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San Jose's Pension Problem Growing

Study Shows Pension Spending Reducing Other City Services

Stanford, CA (December 14, 2011). The Stanford Institute for Economic Policy Research (SIEPR) released a report today authored by Stanford Professor of the Practice of Public Policy Joe Nation, with the assistance of California Common Sense (www.cacs.org) researcher and Stanford junior Evan Storms.

The Nation-Storms report covers San Jose's Federated and Safety pension systems, which provide retirement benefits to miscellaneous and safety employees, respectively.

Tuesday, SIEPR and CACS released another Nation-Storms report on statewide pension systems. Tomorrow, SIEPR and CACS are releasing a third Nation-Storms report on the financial well-being of 63 local or independent public pension systems.

Among the findings from the San Jose report:

- Contribution rates, the share of payroll that state government sponsors of pension plans pay each year, are likely to double over the next four years, crowding out spending on parks and recreation, community services, library, street maintenance, and other services. Barring new revenues, pension spending is likely to rise from its current 18.4 percent share of General Fund spending to 32.7 percent.
- Delay in implementing solutions to the pension problem increases the costs to San Jose. Under mid-case assumptions, the annual cost of delaying pension solutions is more than \$8 million over the next year. Costs increase in subsequent years.
- June 2010 funded ratios, under middle case assumptions, are 46.4 percent for Federated and 54.8 percent for Safety. Most argue for a funded ratio of at least 80 percent. Private plans with a funded status below 80 percent are required to freeze benefits and face other restrictions.
- The total unfunded liability for the Federated and Safety systems under middle case assumptions is \$3.6 billion, or \$11,500 per household.
- It is highly unlikely that San Jose's pension systems will invest their way out of their funding problems. Even assuming investment returns of nearly 8 percent, the probability of San Jose's systems fully meeting their obligations is only 12 percent. In fact, the likelihood is 33 percent that the systems will fall short by a combined \$10 billion in the next 16 years.

- The authors conclude that San Jose should continue with its reform measures and seek general fund revenue increases, further increases in employee contributions, and prospective benefit reductions for current employees.

All reports are available on the SIEPR website at siepr.stanford.edu.

Visit www.cacs.org/transparency_pensions.php to see a suite of interactive data visualizations created by California Common Sense that illustrate the findings of this report and in particular funding status of pension systems throughout California under a range of assumptions.

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SIEPR is an economic policy research organization and is non-partisan in political orientation. SIEPR scholars conduct studies on important economic policy issues in the United States and other countries. SIEPR's goal is to inform and advise policy makers and the public and to guide their decisions with sound policy analysis. In the course of their research, SIEPR faculty train, educate, and support Ph.D. students as future economic policy analysts.

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