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CalPERS posts 18.4% return on investments in 2014 fiscal year

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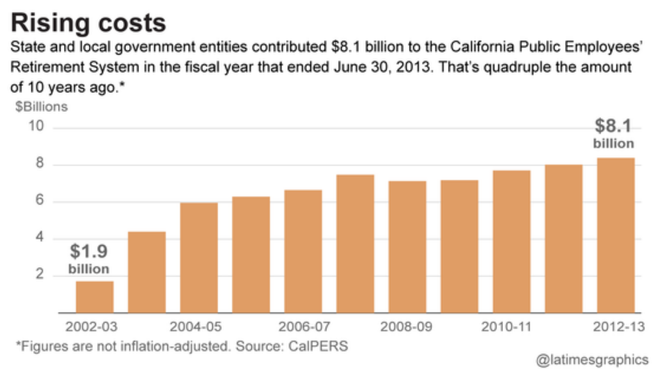
By Marc Lifsher

CalPERS funding level rises to 77% at the end of 2014 fiscal year, up from 70% a year earlier
CalPERS up 'by nearly 83% since its low of $164 billion at the bottom of the global financial crisis in 2009. CalPERS critics say the pension fund still has only about three-fourths of money it needs to pay obligations

Amid concern over soaring retiree costs, the state's nearly $300-billion public pension fund issued an annual report that showed solid investment gains.

The report released Tuesday by the California Public Employees' Retirement System showed an overall 18.4% return on investments for the year that ended June 30. That's compared with a 10.4% average annual return for the last three years. The rate of return far exceeded the fund's official 7.5% goal set by the CalPERS board.



Strong financial results, fueled by bullish stock markets and income-producing real estate, helped boost CalPERS' funding level to 77% at the end of the 2014 fiscal year, up from 69.8% on June 30, 2013.

CalPERS Chief Executive Anne Stausboll hailed last year's performance for being "the fourth double-digit return" in the last five years. "For perspective," she noted, "the fund has grown by nearly 83% since its low of $164 billion at the bottom of the global financial crisis in 2009."

Last year's highlights, she said, included a return of 24.8% for domestic and international stocks and a 13.4% return on investments in income-generating real estate, such as office, industrial and retail assets. Both bettered their previously established performance benchmarks.

Even so, critics say the system still has only about three-quarters of the money it needs to pay current and future pension obligations to state and local government workers and retirees. Workers and their employers should be paying more to ensure there will be enough money for about 1.7 million current and future retirees and their families, they argue.

Dan Pellissier, president of a Sacramento group called California Pension Reform, welcomed CalPERS' investment success but said he remains wary of the fund's claim to be in good shape to meet all obligations.

"The fact that they've had these remarkable returns for the last 20 years and they're still under 80% funded means that the governance of CalPERS is the problem," Pellissier said.

The problem, he said, is that "the government provides easy-payment plans to folks who want to offer great pensions but don't want to pay the entire cost."

Many pension experts consider an 80% funding level as adequate, though pension skeptics contend that it should be closer to 100%.

CalPERS' historical earnings also were impressive, with an annualized annual return of 8.5% over the last two decades, the report said.

It's not a surprise that CalPERS had a good year, said Brad Barber, the Gallagher professor of finance at UC Davis. "Whenever the market is up almost 25%, it's hard to have a bad year as an investor."

Improved funding levels are "good news" because "they are moving in the right direction," he said. "But the bad news is that given the current assumptions, there are still not adequate assets to fund the liabilities."

CalPERS' dilemma, Barber said, is shared by most state pension funds, and finding a solution to such so-called unfunded liabilities probably will require changes in retiree benefits and increases in contributions paid by public sector workers and their employers.

Some of those changes began in 2012 when the Legislature and Gov. Jerry Brown passed a public pension overhaul that is expected to save as much as $55 billion in pension costs over the next 30 years.

This year, the governor said he wants to negotiate with unions to increase workers' shares of future retirement healthcare costs.

Meanwhile, former San Jose Mayor Chuck Reed is working to put an initiative on the November 2016 ballot that would allow local governments to cut retirement benefits for current employees.

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