California state workers’ pensions under attack

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19 March 2011

After assuming the office of governor, thanks in part to the endorsement of many public sector unions, California Democrat Jerry Brown is now eying “pension reform” as a means to cut state expenditures and address a $27 billion budget deficit.

The California Public Employees Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS) are the largest pension, systems in the US. Over the course of 2008 and 2009, CalPERS lost over $67 billion in income from risky investments, wiping out half of the gains made by the fund from 1999 to 2007. As a result, CalPERS yearly return on its investments has fallen from an average 8.8 percent during the period 1982-2009 to 2.5 percent today.

CalSTRS, with a fund of $146 billion for its 850,000 members, has seen the value of its portfolio decline by 25 percent over the last several years. It currently has $40.5 billion in unfunded liabilities and, according to fund representatives, will be insolvent by 2042.

This has prompted the California Legislative Analysts’ Office to advocate not only increased contributions from teachers, but a hybrid pension plan that would combine a private sector 401(k) plan with the current defined benefit system. The agency also advocates establishing a “pay as you go” system, a move that would affect current employees and require a constitutional amendment.

The latest round of budget cutting in the California legislature, during which lawmakers axed $14.5 billion from state expenditures, did not address the issue of public employee pensions. However, legislators have made clear that they intended to return the matter in upcoming sessions. “Any budget plan that does not include pension reform is incomplete,” said Republican Assemblyman Brian Jones from Santee on Thursday.

From the outset of his electoral bid, Governor Brown made clear his support for an assault on public employee retirement benefits. Last year he declared, “I intend to renegotiate current pension formulas. We should require employees to work longer and to a later age for full retirement benefits.”

In addition, Brown advocates increasing employee contributions to retiree health care, as well as extending the length of time an employee must have worked for the state before she can obtain health benefits upon retirement.

Brown has also extended support for political and media attacks on public employee pensions that have sought to blame workers for the pension systems’ fiscal crises by claiming they are “gaming the system.”

On his election website from last year Brown declared, “Pensions are meant to be a percentage of regular salary. Unfortunately, there are a number of reported instances (most often at the local level) where special bonuses, last minute promotions, excessive overtime, or other gimmicks are used to artificially inflate final compensation and consequently the favored employee’s pension.”

Brown referred to workers entirely legal efforts to secure for themselves a decent retirement as “abuses,” insisting they “must be stopped.”

In an article in the February 16 issue of the *Los Angeles Times* provocatively entitled, “California state employees take advantage of pension perk,” authors Anthony York and Jack Dolan accuse pensioners of being paid benefits “for years they don’t actually work.” They specifically cite the benefit known as “air time,” whereby pensioners can add five years of service to their work history by paying a fee and thus, boost their overall retirement payout. The fees that the state collects from selling air time are funneled into the

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pension fund, and have helped keep it afloat. At least 47,000 state employees had signed up for air time before last September, when the price for purchasing it was raised.

In his State of the State speech, Governor Brown specifically singled out air time as one of the benefits he wanted to cut as part of his upcoming austerity budget saying, “I certainly think getting rid of the ability to buy air time would be a good place to start.”

The trade unions have thus far come out against the present push for pension cuts. However, as demonstrated by recent labor agreements, they agree with the demand that “reforms” have to be made and are prepared to implement them. Late last year, the Service Employees International Union (SEIU) approved a contract that increased members’ contributions to their own pensions by three percent. The union’s 95,000 government workers also saw their wages cut by 5 percent.

According to the agreement, new employees will have to work five more years until they are eligible to receive full retirement benefits. In addition, pension formulas are now to be based on pre-1999 benefit levels, thus axing benefits for retirees. The new changes also ended raises that were given to employees during their final year of work, which had worked to boost overall pension levels. The contract saved the state $383 million in 2010-2011 fiscal year.

SEIU Local 1000 President Yvonne Walker justified her union’s concessions by stating, “This is the worst recession in more than eight decades, and our members stepped up and made temporary sacrifices to help California and keep CalPERS strong.”

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