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Governor Targets Public Retirement Plans

Unions oppose proposal to make state pension packages more like private-sector 401(k)s.

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Gov. Arnold Schwarzenegger on Wednesday called for fundamental change in pensions for all government workers in California -- schoolteachers and garbage collectors, police and policy analysts -- a step that over time would reduce retirement security in the public sector, which employs one in eight California workers.

Schwarzenegger said the changes were needed to reduce costs for state and local governments. The state legislative analyst's office says California's public employee pensions are among the most generous in the nation.

Public employees unions and many Democratic lawmakers denounced Schwarzenegger's plan, saying it would cut benefits for government retirees and make government service less attractive for new workers. They said it would not produce the savings Schwarzenegger claimed.

During the late 1990s and the beginning of this decade, when the booming stock market made pension accounts fat, many cities and counties boosted pension benefits. Police, firefighters, prison guards and other public safety employees benefited.

Now, with the market lower, the bills are coming due, and in some cases, pensions are threatening to cost so much that public services are being cut to pay the bills.

Orange County and the city of San Diego are among the local governments struggling to cover huge deficits in their pension plans. In Contra Costa County, more than 12% of the general fund budget goes to pension plan payments for its workers.

The current pension system is "out of control, threatening our state," Schwarzenegger said, calling it "another train on another track headed for disaster."

Although he mentioned his proposal only briefly in Wednesday's speech, it may portend a dramatic political battle with government employees unions. In taking on that fight, his advisors hope he can tap into a voter backlash against well-financed public benefit plans.

The governor's plan would replace pension packages for all new employees with private plans similar to the 401(k) plans offered by private companies.

Instead of being guaranteed a fixed benefit when they retire, new employees, starting in 2007, would contribute money into a retirement account with a choice of funds. The state would also put money into the account. The payments retirees received would be based on how well their investments performed.

The plan, along with a companion proposal to base raises for schoolteachers on merit rather than on seniority, already is attracting intense opposition from public employees unions.

Schwarzenegger's plan also would diminish the clout of the state Public Employees Retirement System, which has used its enormous stock holdings to pressure businesses into adopting more union-friendly policies.

Under the current pension system, government employees are guaranteed an annual payment upon retirement. It can be as much as 90% of a worker's highest salary as a government employee -- plus a generous health insurance package. Many law enforcement employees who have been working at their job for 30 years can begin collecting such payments at age 50.

Generous pensions have long been a part of the government pay package. Public employees and their unions have argued that the pensions make up for salaries that often are lower than those in private companies.

But at a time when many private companies have cut back or eliminated pensions, the generous pensions for government workers may strike many voters as unreasonable, some political analysts say.

"People are looking next door, seeing that their 50-year-old neighbor who is in good health and works for the government is retiring with a pension of \$80,000 or \$90,000 for the rest of his life," said Steve Frates, of the Rose Institute for State and Local Government at Claremont McKenna College. "That is sticking many taxpayers in the craw."

Critics of Schwarzenegger's plan say it would do nothing to reduce state and local deficits over the next few years. Even in later years, they say, the administrative costs of handling hundreds of thousands of individual accounts would make the whole system far less efficient than now.

Under the current system, the government's costs plunge when the stock market rises. During the height of the stock market boom of the late '90s, investment returns were so high that many cities and counties did not have to contribute any money to employee pensions.

When the market falls, the costs to local government can soar, as costs are doing now.

Under the governor's plan, governments would not face the higher costs in down years but would not benefit from investment returns in good years.

"It is a bad idea, and it is built on false premises," said Assemblyman Alberto Torrico (D-Newark), chairman of the Assembly Public Employees, Retirement and Social Security Committee.

Torrico said 90% of the state and local governments in the country have the kind of traditional pension plans, or defined benefit plans, that Schwarzenegger is seeking to do away with. The ones that have experimented with 401(k)-style plans found they were a failure, he said.

The governor's pension plan was originally conceived by Assemblyman Keith Richman (R-Northridge). Richman's proposal will be considered in the special session of the Legislature. Richman also has filed his proposal with the secretary of state as a ballot initiative.

Schwarzenegger's aides made clear Wednesday that the governor would campaign for that ballot measure if the Legislature failed to act.

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