Calif. pension fix leads to risk as market volatility soars

By Romy Varghese, BloombergBusiness

It’s hard for states to fix pensions – just look at New Jersey and Illinois. And even when legislators in California agreed two years ago on a way to keep the teachers’ retirement fund from going broke, it left the state’s finances more exposed to financial-market swings.

Under the plan, California, school districts and teachers will gradually increase their contributions to make the second-biggest U.S. public pension fully funded in 30 years. The catch: the state’s share depends on whether the fund hits its 7.5 percent annual investment target, meaning it could jump in bad years or plummet in good ones, according to the Legislative Analyst’s Office. Three decades from now, the difference between market winning and losing streaks could mean as much as $5 billion.

The uncertainty over the state’s future payments to the California State Teachers’ Retirement System, which oversees benefits for about 896,000 people, underscores the risks in betting on a continual surge in California, where the government’s fortunes have tracked the booms and busts of the equity market. For now, California’s still reaping a revenue windfall from the post-recession bull run that crested in the middle of last year.

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