

# California Governor Brown's pension reform: An assault on state workers

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Last October, Governor Brown released his “Twelve Point Pension Reform Plan” designed to reduce state costs for the pensions and retiree health care of state, county and municipal workers. The current pension scheme is “unsustainable,” according to the governor.

The governor, a Democrat, is working closely with state employee union leaders, who received advanced notice of the plan, to get their support against the expected opposition of public employees.

The 12 point plan attacks pension rights that were won through hard-fought struggles and which are guaranteed in the California Constitution. In a clear sign of the bi-partisan character of Brown's anti-worker policies, his proposal has the full support of Republican legislators and corporate leaders.

Under Brown's proposal, public employees will not be able to retire until their 67<sup>th</sup> birthday—up from the current retirement age of 55.

In order to collect a full pension, workers hired in their 20s would need to work more than 40 years. This includes blue-collar workers, such as park employees and maintenance workers, whose daily duties impose a hard physical toll.

Under the Brown plan, traditional pensions based on years on the job and that pay a set percentage of a worker's salary—known as “defined benefit” pensions—would be replaced by “hybrid” pensions that combine workers' so-called cash balance of their defined benefit pensions with partial investment into a 401K plan, (with no guarantee of what the retirement benefit will be) and with Social Security.

Ostensibly, each of these three separate plans would contribute 25 percent of the workers last salary, toward his or her pension. What workers can really expect is a probability distribution: i.e., a gamble. For workers to do

well in this scheme, they would have to retire when the stock market is up; they would need to contribute substantial savings to their 401K plan; and they would need to have a good Social Security pension. Many jobs, such as teachers, transit workers and county employees, are not included in the Social Security system. A worker would have to accumulate Social Security coverage working at least 10 years in another job.

This combination is highly regressive in its impact. While all pensions will be slashed, low-wage and part-time workers will be most severely affected. They are less able to make enough contributions to cash balance pensions to make up for the slashing of their defined benefits retirement. Those lower paid workers that also are engaged in physical labor, will suffer a double blow.

Governor Brown is also calling for increases in the employee share deducted from their wages to pay for part of their pension, up to eight percent—nine percent for police and firefighters. In addition, when they do retire, workers would be barred from buying extra longevity time to augment their pension.

More would be deducted from employee wages—which will be invested with banks and corporations—at the same time that workers are compelled to contribute millions of dollars that will be channeled into private investment firms. Wall Street firms and insurance companies will make millions in management fees from workers' savings, extracting the lion's share of any return to the invested funds and selling them high-priced annuities when they retire.

Pensions for public employees in California date from the Great Depression and predated the creation of the Social Security system nationally. In 1930 California voters approved an amendment to the state constitution, establishing a public employee pension system. California

voters, radicalized by the effects of the Great Depression, approved the amendment to Article 16 of the state constitution in the aftermath of massive protests by the unemployed in San Francisco and a strike wave by agricultural workers led by the IWW.

Based on the principle that workers that had labored all their lives had a fundamental right to old-age security, regardless of whether or not they had accumulated enough savings, the demand for old-age pensions became a national cause. Maryland, Massachusetts, New York and other States established public pension funds that anticipated the creation of the Social Security system.

In California, the state pension system consists of a network of funds that currently covers state employees, employees of the state's 26 counties and of many cities. It also includes pensions for employees of the public school districts, and public colleges.

A coalition of state employee unions has established "Californians for Retirement Security" (CRS,) with the stated purpose of preserving the existing pension system. Far from opposing the pension cuts, the coalition is demanding that they be negotiated through collective bargaining. The members CRS aim to protect the privileges of the union bureaucracy in return for engineering massive pension cuts.

In a press release the CRS urged the state legislature to "consider facts" instead of "Republican-created political rhetoric" when dealing with the pension issue. Instead, the CRS requests, "Governor Brown and the legislature should focus on meaningful, legal and fair pension changes."

There is no clearer signal that the unions are willing to negotiate away workers' pensions and health benefits and subordinate the rights and living standards of present and future retirees to corporate and financial profits, if it turns out that the "facts" go against decent retirement incomes for public employees.

The facts, in truth, do speak for themselves; the systems that manage the state workers pensions are seriously underfunded and now require billions of dollars to guarantee the present level of benefits.

While corporate executives continue to amass millions of dollars in bonuses and payoffs, the handful of workers that take advantage of the pension law to maximize their pensions are denounced on a daily basis by the media.

Rather than raise taxes on wealth and profits, California's Brown, New York's Cuomo, and others have set out to dismantle and privatize public employee pensions.

In 2010, California unfunded liabilities—the gap between financial assets and future obligations—for California pensions was estimated at anywhere between \$59.5 billion and \$425 billion, including the largest two, CalPERS and CalSTRS, which insure state workers and teachers. The gap widened in 2011: the unfunded liability for CalSTRS alone is now \$56 billion. The value of CalSTRS assets fell \$40 billion from \$170 billion in 2007 to \$130 billion in 2008. The corresponding figure for CalPERS was \$81.4 billion, from \$260.6 billion to \$179.2 billion.

According to a study by the Stanford Institute and the non-profit group California Common Sense, two dozen other funds covering municipal and county workers have unfunded liabilities of \$137.5 billion. Among the funds that are in trouble are two of the largest, those that insure Los Angeles and San Francisco public employees.

Furthermore, the cities of San Jose and San Diego are in deep pension crisis. Both cities are asking voters to approve new pensions that would replace defined benefit plans with the costlier and inferior 401K defined contribution plans.

According to the Stanford/Common Sense report, none of the California pension funds meets the minimum actuarial solvency requirement of 80 percent funding. The study assumed a 5 percent rate of return for funds' investments. The funds themselves hope for a 7.5 percent return rate. Last year CalPERS reported an anemic 1.1 percent return.



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