

Public Employees' Retirement Trailer Bill Language Released

This week, the Assembly and Senate Budget Committees will be considering budget trailer bills, the implementing language of the 2019-20 State Budget. The committees are expected to approve a number of the budget trailer bills early this week with the full Legislature taking action later in the week.

One of the trailer bills expected to be considered this week is the Public Employees' Retirement trailer bill ([AB 90](#) and [Senate Bill 90](#)), which includes the language for the compromise reached between legislative leadership and the Newsom Administration for providing school employer pension rate relief (see "[Budget Conference Committee Acts on 2019-20 State Budget](#)," in the June 14, 2019, *Community College Update*).

Background

As a reminder, Governor Newsom proposed providing \$3.15 billion in one-time non-Proposition 98 funds for the employer share of the California State Teachers' Retirement System (CalSTRS) in his May Revision budget, but did not put forward any relief for school employers on the California Public Employees' Retirement System (CalPERS) side. The Legislature, on the other hand, provided at least the same level of relief (the Senate provided more) to the employer share of CalSTRS as the Governor, but also included proposals to provide fiscal relief to school employers for CalPERS. The compromise reached between the Administration and the Legislature is to divide the original \$3.15 billion proposed in Governor Newsom's May Revision between the two pension systems, with \$850 million to provide short-term rate relief for the 2019-20 and 2020-21 fiscal years and \$2.3 billion to reduce the amount of the unfunded employer liability long term.

CalSTRS Language

The recently released trailer bill language confirms this compromise by providing nearly \$2.25 billion in one-time non-Proposition 98 funds for a two-pronged approach related to the CalSTRS employer share. First, approximately \$606 million (\$356 million for 2019-20 and \$250 million for 2020-21) will go to directly offset a portion of the employer contribution rate increases that are specified in statute for the next two fiscal years. Based on current assumptions, the rates would be impacted as follows:

- 2019-20 contribution rate of 18.13% is reduced by 1.03% to 17.10%
- 2020-21 contribution rate of 19.10% is reduced by 0.70% to 18.40%

Secondly, the trailer bill specifies that the approximately \$1.64 billion remaining will go to reduce the employers' share of the CalSTRS unfunded liability long term. Reducing the unfunded liability in this way, with all other things being equal, will have the effect of reducing employer contribution rates by approximately 0.3% in the years 2021-22 through 2045-46, after the \$606 million previously discussed is applied, resulting in approximately \$5 billion in total savings for school employers through 2046 (see "[CalSTRS Estimated Employer Contribution Rates](#)," in the June 14, 2019, *Community College Update*).

CalPERS Language

The CalPERS school employer language allocates \$904 million in one-time non-Proposition 98 funds for a similar two-pronged approach. First, \$244 million (\$144 million in 2019-20 and \$100 million in 2020-21) will go to reduce the school employer contribution rates for the 2019-20 and 2020-21 fiscal years. However, unlike the CalSTRS proposal, the language does not stipulate what the rate reduction percentage will be for those two fiscal years (see "[Ask SSC . . . When Will We Know the Reduced CalPERS Contribution Rates?](#)" in the current *Community College Update*). Secondly, the remaining \$660 million will go to address the CalPERS school pool unfunded liability long term.

Next Steps

Since the language of the Public Employees' Retirement trailer bill is a result of the compromise reached between the Legislature and the Administration, it is fully expected that Governor Newsom signs this trailer bill into law once it reaches his desk. We will be sure to keep you apprised of any action that the Legislature and Governor Gavin Newsom takes on this trailer bill as well as all other relevant budget trailer bills.