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Pension-spiking bubble about to burst in state

California is fast approaching the day of reckoning for state and local governments' excessive spiking of public employees' pensions.

"California officials have awakened to the sobering reality of the massive long-term debt they created," reported an investigative news story in the Sept. 25 Los Angeles Daily News. The total cost is at least \$110 billion statewide "in coming years to pay for promised retiree pensions, health care and workers' compensation benefits."

The paper noted that many retirees receive 100 percent of their salaries while retiring at age 50.

"It's getting out of hand. It's going to blow up quickly," Steven Frates, senior fellow at the Rose Institute of State and Local Government at Claremont McKenna College, told the Orange-County Register on Sept. 26.

But a solution could be on the way, or at least more accountability. The Government Accounting Standards Board, which establishes and improves standards of state and local governmental accounting and financial reporting, has promulgated new rules that begin taking effect in 2006 and make it harder for governments to hide the long-term costs of pension spiking, Frates said. The new accounting reports are "going to rip the cover off this issue," he added. "There's no way around it."

We've been warning about this crisis for many months, not only for the state government but for a significant pension increase passed last August by the county Board of Supervisors.

Eventually, California state and local governments will have to abandon current "defined benefit" plans that leave taxpayers on the hook for any future costs, however high, of promised benefits.

Gov. Arnold Schwarzenegger tried to put such a reform - for new hires only - on the ballot this November. But technical problems led to its being delayed to next June's ballot. By then, the new accounting reports on pension spiking should make adoption of the reform an obvious necessity.