California Pension Funds are not "Close to Bankruptcy". CalPERS Responds: "CalPERS retirement benefits are protected by law"

By Patricia K. Macht
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Your article entitled "California Pension Funds Close to Bankruptcy" published on your website on February 1, 2009, contains numerous factual errors.

First of all, your headline suggesting that the CalPERS pension fund is "close to bankruptcy" is not true.

The term bankruptcy assumes that our fund does not have money to meet its obligations, which is not the case. Like all investors, our pension fund has experienced a decline in the market value of our assets due to the economic downturn. But we are not insolvent as your headline suggests. We continue to meet our benefit payment obligations, on schedule and without interruption.

CalPERS is designed to weather financial storms and market volatility. For example, in the 2001 recession, CalPERS lost $50 billion on paper, but we rebounded over the next four years with a gain of $120 billion. We have weathered numerous financial storms in the past. We expect to weather this one as well.

Our long-term investment strategy along with professional investment management have produced an average annual investment return of nearly 10 percent over the past 20 years – which included several investment downturns – well above our target 7.75 percent annual rate of return to fund benefits.

In fact, over the past 25 years, we have had 20 years with investment returns averaging 15 percent, nearly double our actuarial target rate. There were four down years, averaging a 5 percent loss in those years. One or two years of substandard investment performance does not have a significant impact on the long-term financial health of the CalPERS pension fund.

Also false is the statement that CalPERS members will receive reduced pension benefits or be forced to work longer because of recent investment losses.

CalPERS retirement benefits are protected by law. Courts have repeatedly ruled that vested benefits cannot be reduced or taken away once they are earned. Under state law, CalPERS benefits are determined by retirement age, years of service, and highest compensation – regardless of recent investment performance.

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