Opinion: EDC pension prognostication pitfalls

By Larry Weitzman

In the *Sacramento Bee* was a recent front page article showing that 33 percent of metro fire retirees earn more than $100,000 a year in retirement, 216 out of 657 retirees. In fact, 13 of those retirees received more than $200,000 a year. It is an unsustainable system. And situations like this are occurring all over the state. It's a result of unions controlling government. Thank you Gray Davis.

Larry Weitzman

El Dorado County has its own pension mess and our pension plan isn't even as generous as many jurisdictions in the rest of the state. But El Dorado County is in deep trouble because of the rapidly rising pension contributions that are going to be required. It means the cutting of senior programs, the further decay of our county maintained road system and reductions in public safety based on current projections. This isn't going to be a train wreck; it's going to be a train catastrophe.

It's a result of too optimistic rates of return (called the discount rate) that CalPERS based its generous growth upon. That discount rate was recently revised downward marginally but it's still not even close to real discount rate recommended by conservative actuaries of 6.2 percent. The projections as done in the most recent actuarial report

projects a drop in the rate of return (discount rate) to 7 percent over a three-year phase in starting in the 2017-18 fiscal year where the rate is reduced to 7.375 percent which reduces to 7.25 percent for 2019-20 FY and 7 percent for the 2020-21 FY.

Because of EDC's huge unfunded accrued liability, pensions contributions will skyrocket for miscellaneous employees and public safety employees. Actuaries projected EDC to spend roughly $96 million in total miscellaneous employee salaries (17-18 FY) and about $30 million in public safety employees annually.

Miscellaneous EDC contributions grow

Salaries for this group is expected to grow by $5 million for 18-19 and by $3 million for every year thereafter through the fiscal year 24-25 at which time projected salaries will be about $121 million. But adding to these projections is a 56 percent growth in the employer contribution rate from 19.6 percent for the 17-18 FY to 30.7 percent for the year 24-25. The actual contribution from the taxpayers of EDC will grow from about $19 million (17-18 FY) to a little over $37 million for the year 24-25.

But it is a continuing growth in between as 18-19 grows to $22 million and so on. The total increase in pension contributions that will be required from the taxpayers over the next seven years is now estimated by the actuaries to total about $81 million alone. The growth in salaries is estimated to be $104.5 million. These numbers combine for a total increase in salary and benefits of $185 million.

And I haven't even told you of the bad news from the public safety side of the equation.

Public safety growth

The current contribution for pensions on public safety is 38

percent of the salaries which is projected at $30.5 for the year 17-18, which amounts to $11.6 million. Salaries are expected to grow to $38.5 million by FY 24-25.

The gorilla in the room becomes the projected 53.4 percent pension contribution or $20.5 million for year 24-25 in addition to the salaries. The increase in total public safety contributions will be $41.2 million from the base year of 17-18 through year 24-25.

When you add the two increases in pension contributions (miscellaneous and public safety) together, they total is $122.2 million in additional pension contributions that will be required over the next seven years alone over the base year (17-18). If pension contributions remained constant for the next seven years, the total would be about $214 million from county taxpayers. With the new actuaries, that new number projects to be about $336 million. And that is not including salary growth.

Salary growth is projected to be an additional $126.5 million or an amount just about equal to the amount of pension growth ($122.2 million) over the next seven years. The total growth will be about $248.7 million. That means county revenues would have to grow by an average of more than $35 million a year. Current General Fund revenue growth using the new EDC budget numbers show a growth rate of about 3 percent or $8 million annually from 2017-18 revenues of $248 million to $278 million for the year 21-22.

Projecting that growth to the year 24-25 the total extra revenue over the base year of 17-18 is about $212 million. In other words, EDC will still be upside down by about $37 million at the end of seven years just from additional salaries and pensions contribution requirements. There will be other cost increases as well, so $37 million may turn into well over $100 million.

And if the actuaries are correct and the rate of return should be at 6.2 percent, that $100 million will double or more.

Life expectancies are also considerably understated as well, further exacerbating the problem with unknown consequences.

As Rep. Tom McClintock, R-Garden Valley, said CalPERS enhanced pension benefits were based on "wildly unrealistic predictions of CalPERS future performance." And as you can see even with the new lowed discount rate, it is still wildly optimistic.

It is so bad that the California state government identifies unfunded CalPERS liabilities at about $242 billion, while economists at the Hoover Institute calculate the real number at $769 billion, over three times the amount. Someone is not telling the truth and the size of the lie is about four times the state's annual total budget. One Stanford study says the gap is almost $1 trillion, or about $77,000 per California household.

In a prior column from 2016, I wrote that the total increase in pension will grow by about $63 million over the next six years. Well, as you can see the problem just almost doubled (to $122.2 million) in just one year as EDC's total unfunded liability to CalPERS have grown to $346 million as of June 30, 2016, an increase in just one year of $65 million or about 25 percent of total unfunded liabilities. The numbers have become mind boggling as well as unfathomable. The situation might become the biggest fiscal disaster ever to face any state government, a Hurricane Harvey in dollars, maybe more. And making matters even worse is the CalPERS discount rate is still way too optimistic meaning even with these increased contributions, it will not solve the problem. It will continue to get worse. And EDC in better shape than most other jurisdictions.

Several solutions are necessary in combination. Work forces all through the state have to be cut. Salaries have to be cut

and finally the CalPERS pension system is in need of immediate reformation. This is a perfect example of an irresistible force meeting an immovable object. Otherwise, the best business to be in for lawyers will be chapter nine (municipal/county) bankruptcies. There will be hundreds of them.

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