

## EDITORIAL: Resolve ongoing CalPERS mess

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Officials at the California Public Employees' Retirement System are scrambling to respond to a series of embarrassing disclosures regarding close relationships between CalPERS officials and placement agents -- politically connected middlemen who helped steer billions of dollars of pension fund investments to their clients.

CalPERS board president Rob Feckner has endorsed legislation that would require agents to register in the same way lobbyists do. The legislation would also bar their clients from paying them commissions based on the investments they helped to arrange.

But the reforms under consideration do nothing to address the real problem that besets the state's giant pension fund -- lavish benefits for certain public employees that the state and local governments simply can't afford.

By supporting a sweeping pension benefit hike in 1999 and understating what the real cost of those enhanced benefits would be, the CalPERS board placed the state, local governments and taxpayers at risk.

Pension formulas the CalPERS board supported allow many public workers to retire with 90% of their pay in their mid-to-late 50s. To pay benefits that rich without unduly burdening state and local government budgets, the pension fund has to earn extraordinarily high returns on its investments.

To earn those high returns, CalPERS invested in riskier and riskier ventures. For example, in 2000, CalPERS became the first big public pension fund to invest in hedge funds.

When the stock market was soaring and investments in a hot housing market were earning high returns, the pension fund did well, peaking at \$260 billion in assets in October 2007. But with the financial collapse in 2008, CalPERS lost more than a third of its value.

It has recovered somewhat in recent months and now stands at about \$200 billion. But the recovery is not enough to keep the pension actuarially sound without increased contributions from government employers.

That has left state and local governments, already reeling from declining tax revenues, now forced to contribute tens of millions more to safeguard their employee pensions. They take money from public safety and other basic services.

State Treasurer Bill Lockyer, an ex-officio member of the pension board, said what many financial experts have been saying. "It's impossible for the Legislature to reform the pension system, and if we don't it will bankrupt the state."

Unfortunately, the Legislature and the CalPERS board have refused to acknowledge the obvious -- current government pension benefits are unsustainable.