is having a study performed to quantify the economic impact of these benefit payments and will provide the Commission with the results

DEBUNKING SOME MYTHS ABOUT PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Myth: The cost of public employee retirement systems has skyrocketed.

Reality: As a percentage of payroll, employer contributions have remained relatively stable over the last 15 years.

- Average Employer cost today is only 4% higher than in 1990
- Do not be misled by people who compare costs today to the artificially low costs when the stock market was booming in 1998-2000
- In contrast to employer costs, which dropped in the boom but have now returned to normal levels, employee costs have consistently trended upward over the last 15 years
  - Means that employees have been paying for an increasing part of the cost of their benefits

<u>Myth:</u> **The taxpayers bear the brunt of the cost of public employee benefits.**

Reality: **Approximately 75% of the benefits paid by SACRS systems comes from investment earnings.**

Myth: **Taxpayers are on the hook for huge unfunded liabilities that will break the back of government.**

<u>Reality:</u> Paying off the unfunded liability is built into the funding program used by SACRS systems, and as with all benefit costs, unfunded liability will be substantially paid off through investment earnings.

- Unfunded liability does not have the same importance in the public pension context as it does in the private sector context

- Unfunded liability is paid off like a mortgage, but with the help of a 'rich Uncle'
- Sacramento CERS anticipates being able to reduce our unfunded liability by 26% this year through the application of investment earnings

Myth: Public employees retire with big pensions.

Reality: The average General Member gets an annual benefit of $22,000. The average Safety Member gets an annual benefit of $44,000.

Myth: **Public employees get to retire young after short working careers.**

Reality: **General Members retire at an average age of 58 after an 18 year career. The average Safety Member retires at age 52 after a 21 year career.**

- The average retirement age and length of career is virtually unchanged over the last 15 years

LESSONS AND CHALLENGES

- The illusory nature of ‘excess earnings’
- The importance of maintaining a reasonable contribution stream even if the markets are booming and/or funding is strong
- The value of having substantial contingency reserves
- The ‘No Free Lunch’ rule – Every dollar that is drawn off to cover supplemental, non-vested benefits is a dollar that will not be available to address possible disruptions in the funding for the core, vested benefits
- When is a plan funded strongly enough to take on additional costs?

CLOSING POINTS

- Our systems have shown that we can withstand substantial market disruptions – our model works

- We are the most efficient and cost-effective providers of annuitized retirement income