

Out of control pension costs could doom local governments across California

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With unemployment is at its lowest point in a decade and a stock market at all-time highs, this is not a time when we would expect to see California local governments like the City of Oroville flirting with bankruptcy.[\[1\]](#)

Today, we stand years removed from the worst part of the Great Recession when governments across the country were forced to make drastic cuts to public services due to the collapsing economy. However, local governments will soon be facing similar difficult decisions about layoffs and cuts to vital services but for a very different reason: public employee pensions.

The ticking time bomb of unfunded pension liabilities—the difference between what has been set aside now and what will need to be paid to public workers when they retire—is creating one of the biggest financial threats to ever hit local governments across California.

Pensions are paid for by contributions from public employers, employees and investment income. However, some bad bets by the state's two main pension funds CalPERS and CalSTERS and a rapid expansion of pension benefits in the late 90s has left us with the current situation where public employers must now ramp up their payments to make up the difference. That means taxpayers will be getting the bill.

This problem is hitting us right here at home and is bringing local cities and agencies to their knees. According to a review of public records by San Luis Obispo *New Times*, governments ranging from special districts to the city and the county owe close to \$1 billion in unfunded liabilities.[\[2\]](#) That's over \$3,500 per person in the county and does not include local schools and colleges. Largely due to rising pension costs, the City of San Luis Obispo needs to cut \$8.9 million from this year's budget just to stay solvent and would need to cut an estimate \$80 million by 2031 if nothing changes.

The city alone has an estimated \$148.4 million unfunded liability which will have to be paid for either by cutting vital services and laying off employees or raising taxes. These numbers are truly staggering and do not account for unfunded liabilities for state employees which is estimated to number in the hundreds of billions of dollars.

There is no question that the current public pension scheme is unsustainable.

Governments must make pension payments before they can spend a dime on public services. Mandatory payments to CalPERS and CalSTERS are rising so quickly that local governments and school districts are worried that pension costs will crowd out all of their other expenses.

It is fundamentally unfair to taxpayers—many of whom are struggling financially themselves—to be expected to solely bear the burden of this crisis. Pretending we can continue this course is not only unfair to the public who is picking up the tab, but it's unfair to public employees who could find themselves without retirement income if the whole system goes broke. If numerous local governments declare bankruptcy or if we have another significant recession, that's exactly what could happen.

Instead of working with elected officials to find a long-term sustainable solution, the unions that claim to represent public employees prefer to put their head in the sand and pretend that no pension crisis is looming. When economists and financial experts point out unsustainable nature of rising pension costs, union bosses attack them as doomsday alarmists with a political agenda.[3]

Puerto Rico's bankruptcy provides an example of how quickly things can spiral out of control. Their main pension fund has virtually run out of money and has saddled the island with tens of billions of dollars in unfunded pension liabilities.[4] If we think California is immune from the same thing happening here we are badly mistaken.

Public employee unions need to come to the table and work out a way to solve this crisis. The longer we wait to make pensions more sustainable, the more expensive it gets. If our pension system goes broke, it will be public employees that bear the most pain as they suddenly find themselves with no retirement income. We all need to work together to protect the vital services that local government provide and stop them from being crowded out by pension costs.

That starts with public employee unions getting their head out of the sand and finally admitting there is a problem.

[1] <http://www.oroillemr.com/article/NB/20170927/NEWS/170929752>

[2] <https://www.newtimeslo.com/sanluisobispo/pension-tension/Content?oid=3561445>

[3] <http://www.letstalkpensions.com/newsroom/press-releases/2013-04-26-chicken-little-pension-calpers-claims-arent-coming-home-roost>

[4] <http://www.reuters.com/investigates/special-report/usa-puertorico-pensions/>