

RETIREMENT SECURITY FACTS

PENSIONS HELP WORKERS + THE ECONOMY

MYTH:

"Public employee benefits are bankrupting state and local government."

FACT:

The market collapse is the primary cause of the fiscal woes. Most of the increased employer costs to CalPERS are attributable to the market collapse.¹

FACT:

California economy benefits from pension fund investment. Approximately \$35 billion is pumped into the state's economy by pension investment.²

MYTH:

"Current retirement benefits are not sustainable for local and state government."

FACT:

Taxpayers pay only a fraction of the tab for public employee pensions. Seventy-five cents out of every retirement benefits dollar is made from investments. The remaining amount is shared by the employer-employee; most employees contribute toward their own retirement.³

MYTH:

"Public employee pensions are too generous."

FACT:

The average public employee retirement pension in California is less than what's needed to get by. The average pension retirement check in California is about \$25,000 a year.⁴ According to the California Budget Project, a single adult needs \$28,000 just to get by in California.⁵

MYTH:

"Money paid into the employee pension system benefits only the employee, not taxpayers."

FACT:

On average, each dollar invested by employers yielded a return of about \$8.55 in 2006 to the California economy, after being matched by employee contributions.⁶

FACT:

California public retirees put back \$2 into the economy for every \$1 they receive in pensions. Overall, retirees generated an economic impact of more than \$25 billion to the state in 2006 (as spending from benefit checks work its way through the economy) known as the "economic footprint." This economic activity created more than 174,000 jobs.^{7,8,9}

MYTH:

“The private sector is abandoning traditional pension plans because they are too expensive, and the public sector needs to face the same reality.”

FACT:

Pensions are the most affordable and secure method of paying for retirement. Defined benefits pensions earn higher rates of return than 401ks¹⁰ and cost far less to manage (18 cents per \$100 invested for pensions vs. \$1.35 per \$100 for mutual funds).¹¹

MYTH:

“Reducing retirement benefits for future retirees will mean more money for schools, roads and health care.”

FACT:

There will be no impact on public budgets for as long as 20 years. Even those who support reducing future retirees’ benefits admit that the savings for the state and local budgets would not be seen until those employees retire – around 20 -30 years from now.¹²

MYTH:

“Individual investment accounts are the way of the future. They give people more for their money.”

FACT:

401k-style, defined contribution plans produce lower rates of return than pensions. An exhaustive study of Nebraska’s abandoned system showed a return of 6-7% for defined contribution vs. 11% for traditional pension plan.¹³ Over most of the last 15 years, traditional pensions outperformed defined contribution plans. The difference was especially marked during the 2000-2002 bear market (Watson Wyatt).¹⁴

¹CalPERS Circular Letter to All Public Agencies, August 25, 2009, <http://www.calpers.ca.gov/eip-docs/employer/cir-ltrs/2009/200-056-09.pdf>

²CalPERS, <http://www.calpers.ca.gov/index.jsp?bc=/about/press/news/economic-engine/economic-region-impact.xml>

³CalPERS, <http://www.calpersresponds.com/myths.php/myth-government-pensions-paid-by-taxpayers>

⁴CalPERS, <http://www.calpers.ca.gov/eip-docs/about/facts/retiremem.pdf>

⁵Making Ends Meet: How Much Does It Take to Raise a Family in California, California Budget Project, October 2007, http://www.cbp.org/pdfs/2007/0710_mem_003.pdf, p. 5

⁶The Annual Economic Impact of CalPERS Benefit Payments, <http://www.calpers.ca.gov/eip-docs/about/press/news/economic-engine/calpers-economic-impacts.pdf>, CalPERS, April 2007, p. 2

⁷The Annual Economic Impact of CalPERS Benefit Payments, <http://www.calpers.ca.gov/eip-docs/about/press/news/economic-engine/calpers-economic-impacts.pdf>, CalPERS, April 2007, p. 2

⁸CalSTRS Payments Fuel State and Local Economies, CalSTRS, June 2007, http://www.calstrs.com/newsroom/What%27s%20New/Econ_Flyer.pdf

⁹The Economic Benefits on California and Counties of SACRS Members’ Retirement Benefits, State Association of County Retirement Systems (SACRS), http://data.memberclicks.com/site/slgs/SACRS4_highres%20FINAL.pdf

¹⁰Watson Wyatt Insider, <http://www.watsonwyatt.com/us/pubs/Insider/showarticle.asp?ArticleID=19148>

¹¹Fast Facts, CalPERS, <http://www.calpers.ca.gov/eip-docs/member/info-sources/fast-facts.pdf>, Jan. 2005.

¹²Budget woes driving plans to cut government pensions, health care, Capitol Weekly, January 21, 2010, <http://www.capitolweekly.net/article.php?xid=ykmnp25le2x6c1>

¹³Pension Pendulum, Governing Magazine, March 2004, <http://www.governing.com/archive/archive/2004/mar/pensions.txt>

¹⁴Watson Wyatt Insider, <http://www.watsonwyatt.com/us/pubs/Insider/showarticle.asp?ArticleID=19148>