# “WHY OUR SCHOOL DISTRICTS ARE STRAPPED FOR FUNDS”

## A Report On the CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM (CalSTRS)

By the Contra Costa Taxpayers Association
Pension Committee

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For over two years, the CoCoTax Pension Committee has compiled and analyzed information on the CalSTRS Pension System. These are their findings, opinions and recommendations.

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## WHY OUR SCHOOL DISTRICTS ARE STRAPPED FOR FUNDS

If we want a good education for our children, we must properly finance our schools. On the surface it would seem we have done that in California. Unfortunately, however, far too much of that money is not reaching the classroom.

Contrary to claims that Proposition 13 is starving our schools, state funding for education has risen dramatically from $58 Billion in 2012 to nearly $85 Billion in 2020, well beyond the inflation rate. Yet in recent times we have endured widespread teacher walkouts and strikes, near-universal complaints that teacher salaries are insufficient and school board warnings all over the state that their budgets are tightly squeezed.

Why hasn't this increased support fixed school budgets? The short answer is retirement costs, including pensions and retiree healthcare. California school districts have experienced a 250% increase in their pension costs from 2014 through 2021. Astoundingly, nearly all increased state funding over that time has been devoured by pensions.

The situation promises to get worse locally. As of the most recently available data from the Stanford University Pension Tracker, the combined unfunded pension liability for the 17 Contra Costa County school districts is greater than **$6 billion**. This works out to a debt of roughly $11,000 per household in Contra Costa County. The debt varies by district, led by a staggering $23,000 per household in the beleaguered West Contra Costa Unified School District. Paying down this debt will require further diversion of precious resources away from the classroom, where they are needed most.

While fair retirement benefits should be part of a responsible compensation package, current benefit levels are unsustainable. Cost containment measures must be considered. Any savings identified can be redirected toward the classroom, including higher salaries that can help attract and retain qualified teachers.

For example, many districts overspend on health benefits to retirees. These plans were established decades ago when those with preexisting conditions risked losing health insurance altogether upon retirement. Currently, however, numerous avenues to affordable guaranteed coverage exist without the need for district financing, including Covered California, Medicare, etc. These programs automatically provide premium subsidies to those with moderate incomes. By eliminating this redundancy and shifting coverage to these sources, school districts could realize significant savings.

Here are some questions concerned citizens could pose to their school boards regarding ideas for fairly and effectively confronting such retirement health benefits:

- Have you explored following the lead of cities like Glendale in phasing out retiree health benefits in favor of affordable guaranteed coverage available through Covered CA and Medicare?
- Have you considered using American Rescue Act funds to pre-fund remaining retiree healthcare liabilities to mitigate much larger costs that will otherwise accrue in future years?
- Have you explored replacing defined benefit retirement health plans with fully portable Health Savings Accounts (HSAs)? This tradeoff would provide districts with cost certainty while offering tax benefits to teachers along with accessible funds should they leave the profession or move to another state.

It's also time to press the districts and the state to discuss a trade-off with their employee unions between salaries and retirement benefits. Under the so-called "California Rule", governments cannot unilaterally reduce pension accrual rates (even for pension benefits not yet earned) once a person is hired. However, many teachers might voluntarily agree to reduce future pension benefits in exchange for higher salaries today. Public pressure could force the issue to be resolved through collective bargaining, which is, after all, the method for reaching agreement on all other elements of compensation for public employees.

The retirement cost problem has existed for years with no real progress made. With the state awash in one-time cash, a meaningful portion must be directed toward relieving the pension debt in order to mitigate the need for future tax hikes. Working families must also be resolute in resisting further tax increases in the absence of pension reform. California already has the highest income tax rates in the nation, along with a skyrocketing cost of living. Taxpayers have already done their part in funding our school system. It's time for those within the system to reciprocate.

**FAQs**

1) Why are there conflicting figures regarding the amount of local pension debt?

Pension liability calculations vary according to the assumptions used. For example, official CALSTRS reports show a combined shortfall of $1.9 billion for the 17 Contra Costa County school districts. However, these reports rely upon a 7% rate of return for pension fund investments that even many government officials believe is overly optimistic. By contrast, Stanford University's Pension Tracker uses current guaranteed long-term bond interest rates in its calculations. Given today's low yields, they arrive at the $6 billion figure cited above.

2) How did the pension liability grow so large?

These increases stem from the state's failure to properly finance the teachers' pension fund (CALSTRS) back in the early 2000's following the "dot-com" crash. At that time it was clear to actuaries that the pension fund could no longer meet its obligations through investment gains alone. The employees' earned pension benefits had to be paid for through increased contributions to the pension fund. However, rather than listen to the actuaries, the state legislature made no change to the then statutory district contribution rate of 8.25% per year, and that fixed rate remained in place until 2014. <u>The consequence was the same thing that occurs when people choose not to pay down their credit card bills</u>--interest accumulates each year, compounds, and eventually the liability is much higher than it would have been if promptly paid.

By 2013, things had become so bad at CALSTRS that the actuaries projected the pension fund would be depleted to zero in 32 years! The CALSTRS Funding Plan passed by the legislature in 2014 finally put the CALSTRS pension plan on a path to proper funding. But the Plan came so late that school districts saw their mandated contributions to CALSTRS increase from 8.25% of payroll in 2014 to a whopping 19% of payroll in 2021, with the possibility of further increases if those sums are not sufficient. Thus, what would have been a manageable cost increase for the school districts if proper action had been taken in 2005 has now become a monstrous problem.

Pension costs have grown nearly three times larger than they would have been had the legislature acted responsibly on this issue 16 years ago!

All taxpayers should be outraged by this sorry record and urge their legislators to support responsible state pension funding so that huge, overdue pension bills do not arise again in the future.

**Additional resources can be found here:**

- Stanford University' Pension Tracker:

  https://www.pensiontracker.org/

- Origins of California's pension funding crisis:

  https://reason.org/data-visualization/the-surprisingly-risk-free-origin-of-public-pension-investment-return-assumptions/

- Reason Foundation Senior Analyst Marc Joffe's presentation to CoCoTax on Other Post-Retirement Benefits (OPEB):

  https://www.youtube.com/watch?v=XR6Ta3yrb0Q&t=5s