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# Supplemental Pension Payments and Deferrals

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PRESENTED TO:

Senate Budget and Fiscal Review Subcommittee No. 4  
On State Administration and General Government  
Hon. Maria Elena Durazo, Chair



LEGISLATIVE ANALYST'S OFFICE

# CalSTRS Supplement Payments

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## Governor's Proposal

- ***\$1.1 Billion Toward State's Share of the California State Teachers' Retirement System (CalSTRS) Unfunded Liability.*** State has an 80 percent chance of achieving savings over the next few decades.
- ***\$2.3 Billion Toward Districts' Share of CalSTRS Unfunded Liability.*** Districts have a 99 percent chance of achieving savings over the next few decades.
- ***\$700 Million for Districts' Rate Relief.*** This is not a supplemental payment, but rather the state making a portion of the districts' payment to CalSTRS on their behalf for two years.

## LAO Comments

- State might not achieve savings from contribution to CalSTRS before 2046.
- Districts have a much higher chance of achieving savings before 2046.
- Consider setting aside funding for future rate relief.



# CalPERS Supplemental Payment

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## Governor's Proposal

- **\$3 Billion Supplemental Payment to Four of Five California Public Employees' Retirements System (CalPERS) Plans.** Results in net savings of \$6.3 billion to state and federal funds.

### Anticipated Payment and Savings by CalPERS Plan Under the Governor's Proposal

(In Billions)

Plan	Total Contribution	Gross Savings	Net Savings
Miscellaneous	\$1.4	\$4.3	\$2.9
Industrial	0.1	0.3	0.2
Safety	0.2	0.6	0.4
Peace Officer/Firefighter	1.4	4.1	2.7
Highway Patrol	—	—	—
<b>Totals</b>	<b>\$3.0</b>	<b>\$9.3</b>	<b>\$6.3</b>

- **General Fund Would Receive \$3 Billion in Net Benefit.** Other funds—including federal funds—would share the remaining \$3.3 billion in savings.

## Assessment

- CalPERS payments more likely to result in savings over the next few decades compared to CalSTRS payments.
- Governor's proposal does not maximize General Fund savings.
- Governor's proposal provides benefits to federal funds without requesting reimbursements.
- Governor's proposal provides very little benefit to Motor Vehicle Account.



# Alternative CalPERS Supplemental Payment Options

There are a variety of other ways to structure the CalPERS supplemental payment depending on priorities.

<b>Summary of Alternative Options</b> <i>(In Billions)</i>							
	Net General Fund Benefit	Net MVA Benefit	Provides Benefits to Some or All Plans?				
			Miscellaneous	Industrial	Safety	POFF	Highway Patrol
Governor's Plan	\$3.0	\$0.3	✓	✓	✓	✓	
Alternative 1— DOF with repayments	4.1	0.2	✓	✓	✓	✓	
Alternative 2— UFL with repayments	3.2	0.7	✓	✓	✓	✓	✓
Alternative 3— POFF	5.1	0.0				✓	

MVA = Motor Vehicle Account; POFF = Peace Officer/Firefighter; DOF = Department of Finance; and UFL = unfunded liability.



# Deferrals

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## California's Outstanding Budgetary Deferrals

### Summary of General Fund Cost to Undo California's Remaining Deferrals

(In Millions)

Cost to Undo	
<b>Payroll deferral</b>	\$707
<b>Pension deferral</b>	973
<b>Medi-Cal deferrals</b>	
Accrual to cash budget	2,600 <sup>a</sup>
FFS deferrals	300
Managed care deferral	1,280

<sup>a</sup> Represents the upper bound of a range. Includes the cost of undoing fee-for-service (FFS) and managed care deferrals.

## Assessment of Governor's Proposal

- Improves the state's fiscal position.
- Moderately improves the state's fiscal transparency and budgetary practices.
- Does not reduce adverse effects on other entities.

## Recommended Alternative

- Reject Governor's proposal to use \$1.7 billion to undo payroll and pension deferrals.
- Use \$300 million to reverse Medi-Cal fee-for-service deferrals.
- Use remaining funds—\$1.4 billion—to build more reserves.

## Advantages of LAO Alternative

- Reduces adverse consequences to some Medi-Cal providers.
- Results in net General Fund savings of \$100 million annually.
- Involves less administrative complexity to implement.

