CalPERS, CalSTRS report big gains in investment returns

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California's two statewide retirement systems earned a combined $66 billion on their investments in the past year - but still can't shake criticism that public pensions are a black hole for taxpayers.

CalPERS and CalSTRS on Monday reported 20 percent-plus investment returns for the fiscal year that ended June 30. Both funds said it was their best performance in more than a decade

Yet the two systems, like many public pensions around the country, remain underfunded and are still feeling the effects of the market crash of 2008. Officials said it will be difficult to duplicate the latest investment results in the coming years, and both funds are likely to continue looking to taxpayers for higher contributions.

"We have not earned our way back (to) our peak," said Joseph Dear, chief investment officer at the California Public Employees' Retirement System. "CalPERS is clearly back, but we have a lot of work to do."

Dan Pellissier, a leading advocate for overhaul of California's pension system, applauded the results but said he will continue to press for substantial pension changes to reduce the cost to taxpayers.

"Fundamentally, our pension systems are out of balance," said Pellissier, president of California Pension Reform. "CalPERS and CalSTRS are billions of dollars in debt."

CalPERS said it earned $37 billion during the fiscal year, a return of 20.7 percent. It was the highest percentage gain in 14 years.

The California State Teachers' Retirement System earned $29 billion, or 23.1 percent. That was CalSTRS' best gain in 25 years.

The gains came across the board for both funds. Their stock portfolios earned over 30 percent each. Private equity - investments in companies that aren't publicly traded - made over 22 percent.

Even the two funds' real estate portfolios, which struggled long after other markets bottomed out, recorded double-digit percentage gains. CalPERS' real estate performance, however, significantly lagged the fund's "benchmark" or internal goal.

Steve Maviglio, spokesman for the union-backed Californians for Retirement Security, said the solid returns should stall the movement toward overhauling the pension system.

"When you have these kinds of numbers with the economy struggling, it shows the funds will be healthy in the long term," he said.

Problems remain, however, even though CalPERS and CalSTRS have put together back-to-back years of positive results following the market crash. Despite those gains, they haven't been made whole.

With a portfolio of about $237 billion, CalPERS remains $30 billion below its October 2007 peak.

CalSTRS, at $154 billion, is $25 billion below its peak, also in October 2007.

More importantly, the two funds are about 70 percent funded, meaning they have enough assets to cover 70 percent of their estimated long-term obligations. That's a gap of billions of dollars.

Many experts say pension funds should be at least 80 percent funded.

Taxpayers and workers are feeling the impact of the pension funds' struggles. The state was ordered by CalPERS to contribute $3.5 billion to the pension fund this year, or $200 million more than before the crash. That increase would have been even higher, if not for contract concessions by several state worker unions.

CalSTRS can raise contribution rates only with the Legislature's permission. It's been talking for the past year or so about going to lawmakers for help, and signaled clearly Monday that a contribution increase is needed.

"Without legislative approval for increased contributions, even given this past year's impressive performance, CalSTRS would need a more than 20 percent investment return each year for the next four years to achieve full funding in 30 years, an impractical expectation," Chief Executive Jack Ehnes said in a press release.

The state is contributing $688 million to CalSTRS this year. Lawmakers are likely to be reluctant to kick in any more at a time of tight budgets and spending cuts.

An independent pension expert said the California funds, like their peers in other states, will remain under intense scrutiny from taxpayers and politicians.

While the latest results are encouraging, "it just doesn't change the picture enough, in terms of funding, to take the heat off," said Alicia Munnell, director of the Center for Retirement Research at Boston College.

The stock market has been choppy lately, and Dear said the investment climate remains turbulent because of European debt anxiety and other issues.

"Caution is warranted in forecasting future returns," the CalPERS investment chief said.

TWO DRAW BIG PENSIONS AFTER CRIMINAL ACTIVITY

Two Sacramento County retirees collect pensions of more than $100,000 a year, despite having lost their jobs due to criminal activity.

Michael Patrick Leary was fired from the Sheriff's Department after he was charged with real-estate fraud last year. He eventually pleaded no contest to charges of grand theft, attempted grand theft of real property and forging a property transfer with intent to defraud.

The retired sheriff's lieutenant and former Elk Grove City Council member continues to collect a $141,000 annual pension.

Another former sheriff's lieutenant, Mark Kessell, pleaded guilty to possession of hundreds of images of child pornography two years ago. He collects a $108,000 pension.

Under state law, SCERS can revoke a pension only if an official has been convicted of bribery, embezzlement, extortion or theft of public money arising from his or her official duties, said Richard Stensrud, SCERS chief executive.

The law was approved after the conviction of San Joaquin Sheriff Baxter Dunn on corruption charges in 2005. Stensrud said he's not aware of the law being invoked in Sacramento County.