CalPERS orders payment hikes

Higher contributions to the pension fund from the state and schools start in July.

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REPORTING FROM SACRAMENTO

California's biggest public pension fund, which has suffered tens of billions of dollars in investment losses, is ordering the state government and a thousand school districts to boost their contributions to employee retirement funds by $709 million a year, beginning next month.

On Wednesday, the board of the California Public Employees' Retirement System voted unanimously for the increase, about $601 million of which would come out of state coffers. Schools would pay the remaining $108 million to cover retirements of non-teaching personnel.

The call for more money to pay for future pension costs came just before the governor and four state worker union bargaining units announced that they had negotiated new contracts to modestly reduce future pension benefits.

Those agreements cover a total of approximately 23,000 state employees — about 10% of the workforce — including firefighters, highway patrol officers, health and social service personnel and psychiatric technicians.

The pension overhaul in the new contracts echoes recent demands by Gov. Arnold Schwarzenegger and Republican legislators to roll back generous pension benefits signed into law in 1999 by former Gov. Gray Davis.

The changes increase the retirement age for new hires. Firefighters and highway patrol members would be able to retire with full pensions at age 55 instead of 50 currently. Future pensions on the average of a worker's three highest-paid years and not his or her single highest year. Workers also would have to contribute more to their own retirement.

Union officials said they didn't relish having to reduce pension benefits but agreed to do so because of the state's financial crisis.

"We can read the tea leaves," said Terry McHale of the state Firefighters Local 2881.

The agreements could help to ease the state's projected $19.1-billion budget deficit, but it's unclear so far how it may affect CalPERS' need for all of the newly authorized increase in contributions.

In the past month, CalPERS actuaries had determined that the increase in the state's share amounted to $184 million, or 0.2%, of the $86-billion general fund that pays for major programs such as education, health and welfare and public safety.

The bulk of the increase would come out of dedicated special funds and would not translate into steep cuts in vital state programs, they said. Board members agreed.

"While any increase is difficult during these challenging economic times," said Alan Milligan, CalPERS' chief actuary, "this amount is relatively small in comparison to total state spending."

Increases for cities, counties and other local governments that participate in the CalPERS retirement system won't come until next summer.

The new hikes would boost the state's share of retirement costs to $3.9 billion a year and the schools' share to $1.2 billion.

The larger contributions are needed to "ensure the long-term financial health of the pension fund," said Kurato Shimada, chairman of CalPERS' benefits committee.