California pensions remain underfunded despite fiscal gains

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In this past month, two of the largest United States pension funds, the California Public Employment Retirement System, or CalPERS, and the California State Teachers' Retirement System, or CalSTRS, posted huge and unpredicted gains in their portfolios. This increase, due to surges on Wall Street, is a temporary gain bound to be undone at a future time.

Meanwhile media pundits and politicians are demanding large sacrifices from workers and pro-market restructuring of the pension system. As in Detroit, the "crisis" in pensions is being used to carry out a historic reduction in workers' living standards.

In the 2012-2013 fiscal year, which ended July 1, CalPERS earned 12.5 percent on its $257 billion fund. This percentage far exceeded its forecast of 7.5 percent, not to mention the previous year's growth of 1 percent. Similarly, CalSTRS, which was also predicting a 7.5 percent gain, experienced a whopping 13.8 percent return on its investments.

These gains come largely from rising stock market values. Both CalSTRS and CalPERS hold more than 50 percent of their portfolios in publicly traded equity (stocks, etc.). Another 10 percent or so is in private equity and a little less than 10 percent is in real estate. Were the financial system to break down, as it did in 2008, these assets would plummet once more, placing workers' futures in jeopardy.

Like pension funds worldwide, CalPERS and CalSTRS claim they are heavily underfunded. According to the *Sacramento Bee*, "while both funds have plenty of cash to pay claims for the foreseeable future, CalPERS is $100 billion short over the long term and CalSTRS's deficit is $70 billion." Essentially the money that these retirement systems receive from employee contributions, employer contributions, and stock market gains is not enough to pay for the pensions that they owe, and expect to owe, to workers. According to CalSTRS, its deficit grows by $22 million every day.

There is reason to suspect that some governments and agencies may be deliberately inflating their expected pension costs to justify cuts. An NBC report demonstrated how the Mayor of San Jose lied to the public about how bad the pension crisis was for their city. The mayor, declaring that pension costs would spike to $650 million dollars by 2015, declared a state of emergency to enact pension "reform." The NBC investigative unit found that he had deliberately used an unofficial inflated number. NBC says the real cost would be $300 million in 2015.

Another point of uncertainty is the "urgency" of the crisis. CalSTRS, for instance, wouldn't run out of cash until 2044.

Regardless of what the numbers are, the ruling class in California, like their cohorts worldwide, plans on covering any shortfall by reducing the benefits of workers and increasing what workers pay into their pensions.

The vanguard of this attack is Stockton, California, the second-largest US city to declare bankruptcy. In Stockton pensioners have lost *all* of their medical benefits. Now, in a case heavily watched by Detroit's rulers, the courts are deciding whether federal bankruptcy law will supersede the state law that guarantees pensions. If it is superseded, cities around the country could follow suit, using bankruptcy as a tool for doing away with a worker's right to a pension.

Hidden from discussions is Wall Street's primary role in this worsening crisis. Every level of state and local government in California has its finances, from pensions to local budgets, pegged to the ebbs and flows of the market. When the economy tanked in 2008 not only were pension portfolios decimated (CalPERS lost $95 billion, a little under 50 percent of its total value) but municipalities, like Stockton, lost massive amounts of money due to the fall in real estate values and taxes.

The result was a double pressure on the health of pension funds: CalPERS lost workers' money that it had invested in the market; municipalities, like San Bernardino and Stockton, imposed pension cuts, stopped paying contributions, and fired swathes of workers. In addition, hoping to make up for its shortfalls, CalPERS has increased the rate of contributions for local and state governments by over 50 percent. This has further placed a burden on the precarious budgets of California cities.

While the California state constitution supposedly ensures workers' pensions, a similar guarantee in Michigan is being disregarded in the Detroit bankruptcy filing. In any case, the actual funds are at the whims of the global financial system. Far from experiencing a global "recovery" the capitalist economy is teetering towards collapse.

While only a handful of large cities have gone bankrupt in the United States so far, Detroit, Stockton, and others are becoming examples for the ruling class of how to default on workers' pensions should a second financial meltdown take place.

As long as pensions remain at the mercy of the parasitic and outdated financial system, the right to a decent retirement will be under threat. To join the fight against bankruptcy and in defense of pensions and *every* worker's right to a decent and stable retirement please contact the Socialist Equality Party.

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