Myths vs. Facts

Myths vs. Facts educates, separates fact from fiction, and provides CalPERS responses about issues related to pensions, investments, accountability and ethics, and health care. Read the facts on common misconceptions.

Myth: Most police and firefighters retire at age 50 with 90 percent of pay.

Facts:

- A safety worker would have to begin their career at age 20 or younger and work continuously for 30 years, with the highest 3 percent at age 50 benefit formula, to retire at age 50 with 90 percent of pay.
- CalPERS safety members who retire with 30 or more years of service represent approximately 3 percent of CalPERS' total retiree population.

Myth: Pensions are among the highest costs of state government.

Fact:

- The fact is that pension costs represent about 3.2 percent of total state spending for the CA Fiscal Year 2016-17 budget. Thirty percent of the total state budget is earmarked for public education, 8.5 percent for higher education, and 6.2 percent is for corrections.

Myth: Increasing pension costs "crowd out" government services like police and libraries.

Facts:

- Between 1997 and 2000, the CalPERS fund maintained double-digit investment returns and was over 100 percent funded. Employer pension contributions were low during this period due to market performance. Public pension critics are able to find an increase (although not nearly as high as some claim) in recent pension costs by starting their analysis during this period, which was an atypical period of time for employer pension contributions. A more typical 10-year comparison would be from the 1996-97 to 2005-06 Fiscal Years during which the state contribution went from $1.24 billion to $2.4 billion.
- Our analysis of U.S. Census Bureau data finds that state and local government pension contributions constitute a small percentage of spending. Pension contributions as a percentage of direct expenditures for California state and local governments ranged from 3.1 percent in 1994 to 4.4 percent in 2012, with a low of 1.7 percent in 2002. Pension contributions combined with salary and wages accounted for 31 percent of direct California expenditures in 2012.

Myth: Public pension benefits are excessive.

Facts:

- Most of the System's retirees get nearly 50 percent of their highest pay or less in benefits.
- The average CalPERS pension is about $31,500 per year.
- Unlike the private sector, about 29 percent of CalPERS retirees don't coordinate with Social Security for benefits and their CalPERS pension may be their sole source of retirement income.
- Just 3 percent of CalPERS retirees receive the much-publicized $100,000 per year or higher pensions. The vast majority of the $100,000-plus pensions go to retired executives such as city managers and county executives, physicians, and senior managers of police and fire departments.
- CalPERS retirees benefit the state economy. A recent study showed the $15.3 billion in CalPERS pension benefits paid in the 2013-14 Fiscal Year produced another $15.6 billion in economic activity. In total, the paid benefits produced an economic impact of $30.9 billion while generating 104,974 jobs and over $716 million in sales and property tax revenues for state and local governments.

Senate Bill 400 (1999), which increased pension benefits for state, school, and public safety employees, caused employer costs to soar over the next 10 years.

Facts:

- This is an example in which statistics can be highly misleading and lead to erroneous conclusions. The statement ignores the highly abnormal circumstances of the 10-year period.
- While state pension contributions did go up dramatically from 2000 to 2009, the primary cause was not SB 400 benefit enhancements but, rather, the consequences of a deep economic recession and normal payroll growth.
- When SB 400 was adopted in 1999, the economy and financial markets were extraordinarily strong, which produced outstanding CalPERS investment returns for several years in the late 1990s.
- The outstanding investment returns in those years allowed CalPERS to dramatically reduce state contributions to historical lows - from $1.24 billion in Fiscal Year 1996-97 to $159 million in 1999-2000.
- Ten years later, following the Great Recession and financial crisis of 2008-09, which battered the value of CalPERS pension assets, the state contribution was up to $3 billion.
- The 10-year period was highly abnormal, going from extraordinarily low contributions following an economic boom period to higher-than-average contributions following the worst economic recession since the Great Depression.
- A more typical 10-year comparison would be from the 1996-97 to 2005-06 Fiscal Years during which the state contribution went from $1.24 billion to $2.4 billion.

Myth: CalPERS Long-Term Care Program is financially unsustainable.

Facts:

- CalPERS recognized income from premiums and investment earnings was less than expected and claims expenses were higher than expected and acted to raise premiums in 2012.
- The financial stabilization plan worked. The June 30, 2015, valuation for the long-term care trust fund shows it is now 111 percent funded. There was more money in the trust fund than projected liabilities.

Myth: Spending health care dollars on prevention and wellness programs does little to affect the overall cost of health care in our nation, our state, and our communities.

Myth: Taxpayers pay 100 percent of retiree health care costs.

Facts:

- The amount government agencies pay for retiree health benefits varies greatly by employer.
- CalPERS administers health benefits on behalf of contracting employers such as the state, public agencies, special districts, and school districts.
- Employers determine benefit levels - how much of health insurance premiums employers will pay versus employees or retirees - not CalPERS.
- The portion of health premiums paid by the employer for workers and retirees can vary significantly from employer to employer. For retirees, the employer contribution can range from $1 per month to 100 percent of the premium.
- There is usually a vesting requirement - minimum years of service - that determines what share of retiree premiums employers will pay. The vesting requirement can vary significantly from employer to employer.
- For example, nearly all state employees hired on or after January 1, 1989, have to work a minimum of 10 years to qualify for retiree health benefits at the 50 percent benefit level. State employees have to work 20 or more years to receive the full retiree benefit.
- Depending on the health plan the retiree chooses, the full benefit may or may not pay 100 percent of the premium.

Myth: CalPERS refuses to release public equity data.

Fact:

- CalPERS provides detailed listings of current and historical investment data, including public equity figures, in the CalPERS website.

Myth: The State of California and taxpayers pay the total cost of public pensions.

Facts:

- Investment earnings pay the majority of the costs of public pensions. For every dollar paid in pensions, 62 cents comes from CalPERS investments.

- Public employees who are CalPERS members pay a part of their pensions as well. Each month they contribute a percentage of their paychecks toward their pensions. Through collective bargaining agreements negotiated in recent years, state employees pay more toward their pensions - some up to 15.25 percent of each monthly paycheck.