Report calls for rollbacks in California public pensions

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A report released by Stanford University on December 13 has called for rolling back pension benefits for retirees and current workers in the California Public Employees Retirement System (CalPERS), the California State Teachers Retirement System (CalSTRS), and the University of California Retirement System (UCRS).

According to the Stanford Institute for Economic Policy Research, the state's three largest pension funds face a combined shortfall of $485 billion in unfunded pension obligations. The report, authored by former Democratic State Assemblyman Joe Nation, also states that delaying the changes to the states' retirement systems is costing $3.4 million more every day.

Many have criticized the report for relying on misleading data to support the group's agenda of pension "reform," which is really a code word for raising retirement ages for pensioners and reducing benefits.

By using a "risk free" or low discount rate of 6 percent to estimate unfunded pension obligations, the Stanford study calculated the state's unfunded liabilities for the top three pension systems to be $485 billion for the next 16 years. That number is nearly 17 percent higher than the figure Stanford released in another study from a year ago.

Even if California's pension fund investments yield a higher return of 9.5 percent, an unlikely scenario, the state's unfunded obligations reach $143.6 billion, according to the study. In a statement, Nation said, "Just as we saw with Lehman, AIG, Bear Stearns and others, understating debt and betting our financial future on unrealistic assumptions will only make the problem worse."

Thus, Nation proposes eliminating pension benefits for current workers and retirees, stating, "If you rely solely (on lowering benefits) on new workers, you can't get there."

The Stanford study goes on to recommend that, "improved long-term funding outcomes can be influenced through higher contributions, investments in less risky assets, and lower benefit levels."

While the study has been rightly decried as an academic "hit piece," it must be viewed within the context of Governor Jerry Brown's recent proposals to raise retirement ages and lower benefits not only for new workers, but current retirees as well.

Last month, Brown unveiled his plans for raising the retirement age from 55 to 67 for most state workers. Most new workers would receive a third of their pension through social security, another third from a defined pension plan such as a 401(k), and the remaining third from the traditional pension.

Brown's plan also prohibits "double dipping," when a state retiree collects a pension while also working another state job, as well as so-called "pension spiking," when a retiree's pension is calculated based on overtime, unused vacation, and so on. The overall aim is to find whatever way possible to reduce payments to workers. Employee pension contributions will also be raised to match employer contributions into an employee's pension. In addition, employee contributions into health care plans will be significantly increased.

At a legislative session last month, Brown declared that these measures were only the beginning. "I'm writing a plan that has a real possibility to get enacted and I've laid out a pathway that makes the most sense," he said. "I don't think we should lurch all the way forward in our first step."

The Census Bureau recently announced that state and local pension fund assets throughout the US sank in the third quarter of 2011 by the most since the 2008 Wall Street crash. The assets of the top 100 pension systems decreased by $237 billion from the prior quarter, to $2.53 trillion by September 30, an 8 percent decline. According to the report, this is the most severe decline for pensions since the last three months of 2008, which saw pensions

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decline by 13 percent.

The huge losses were attributed in part to the fear of Europe's debt crisis spreading to the US, and a loss in the value of holdings for US treasuries, corporate bonds, and international securities.

The news comes as a setback for state and local governments throughout the US that were counting on higher income returns for pension stocks on Wall Street to compensate for future retiree obligations. The diminished tax collections will provide the necessary animus to privatize state pensions even more.

These attacks stem from the nationwide assault on the jobs and benefits of the working class.

In Central Falls, Rhode Island, the city and state government agreed to slash workers' pensions by up to 55 percent. Retired firefighters and other workers will be plunged into poverty to pay for the city's $47 million in pension obligations and $20.5 million in state debt. Central Falls is now seen by the corporate elite as an example of how the rest of the nation should deal with their pensions.

The aim is to severely reduce benefits to the lowest amount possible and ultimately eliminate secure retirement for all workers.

The claim that there is no money to cover state and local debt is a lie. California's richest resident alone—Oracle CEO Larry Ellison, with a net worth of nearly $40 billion—could literally write a personal check to cover the state's debt and still be wealthy.

The entire process by which California has handled its debt crisis, from slashing education and welfare benefits to raising retirement ages for pensioners and reducing medical coverage for state workers, speaks volumes about the true nature of the Brown administration. Hailed as a "progressive" by much of the establishment "left" and supported by the trade unions, he has outdone his predecessor, Republican Arnold Schwarzenegger, in attacking the rights and living standards of the working class.

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