Opinion: EDC’s pension house of cards

By Larry Weitzman

It was just reported that El Dorado County’s unfunded pension liability will exceed $300,000,000 by the close of the fiscal year of June 30, 2016.

This number was extrapolated from the recently released numbers for the fiscal year ending June 30, 2015, by CalPERS, which stated that EDC’s unfunded liability totaled $282,029,540 and that was a growth in unfunded liabilities of $51,837,982 from the previous fiscal year. With the poor rate of return for the CalPERS pension system, unfunded liabilities will continue to grow at an alarming rate, and when the numbers come in for June 30, 2016, it will likely exceed $330,000,000. And it will get worse.

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CalPERS pension system is based on an annual rate of return of 7.5 percent. They claim that their 20-year average is 7 percent. But the U.S. never had a national debt of $20 trillion and a national debt growth rate that has doubled the debt in the last eight years. It went from $10 trillion to $20 trillion during that eight-year period. Because of this huge debt, interest rates have been kept at near zero by the Federal Reserve, so the cost of the debt is kept artificially low and the Fed will continue to do so. A 1 percent rise in the interest rate costs the U.S. government $200 billion annually. With this growing debt and with governments around the world like Japan also with huge national debts, interest rates will continue to remain at near zero levels for the foreseeable future. And therein lies a huge problem for CalPERS.

During the stock market rise from about 2009 to 2014 CalPERS did well, but since then it has really suffered with a 2.4 percent rate of return for fiscal year ending 2015 and a more miserable 0.61 percent for the fiscal year ending 2016. There is also talk of lowering the annual average estimate of rate of return to 6.5 percent. The main reason the stock market has been bid up to a Dow Jones Industrial Average of about 18,000 is because most investors switched from interest bearing securities to stocks (equities) creating more demand for equities. Now stocks have rates of returns not much higher than interest rates. Many “experts” think a correction is coming. CalPERS rate of return for the last two years looks to be the future.

With interest rates remaining low, CalPERS cost to the taxpayers is going to rise. At a 7.5 percent rate of return, it is projected by CalPERS that the annual cost of pensions for EDC will increase by about $16 million over six years, but more frightening is that these increased projected pension costs will total more than $63 million in total additional benefit payments from the county for the next six years. That is more than the cost of the new sheriff’s facility. But what if the low rate of return continues? We know interest rates are unlikely to significantly rise in the next few years, what then? Will the rate of return stay below 2 percent and if it does, will contributions rise considerably, perhaps more than double? That $63 million number could easily exceed $100 million. And that’s with salaries remaining flat for six years.

EDC’s contribution rate is already 19 percent for miscellaneous employees and 36 percent for public safety employees. Expect those rates to rise significantly and unfunded liabilities to rise in even greater numbers. New EDC revenues for the six years might not even cover this projected $63 million in pension costs increases.

It has been estimated that for EDC to leave the CalPERS system it would cost a cash buyout of $1 billion to currently guarantee all the current pensions and future pensions for current employees. That is a non-starter.

CalPERS likes to put out plenty of spin, like public pensions benefits are not excessive. They are when you consider that we have over 30 retirees receiving pensions in excess of $90,000 and dozens at over $100,000 annually. Employee contributions are about equal to Social Security at 6.25 percent. Public safety employees contribute about 9 percent. If they were in the Social Security System which requires a similar employee contribution of 6.2 percent, their benefits would be about a quarter of what they currently receive. Social Security currently maxes out at about $2,639 a month or about $32,000 a year and from that there is in most cases a Medicare deduction of a $1,200 to $3,000 annually. And that is at age 66. At age 62 that number drops to about $2,000 a month. There are some retirees in the county that are receiving pensions of over $200,000 starting at an age of 52, not 66.

Another spin of CalPERS is that police and firefighters don’t retire at age 50 at 90 percent of pay. While that may not be exactly true many have 30 years in at age 55 and the majority of EDC retired employees receiving over $100,000 a year are retired deputy sheriffs and sheriffs. Employees of EDC other than public safety in 30 years can retire at 60 percent, public safety at 30 years receive 90 percent of their highest pay. After 30 years, it doesn’t pay to continue working in public safety as working earns no more money than a 30-year retiree after his 9 percent pension contribution deduction.

EDC has a serious problem in funding its pension obligation. And I haven’t even discussed EDC’s retiree health plan which has a $75.6 million obligation of which $62.7 million is unfunded. That means EDC’s unfunded benefit obligations will total near or more than $400 million as of June 30, 2016, which was four months ago. It has grown since and will continue to metastasize at an alarming rate. This is a stage four emergency.

One more nuclear bomb while I am at it. If CalPERS goes broke or runs out of money to pay these exorbitant pensions, guess who by law picks up the tab. That’s right, the taxpayers.

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