California's Democratic governor targets public pensions

David Brown
19 April 2011

At the end of March, the latest round of budget talks between Democrats and Republicans in the US state of California broke down despite general agreement on cuts to social spending. According to state Republicans, pension reform is the sticking point. Although pensions for public employees amount to only four percent of the state budget, both parties are using the budget crisis to demand deep cuts.

To take the initiative against Republicans, Governor Jerry Brown released seven proposals for pension reform. True to form, they overwhelmingly target the working class, and closely mirror the Republicans' demands. These proposals come on top of $8 billion already signed into law by Brown earlier this year, including sharp cuts in education and health care spending.

Four of the seven points are aimed at supposed "abuses." He would end "airtime," where an employee can pay a fee to have benefits calculated as if the worker had worked for up to five additional years. Brown is also targeting "pension spiking," a term used attack workers whose wages increase in the later years of employment, resulting in a higher calculated pension benefit. Benefits would be calculated on the basis of a three-year instead of one-year average and only include base pay. The governor would also remove benefits for those convicted of felonies relating to their employment.

Brown's other three proposals target the entire public workforce, whether they will receive $20,000 or $200,000 a year. These are: the proposed prohibition of pension holidays, when no contribution is made to the fund when the system is overfunded; the prohibition of employers making employee contributions for the employee; and the prohibition of any retroactive pension increases.

Together these three do nothing to close the funding gap. Instead they would only make it harder for pensions to increase if the economy improved. Essentially they are designed to cement the $700 million in concessions the unions made last year in bargaining with former Republican Governor Arnold Schwarzenegger.

Every single one of these seven proposals can be found with only slight changes in the Republicans' demands.

Brown's seven proposals are in fact only the beginning of the attack that he is proposing. Five more options are listed as "under development," including, most significantly, introducing a 401(k) stock-market based pension option. He is also reviewing the possibility of imposing a pension benefit cap and limiting post-retirement public employment to further cut pension benefits.

The details will have important ramifications for workers across the state, especially since the 401(k) plans of recent retirees have been insufficient. According to a recent study in the *Wall Street Journal*, using data from the Center for Retirement Research at Boston College, the median annuity provided by a 401(k) leaves a gap of $30,000 for a retiree of median income.

Brown has been withholding the details of these last five proposals, telling KCAL 9, "I haven't put all my cards on the table, because I am not negotiating against myself." In fact, Brown and the Republicans are conspiring behind the backs of the working class of California to push through unpopular proposals with as little public discussion as possible.

The only significant items Brown didn't include from the Republican platform in his proposal are measures that would completely undermine the unions, including requiring voter approval for pension increases.The Democrats are looking to continue using the unions to enforce pay cuts and pension reductions on their members.

The unions spent around $30 million in support of Brown's gubernatorial campaign and have made clear their willingness to enforce the attack on the workers they claim to represent.

Dave Low, chairman of Californians for Health Care and Retirement Security, a coalition of public employee unions, complained that Brown's proposals "fly in the face of collective bargaining law" after the unions had agreed to "concession after concession" at the bargaining table. It could not be clearer that the unions are only complaining about the form of Brown's proposals instead of their content.

Inspiring these attacks on pensions is a report by the Little Hoover Commission, "Public Pensions for Retirement Security," released last month. As outlined in that document, the top ten defined benefit systems in California have a combined unfunded mandate of $240 billion.

Rather than blame these funds' shortfall on risky investments or the market crash—which led the largest fund, CalPERS, to lose $67 billion in 2008 and 2009—the commission blames public employees. According to the report, the pension system should simply provide "retirement security" instead of "deferred compensation" for the lower wages in the public sector, and further warns that "when the market eventually recovers, the pressure from employees will return to ramp up pension formulas." This bizarre assertion that salary is a legitimate form of compensation while retirement benefits are not confirms the class nature of the attack on pensions.

What troubles the politicians and business leaders is that pensions are a long term commitment. In response to the financial crisis, every single social service provided by the state has faced significant cuts. California's education, welfare, and medical care systems have all had to reduce programs and fire employees.

Unlike these programs, there are significant legal hurdles to cutting already negotiated pensions. To overcome them, there have already been committee hearings in the US House on allowing states and municipal governments to declare bankruptcy so they can abrogate their employee contracts, including pension obligations.

In order to avoid a spread of Wisconsin-style unrest, the corporate parties are taking a two-pronged approach at deceiving the working class. First, they want to convince the workers that there is widespread abuse of the pension system. Second, they want workers to believe that they only have two options, cuts to pensions or more cuts to social services.

To perpetuate the first point, non-profit organizations and political action committees, like the Education Intelligence Agency (EIA) and The California Foundation for Fiscal Responsibility (CFFR), have fed dubious claims and facts stripped of context to news agencies.

The EIA recently asserted, due to their misreading of a California State Teachers' Retirement System (CalSTRS) report, that retired teachers in California are paid more than working teachers in 28 states. The claim was repeated by NBC News, showing, despite their later correction, a willingness to repeat without verification attacks on the pension system.

Similarly, the CFFR has identified the recipients of the largest pensions in the state by name. Their lists are cited by the *Los Angeles Times* to claim, "At stake are retirement benefits that far exceed what is available to the average private sector worker." Even a cursory glance at the two largest pension funds, CalPERS and CalSTRS, shows these attempts to frame the average public pension as excessive are outright lies.

The California Public Employees' Retirement System (CalPERS) is currently paying benefits to 513,623 people, with the median retirement payout a meager $18,000 a year. A full 74 percent of retirees receive less than $36,000 a year. Similarly, CalSTRS pays retirement to 213,952 people at an average of $37,619 a year, and these workers do not receive social security.

Neither pension is a livable income. The fact that some retirees can receive over $100,000 a year only serves to underscore the poverty-level retirement that the average public employee gets.

The second point on which the politicians, unions, and businesses are trying to deceive workers is exemplified by the LHC's report which states, "Pensions are at the center of what will be an intensifying fight for diminishing resources from which government can pay for schools, police officers, libraries and health services." This however, accepts the premise that, one way or another, workers must pay for the current financial crisis.

Between December 2007 and June 2009 the bottom 80 percent of Americans had their share of the nation's wealth drop from 15 to 12.8 percent. On the other hand, the wealthiest 1 percent had their share increase from 34.6 to 35.6 percent.

In sharp contrast to his calls for sacrifice from workers looking to retire on less than $30,000 a year, Jerry Brown—together with the entire political and media establishment—has excluded any increase in taxes on the wealthy.