



CALIFORNIA STATE TREASURER JOHN CHIANG

# NEWS RELEASE

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## Treasurer Chiang Praises Plan to Pre-Fund Retiree Health Care Costs

**SACRAMENTO** – Treasurer John Chiang today praised provisions that will help pre-fund retiree health care costs reached as part of the collective bargaining agreement between the State of California and the Professional Engineers in California Government (PECG).

"This moves us closer to a secure and sustainable health benefits system for retired State workers," Treasurer Chiang remarked. "I commend the Administration and PECG for using the collective bargaining process to begin undoing what has been decades of poor fiscal planning and a willingness to pass along debt to future generations."

Among other provisions, the agreement calls for State engineers by 2019 to pay 2 percent of salary, matched by the State, into a special retiree health care trust. Union members and the Legislature must still ratify the agreement.

This agreement's importance to the State's finances cannot be understated. The current method of providing health benefits on a pay-as-you-go basis is the most expensive way for the State to pay for retiree health care and has led to the build-up of a \$72 billion unfunded liability. For nearly nine years, first as Controller and now as Treasurer, Chiang has been calling for a smarter approach by way of setting aside money in a trust to generate investment income that can significantly reduce future costs for both public employees and the taxpayers they serve.

How much can this pre-funding approach reduce costs? Look to the example of pre-funded pensions, where investment returns cover roughly two-thirds of all costs.

Ten months ago, as then-Controller, Chiang released a [report](#) demonstrating how even incremental steps toward pre-funding the obligation would significantly reduce the State's liability. For example, if the State and its employees pre-fund just 10 percent of its obligation, the up-front costs would add \$250 million more than its current pay-as-you-go contribution. However, in the long run, that additional payment would shave \$3.2 billion off of the State's unfunded liability because of investment returns and compound interest.

"As the State's other labor units come to the table, I urge them to similarly demonstrate how collective bargaining can tailor agreements to the unique needs of their members while, at the same time, advancing the interests of taxpayers," Chiang said.

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