California Governor Jerry Brown proposes public pension rollbacks

Kevin Martinez
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Democratic Governor Jerry Brown of California unveiled a proposal last week outlining a series of attacks on public employees and their right to a secure retirement. The provisions would apply to new state and local workers and would save the state $4 to $11 billion over 30 years and $21 to $56 billion over 60 years, according to Brown. The 12-point plan includes raising the retirement age for new, non-public safety workers from 55 to 67. New public safety workers, such as police and firefighters, could retire sooner based on their ability to perform their job.

In addition to raising the retirement age of new employees, Brown wants pension benefits to be based on averaging the three highest years of earnings rather than the current system of using simply the highest year. New workers' pensions would be based on a "hybrid" plan, a mix of social security, a defined pension plan, and 401(k)-style plan that would be "professionally managed." Base pay only would be used to determine benefits, excluding unused leave, overtime and other extra income.

All of these proposals would be mandatory for new hires, but for all state workers Brown has proposed even more draconian measures. These include a 50-50 contribution split that would force employees to contribute equally to their pensions as their employers. Currently, employers pay more into the workers' pension than the workers themselves.

So-called "double dipping" limits would also be imposed for all workers, meaning that a worker who has retired and is collecting a pension and still works for a different state employer would have their annual hours capped at 960 hours. Workers can also lose their pension if they are convicted of a felony that happened while they were on the job, although the state already follows this rule.

Employees would also be banned from purchasing "air time" which are service credits that employees can purchase to boost their retirement pension for time not on the job. While this is widely reported as pension "abuse," few workers can actually afford the tens of thousands of dollars the service credits cost.

Not only will state workers have to contribute more to their pension funds, they will be forced to pay even more into their health care plans. Currently, state workers have to work 10 years in order to qualify for health care premiums that are half paid for by the government when they retire. After 20 years the state pays the whole premium. Brown proposes to retroactively reset those plans to 15 years for current employees and 25 years for newer hires.

Brown also wants two new members to be added to the board of the California Public Employees Retirement System (CalPERS) who are "independent" and would apply their financial "expertise" to the 13-member Board of Administration.

California's state pensions in 2010 were 80.7 percent funded to pay future obligations, down from 86.6 percent the preceding year, according to an annual study by Bloomberg Ratings. The same study reported that the average for all states was 74.6 percent.

According to Standard and Poor's, about 12 percent of the state's fund goes to paying down debt and pension costs, "which we consider high", said S&P analyst Gabriel Petek in an April 25 report. California's S&P rating is "A-", the lowest credit rating among the states.

Brown's proposals did not include raising contributions for members of CalSTRS, the California State Teachers' Retirement System, which is worth $146.6 billion. In August, CalSTRS's unfunded liabilities were labeled a "risk" by the state Auditor.

The pension's unfunded liabilities have more than doubled since 2008 to $56 billion as a direct result of huge investment losses on Wall Street. According to an actuarial report from April, without any increase in revenue the fund could be completely depleted by the 2040s. An increase in contributions would be the first in 21 years for CalSTRS members.

CalPERS, the biggest pension fund in the US estimated at $225 billion, had $49 billion less than what was needed to cover its pension obligations as June 30, 2009 according to the fund. As of June 30, 2010, the fund was $56 billion behind in paying its future obligations.

At a time when California's pension costs are expected to rise to $1.8 billion this fiscal year, Brown has been ruthless in his determination to cut from both public employee retirement systems. In fact, many states are closely following how Brown implements his "pension reform." Brown's plans will ultimately be decided by voters in a referendum that has yet to be specified.

"My goal is to provide a fair but sustainable income-security plan," the governor said last week. "It's a shared risk and we feel that's fair. We're increasing income security in relation to the private sector, but we're shifting more of the burden onto employees."

Brown's proposals have been met with widespread approval by Republican members of the state Legislature. Typical were the comments of Laguna Niguel state Senator Mimi Walters who said Brown was "moving in the right direction" with his pension overhaul.

The unions, however, who overwhelmingly endorsed Brown against Republican Meg Whitman in the 2010 gubernatorial election, have been feeling left out in the cold. Willie Pelote, political and legislative director in California for the American Federation of State, County, and Municipal Employees (AFSCME) said Brown's plans go too far, adding "You've got millions of dollars in pension concessions that have been negotiated at the state and local level. We need to take a look at that."

Dave Low, chairman of the union coalition Californians for Retirement Security, in a statement said, "Workers across California have negotiated contributing more to their pensions and two-tier benefits. We simply cannot stand for imposing additional retirement rollbacks on millions of workers without bargaining."

The fact that Brown is implementing such a far-reaching attack on public workers is not the issue per se for these union bureaucrats. Their discontent with Brown arises from the fact that they feel that enough concessions can be extracted through the "collective bargaining" process, whereby the unions have a seat at the table in destroying the livelihoods of their memberships.

While the unions are feigning their opposition to Brown's pension scheme, even more right-wing proposals are being floated as ballot initiatives for November 2012. A group called California Pension Reform, led by former state GOP Chairman Duf Sundheim and former Schwarzenegger finance director Mike Genest, filed two ballot initiatives that go even further than Brown in terms of scaling back workers' benefits.

One of the proposals would shift workers' pensions to a 401(k)-type plan almost entirely. It would also place caps on how much an employer can contribute to a workers' retirement while at the same time forcing workers to contribute even more to their retirement funds than Brown's plan.

The sponsors of the initiatives, should they raise enough money to place them on the November 2012 ballot, have already succeeded in their goal of shifting the debate on public pensions even further to the right. Both Democrats and Republicans agree that enormous cuts have to be made in entitlement programs at the expense of the working class.