California governor signs pension “reform” bill

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On September 12, California Governor Jerry Brown signed the pension reform bill passed on August 31 with overwhelming bipartisan support in both houses of the state legislature. The bill, a modified version of the 12-point plan that Brown presented last fall, is a reactionary piece of legislation that aims to set back public sector workers in California by decades and establish a precedent for other states and local administrations.

The stated intention of the bill is to create a two-tier system for pensions that will inform the wages and benefits paid to public employees. Workers hired after January 1, 2013 will be required to pay at least 50 percent of the normal, ongoing cost of benefits or the current contribution rate, whichever is greater.

One of the main targets of the bill is to increase workers’ exploitation by extending their working lives. The bill increases the retirement age from 55 to 67 in order for most new employees to get full benefits, and from age 50 to 57 for new public safety employees.

Pensions are to be based on an average of the final three years of compensation, regardless of years of service. Currently, those retiring after 25 years of service receive compensation based on the highest 12 consecutive months of average annual remuneration. This new provision has been presented as preventative of what is called “spiking,” or inflating salary in the years immediately preceding retirement. In reality, it is a device to reduce what is owed to workers.

A vilifying campaign against those pensioners making over $100,000 has been spearheaded by the media on behalf of both Democrats and Republicans to justify caps placed on pensions—a demagogic attempt to promote a false concept of fairness and fighting abuses.

New hires will not be the only ones affected by the new law. The legislation effectively mandates that in five years’ time all state, local and municipal employees will be contributing 50 percent of their pension fund out of their salaries, if they don’t do so already.

Several other provisions affect all employees, both current and new. Retroactive benefit increases are prohibited. In the past, pension improvement was applied to past benefits as well. In addition, felons are required to forfeit pension and related benefits.

In the words of Sacramento City Manager John Shirey, “This legislation marks a new era, and we should take it as an opportunity to rethink compensation, salary and benefits for the next generation of employees.” No doubt, this “new normal” will be used as an example to slash pension benefits in many other states.

Analysts from California’s pension funds are still revising their estimates on how much the state will save due to the current legislation. Altogether, it is estimated that liabilities will be reduced by $52 billion to $67 billion over three decades, an amount equal to the fortunes of a handful of California billionaires.

Still, voices are heard throughout the political establishment complaining that the new legislation doesn’t go far enough, and doesn’t show returns fast enough. One of the centerpieces of Brown’s original proposal, the hybridization of retirement plans with 401(k) accounts indexed to stock market performance, was not included in the bill passed by the legislature. This will doubtless be the basis of future attacks on pension benefits.

Critics point to recent plans in other states which go farther in reducing benefits for retirees, such as Wyoming’s ending of cost-of-living increases, or the plans already in place in several California cities that directly target the benefits of current employees. CalPERS and CalSTRS still have enormous underfunded liabilities in the neighborhood of $165 billion, as reported by the *Sacramento Bee*. In the context of austerity, recurrent promises by politicians of both parties to cut deeper can only mean greater attacks on the working conditions and benefits of workers.

In 1999 CalPERS, the enormous fund that manages public sector pensions in California, was forced to make modest concessions to public employees' pensions on the basis of an expanding stock market and growing income for the fund. By betting the contributions derived from workers' labor on the financial markets, pensions growth was manageable without large state contributions.

With the souring of market conditions, however, liabilities—pension obligations—must be cut to keep the fund's balance sheets out of the red. This means rolling back pensions to the levels that prevailed before 1999, or even farther. Brown commented after signing the bill: "We're lowering benefits to what they were before I was governor the first time"—the year 1975.

Brown, a Democrat and well-known "fiscal conservative," has made pension reform a centerpiece of his administration. He has consistently identified retiree "abuse" of the pension system as a leading cause of the system's insolvency. A tiny fraction of pensioners collect over $100,000 in benefits. Singling out these rare instances, which in any case are based on contributions into pension benefits based on employee labor, is a cynical excuse for attacking workers' basic right to a decent life in old age.

Wall Street financial vultures are already preparing to appropriate the wealth liberated from the pensions, benefits, and wages of California public workers. Bankruptcy proceedings are being utilized as a way to carve up the pension funds.

The city of Stockton, bankrupted by the decimation of property values and unable to finance its obligations to employees except through debt, will proceed to bankruptcy court where Wall Street firms will push to rip up contracts and so recoup their capital. In particular, two bond-insurance companies—National Public Finance Guarantee Corp. of New York and Assured Guaranty Corp. of Bermuda—have launched an open assault on the city's pension system.

CalPERS officials have stated: "It is surprising that sophisticated Wall Street firms, which are in the business of underwriting and insuring municipal bonds, were not aware of the priority rights of CalPERS and its members when they evaluated the ability of Stockton to repay hundreds of millions of dollars in bond debt."

The reality is that Wall Street will employ every legal resource to obliterate those priority rights. These weapons are being sharpened already. Pension consultant Rick Roeder anticipates: "You've got some large companies involved with a lot at risk who are willing to pay lawyers' fees. You've mobilized a potent adversary." The steps being prepared in Stockton and other California cities offer a clue as to how benefits and pensions will be further attacked on a larger scale.

Meanwhile, the new law holds out a bone to the labor bureaucracy by allowing these unions to "negotiate" the same deal for current workers before 2018. In other words, the SEIU and other unions will be allowed to prove their commitment to slashing workers' benefits in the name of collective bargaining and fiscal responsibility. Many Democrats in the state legislature would not vote on the bill without the inclusion of such clauses that give unions a hand in implementing austerity.

The role of the unions has been crucial for the passage of this bill. From the time of Brown's release of his 12-point reform, which constitutes the basis of this historic attack on pensions, the SEIU has provided vital support to the Democratic governor.

In October 2011, Yvonne Walker, president of the SEIU Local 1000, declared that the local "believes Gov. Brown's pension reform proposals provide a good starting point for a new conversation about retirement security for all Californians, especially as California and the nation struggle to untangle the mess caused by Wall Street's financial malpractice."

For the unions, the most important question is to ensure the survival of capitalism, not its overthrow. For them, the system that is demanding immense sacrifices from workers while their labor is exploited to levels not seen in decades is not only perfectly fine, it is required. They accept the mantra that there is no money for anything other than the extravagant lifestyles of the rich, so long as the union bureaucracy can have a slice of the booty, in the form of six-figure salaries.

SEIU Local 1000 recently announced increased salaries for all its senior officers. President Walker's salary will be tripled, which she defends with the argument that she is "a secretary doing a CEO's job."