California: Pension fund brings lawsuit against Compton

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7 November 2012

The California Public Employees' Retirement System (CalPers), the agency which manages the retirement fund for employees of the state of California, has filed a lawsuit against the city of Compton after the city stopped paying its contributions to the fund. CalPERS has not received any pension contributions from the city since September 21 and is suing to force a nearly $2.7 million payment.

Compton is the second city after San Bernardino to halt its contributions in the face of budget shortfalls. The city of Stockton may also soon cease payment under pressure from its creditors.

Stockton and San Bernardino both filed for bankruptcy this year, having been unable to meet their fiscal obligations in the aftermath of the bursting of the housing bubble in California and the contraction of property tax revenue.

Compton's city manager, Harold Duffey, told the press that the city is merely experiencing a cash flow problem in the short-term and that payments to CalPERS will resume in a couple of months. Judging by the filing of this lawsuit, however, CalPERS does not take such claims very seriously. The legal case is a declaration that the “cash flow” problem is expected to be significant and long-term.

Stockton is currently attempting to nullify its pension obligations in bankruptcy court in order to pay back its creditors on Wall Street. Although the destruction of pensions and other contracted obligations to employees in bankruptcy court is common in the private sector, public pensions have until this time been considered inviolable. The financial firms which lent money to the city of Stockton and other California municipalities are determined to reverse this, ripping up contracts to ensure that the flow of interest payments to private creditors is not checked. The likely outcome of the bankruptcy proceedings will be a shift in policy with far-reaching consequences for workers in California and throughout the United States.

This situation is a frontal assault on the retirement benefits won by working people in California, a right which reached its peak in the public sector. The state's Democratic governor, Jerry Brown, signed a sweeping pension "reform" into law in September. The bill was an amended version of a plan presented by Brown last October. It raises the retirement age and mandatory employee pension contribution for all new workers, while leaving it to the trade unions to “negotiate” similar conditions for current workers. The rhetoric from politicians in Sacramento, including Governor Brown, suggests that further “reform” will likely be needed to free the state from its obligations as quickly and completely as possible. The law provides exemptions for cities, like Los Angeles and San Jose, which even more ruthlessly savage the retirement prospects of their employees.

Although the effect of its insolvency would be catastrophic for pensioners, CalPERS is not seriously interested in defending the living standards of California's retirees. On the contrary, its actions against Compton are entirely in defense of its own balance sheet, which would dip into the red if nonpayment from cities became widespread. As an investment fund, CalPERS has the same means and ends as all other profit-seeking firms, although its “capital” is in fact the retirement savings of California's public workers, gambled on the stock and bond markets for returns that in recent years have not materialized.

This past fiscal year, CalPERS posted only a 1 percent return on investments, well short of 7.75 percent the fund planned for. Over the past few years, CalPERS has responded to declining returns by pursuing even riskier investments. The system began trading in the commodities market in 2006 with significant losses, and with the stock losses of the economic crisis, its current assets are down to $237 billion from $260 billion in 2006.

CalPERS' lawsuit against Compton, and its intervention in the San Bernardino bankruptcy, serve as an indicator of the growing severity of the crisis facing working people in California, but legal action from the fund will in no way change these conditions. Only by separating workers' retirement opportunities from private profit-making can these benefits be defended.