



State Retirement Systems

Presented To

**Assembly Budget
Subcommittee No. 4
on State Administration**

Assembly Member Willard Murray, Chair



Key Points About Public Employee Retirement

Retirement is a Major State Cost

- ✓ In 1995-96, state expenditures for various costs related to retirement will total about \$2.4 billion (excluding the University of California and nongovernmental cost funds). Of this amount, \$1.9 billion is budgeted from the General Fund (see table on next page).

State Bears Cost Changes

- ✓ Under current financing structures, additional costs incurred by the Public Employees' Retirement System—including losses due to poor investment performance—are borne completely by the state and other public employers. Additional costs incurred by the State Teachers' Retirement System—including losses due to poor investment performance—are the full responsibility of the state.

Decisions Have Long-Term Effects

- ✓ Decisions by the Legislature to improve retirement benefits are regarded by the courts as binding contractual obligations (unless original legislation explicitly provides otherwise). Many decisions may result in long-term costs that can be difficult or impossible to modify. Generally, the Legislature can reduce benefits only on a prospective basis for employees who have not yet been hired.



General Fund Costs For Retirement Programs 1995-96

(In Millions)

Program ^a	1995-96
Public Employees' Retirement	\$444
State Teachers' Retirement	899
Judges' Retirement	57
Legislators' Retirement	1
Social Security and Medicare	242
Health and Dental Benefits for Annuitants	276
Total	\$1,919

^a Includes transfers to retirement trust funds for employer contributions, state mandates, retired judges' benefit payments, and other purposes. Does not include PERS and STRS administrative expenditures from trust funds. Excludes costs for University of California employees.



PERS State Member Plans And General Eligibility

Plan	General Eligibility
Peace Officer/Firefighter Safety	Peace officers and firefighters Employed in law enforcement, fire suppression, and public safety, but not designated peace officer/firefighter
Highway Patrol	Highway patrol law enforcement personnel
Industrial (first tier)	Correctional employees not designated safety or peace officer/firefighter, and PERS member before July 1, 1991
Industrial (second tier)	Mandatory for industrial members who became PERS members on or after July 1, 1991
Miscellaneous (first tier)	All other state PERS members, provided they became members before July 1, 1991
Miscellaneous (second tier)	Mandatory for miscellaneous members who became PERS members on or after July 1, 1991 (except CSU)



PERS State Members June 30, 1994

Plan	Active Members	Retirees
Peace Officer/Firefighter	31,364	739
Safety	8,283	10,567
Highway Patrol	5,511	4,283
Industrial (first tier)	4,581	2,379
Industrial (second tier)	2,197	16
Miscellaneous (first tier)	115,338	100,591
Miscellaneous (second tier)	38,439	1,082
Totals	205,713	119,657

- The three plans pertaining to public safety employees generally provide for better benefits at earlier retirement ages than do the miscellaneous and industrial plans. All the plans provide an annual cost-of-living-adjustment (COLA) to pensions (up to 3 percent for second tier miscellaneous and industrial; up to 2 percent for others).
- If sustained inflation occurs at higher rates, the Purchasing Power Protection Account in the PERS trust fund provides supplemental pension payments, provided adequate funds are in the account. These supplemental payments are intended to maintain pensions at no less than 75 percent of their original purchasing power.



PERS State Member Plans Major Plan Features

Feature	Miscellaneous and Industrial (first tier)	Miscellaneous and Industrial (second tier)	Peace Officer/ Firefighter	Safety	Highway Patrol
Optimum retirement age	63, at least 5 years of service	65, at least 10 years of service	55, at least 5 years of service	55, at least 5 years of service	55, at least 5 years of service
Benefit formula at optimum retirement age	2.418% of final salary times years of service	1.25% of final salary times years of service	2.5% of final salary times years of service, not to exceed 80% of salary	2% of final salary times years of service, not to exceed 80% of salary	2.7% of final salary times years of service, not to exceed 80% of final salary
Early retirement option	Ages 50 to 62, with reduced benefit levels	Ages 55 to 64, with reduced benefit levels	Ages 50 to 54, with reduced benefit levels	Ages 50 to 54, with reduced benefit levels	Ages 50 to 54, with reduced benefit levels
Pension COLA	Up to 2%, compounded annually	Up to 3%, compounded annually	Up to 2%, compounded annually	Up to 2%, compounded annually	Up to 2%, compounded annually
Employees in Social Security	Yes (those hired after 1961)	Yes (those hired after 1961)	No	No	No
Employee contribution	5% of monthly pay above \$513	None	8% of monthly pay above \$238	6% of monthly pay above \$317	Under current bargaining agreement, state pays employee contribution
Employer contribution (percent of 1994-95 salary)	9.939% for miscellaneous; 10.597% for industrial	5.947% for miscellaneous; 10.597% for industrial	12.817%	13.927%	15.552%



Public Employees' Retirement System Administrative Expenditures and Staffing Levels 1995-96

(Dollars in Thousands)

Program	1995-96 Baseline ^a
Operations	\$84,651
Investment advisors	76,939
Expenditure Totals	\$161,590
Staffing level (personnel-years)	965

^a Does not include amounts for new initiatives or program augmentations because the PERS board will not consider a 1995-96 budget until May.



Public Employees' Retirement System Administrative Expenditures and Staffing Levels 1992-93 to 1994-95

(Dollars in Thousands)

Program	1992-93 Actual	1993-94 Actual	1994-95 Estimated	Change from 1992-93
Operations	\$58,957	\$73,445	\$86,927	47.4%
Investment advisors	65,163	76,622	76,939	18.1
Expenditure Totals	\$124,120	\$150,067	\$163,866	32.0%
Staffing level (personnel-years)	810	870	989	22.1%



State Teachers' Retirement System General Fund Contributions to Teachers' Retirement Fund 1993-95 Through 1995-96

(In Millions)

Program	1993-94 Actual	1994-95 Estimated	1995-96 Budgeted
Elder Full Funding Act	\$517.9	\$517.9	\$529.6
Purchasing power protection	239.9	306.3	315.4
Mandates	57.6	40.9	53.9
Totals	\$815.4	\$865.1	\$898.9

- Under the *Elder Full Funding Act*, the state General Fund covers all STRS costs not met by contributions from teachers (8 percent of salary) and school districts (8 percent).
- In addition, under the *purchasing power protection program*, the General Fund supplements pensions whose values have been reduced by more than 31.2 percent due to inflation. Approximately 46,000 retirees who retired before 1980 receive supplemental payments.
- Under *mandates*, the General Fund pays for benefit enhancements mandated by state laws enacted in 1979 and 1980.



State Teachers' Retirement System Administrative Expenditures 1993-94 Through 1995-96

(In Thousands)

Program	1993-94 Actual	1994-95 Estimated	1995-96 Proposed
Operations	\$31,070	\$35,170	\$36,742
Investment advisors	32,073	52,600	52,600
Totals	\$63,143	\$87,770	\$89,342