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COSTS SLAM TAXPAYERS**BYLINE:** STEVEN B. FRATES; THE PRESS-ENTERPRISE**BODY:**

In the waning days of his governorship, Gray Davis signed legislation substantially enriching the retirement formula for public employees in California.

This legislation, the often referred to "3 percent at 50" plan, allowed governing councils and boards to award as a retirement pension up to 3 percent of an employee's salary for each year of service. So, for example, someone who started a career in public employment at 20 could retire at 50 and receive as a yearly pension 90 percent of his or her final year's salary.

Many public safety employees now have this benefit, and others are approaching this benefit level. In addition, various "pension spiking" methods, such as getting credit for unused sick time or vacation time, as well as credit for various fringe benefits including car allowances, were permitted, depending upon the benefit formula adopted by the governing body.

Needless to say, once the legislation championed by Davis was enacted, there was a determined push by state and local employee unions to persuade their governing councils to award the most liberal benefits. The tech-driven stock market boom, which fattened the portfolios of the various public pension trust funds, provided convenient political cover for boards and councils. They could award richer benefits without confronting their financial impact.

Reality has now set in. The spike in public employee retirement benefits is now costing more and more money to the state and many local governments. Under the current "defined benefit" pension approach, government decision-makers are faced with the prospect of both raising taxes and cutting services to finance the increased retirement costs.

Even local governing boards that might prefer to hold the line on retirement benefit levels could lose valued employees to the other local governments that have adopted the richer benefit plan. This was precisely the dilemma that the public employee unions and their legislative allies wanted to impose on

recalcitrant local governing boards.

Not incidentally, the legislation was cleverly drawn to make the decision a "local option" - thereby deflecting some of the political heat an outraged public might direct at Sacramento.

An irate public recalled Davis, and now Gov. Schwarzenegger is proposing a "defined contribution" plan, similar to the private sector's 401(k) retirement option, for all new government employees.

The arguments for a defined contribution plan are two-fold. First, it would restore predictability to government budget planning. No more unpleasant requirements to pony up ever more tax dollars to keep the pension systems afloat and actuarially sound.

Second, politicians inclined to provide richer retirement benefits would have to face the financial implications immediately. More lavish benefits would require more taxpayer dollars, right now. The public could quickly see the costs of paying for those more lavish benefits. City councils would be forced to choose between more cops or more employee retirement benefits, every year.

If the Legislature opposes Gov. Schwarzenegger's proposal, he may go directly to the people with an initiative. There are obvious political implications, both in California and nationally, to this impending campaign. Public employee unions are, understandably, reluctant to give up the current arrangement.

But they and their legislative allies are also concerned that the governor's popularity could carry the day in an initiative campaign. A compromise of some sort might be a more appealing option.

California's battle over public pensions could spill over into the national debate over Social Security reform. Most public employees here do not pay into Social Security, but rather benefit greatly from their pension systems' investments in the stock market. This, oddly, lends a good deal of weight to President Bush's argument for privatizing Social Security accounts.

Why should only government employees enjoy the much higher returns from private retirement systems?

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Steven B. Frates is a senior fellow at the Rose Institute of State and Local Government at Claremont McKenna College.

NOTES:

Steven B. Frates is a senior fellow at the Rose Institute of State and Local Government at Claremont McKenna College.

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