Gov. Jerry Brown signs pension reform bill

Gov. Jerry Brown signed Assembly Bill 340 in Los Angeles this morning, making changes to the pension system for state and local government employees.

"This is the biggest rollback to public pension benefits in the history of California pensions," Brown said in a statement. "We're lowering benefits to what they were before I was Governor the first time and reducing costs by up to $55 billion in PERS and billions more in other local pension systems. Under the new rules, employers and employees alike are going to contribute their fair share of the costs, resulting in a more sustainable system."

The legislation caps benefits, increases the retirement age, stops abusive practices and requires state employees to pay at least half of their pension costs.

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California Legislature approves public pension changes

By Jon Ortiz and Jim Sanders
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California lawmakers approved a package of changes Friday aimed at cutting costs for public pensions, sending legislation to Gov. Jerry Brown despite objections from both organized labor and Republicans unhappy with its scope.

Last-minute legislation to overhaul California's workers' compensation system also was headed to the governor as the final day of the legislative session drew to a close.

Senate President Darrell Steinberg said the pension deal cut a fine path between preserving traditional state and local pensions while making them affordable for government employers.

"I hope this puts this issue – which has so dominated the public discourse for a long time – if not away, at least off to the side so we can focus on some positive agendas," Steinberg told reporters outside the Senate chamber after the vote.

The 40-member Senate cleared the measure 38-1. In the Assembly, 48 of 80 lawmakers supported the bill. Eight voted against it.
Assembly Republicans complained they were pressured to take a position on a flawed bill that didn't surface until the final week of the session. Others complained the measure was political pandering to cost-conscious voters ahead of November elections.

"This, to me, is a very insincere ploy to go out before the voters and say we did some pension reform," said Diane Harkey, R-Dana Point, "because you know how well that polls."

The pension bill's politics played out just a few hours after the California Public Employees' Retirement System made clear that most of the estimated savings from pension reform won't come until later years.

Because the most significant rollbacks apply as of Jan. 1, 2013 to new hires and not current workers, savings for the coming fiscal year will reach just $146 million at most, the state's massive public pension fund estimated. Twenty years from now, annual savings would come to as much as $2.5 billion.

CalPERS estimated savings will total between $43.3 billion and $55.8 billion over 30 years. The figures aren't adjusted for inflation and include local employers such as cities, counties and school districts.

The measure achieves those savings through several changes. The most significant for new workers: caps on how much of higher-earners' pay counts toward their pensions, retirement formula rollbacks and later retirement ages.

All employees, regardless of hire date, also would have to split their normal pension costs with their employers 50-50. Employees hired before Jan. 1, 2013, however, would have until 2018 to pay more, depending on their contracts.

Unions have hammered the legislation as an end-run on collective bargaining and said it scapegoats civil servants. Assemblyman Sandré Swanson, D-Alameda, said Friday he had the same concerns and wouldn't vote with his party.

Pension reformers won't be satisfied with the cuts, he said, and the measure puts organized labor on its heels.

"It's a slippery slope," Swanson said of the pension legislation. "What will it be next year?"

The wide-ranging changes to California's system for treating and compensating injured workers received bipartisan support.

Gov. Jerry Brown signaled his willingness to sign the workers' compensation measure in a statement early in the day, calling it "an extraordinary bill that will avert an imminent crisis where workers suffer and rates will skyrocket."

Key elements of SB 863 would increase permanent disability benefits by $740 million – an average hike of about 30 percent – and would create a $120 million program for workers injured severely enough that they cannot go back to a job at their previous wage level.

Republicans praised the measure for benefiting California businesses, too, by easing prospects of a potential 18 percent increase in their workers' compensation insurance costs.

Proposed by Los Angeles Democrat Sen. Kevin de León, it was supported by representatives of labor unions and employers but fiercely opposed by lawyers representing injured workers.
The goal was to increase benefits by creating savings through changes to the workers' compensation program likely to reduce the number of lawsuits filed over treatment and compensation.

Supporters hailed the effort as a way to correct inequities that have arisen from workers' compensation reform passed by then-Gov. Arnold Schwarzenegger in 2004.

Assemblyman Jose Solorio, a Santa Ana Democrat who jockeyed the bill on the Assembly floor, called the proposal an "all-out assault on waste, fraud and abuse."

"The current system is wrapped up in red tape, it's too expensive, and it's hurting California employers," added Assemblyman Brian Nestande, R-Palm Desert.

But Fresno Republican Assemblywoman Linda Halderman, a physician by profession, predicted the real-world effects of the bill will never measure up to supporters' claims.

"This is a harmful bill to the people we're purporting to help," she said.

Assemblyman Ben Hueso, D-San Diego, said lawmakers would feed voter cynicism of backroom deals by approving a 170-page overhaul crafted in the final days of the legislative session.

"Let's conduct ourselves with more honor and more dignity," he said. "Let's involve our community in our decisions."

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The State Worker: The years have brought CalPERS back to earth

By Jon Ortiz
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CalPERS, an organization that once unapologetically promoted higher public pension benefits, is evolving.

After decades of high-flying investment returns and the will to use the political clout that went with being the nation's largest public pension fund, Cal-PERS' rhetoric has come back to earth a bit.

The latest evidence of a more ... humble? ... CalPERS surfaced last week. After the fund's board listened to an analysis of a pension overhaul measure now on Gov. Jerry Brown's desk, CEO Anne Stausboll issued a statement:

"The long, arduous and often contentious journey of public pension reform reached a major milestone today," Stausboll said, adding that the measure "moves us forward to having a stronger and more affordable retirement system."

It was an admission that pensions must change. CalPERS used to deny it. In fact, 13 years ago the fund promoted legislation that hiked the very benefits that the new law will roll back for future employees.
In 1999, the fund's asset portfolio was flush, its confidence in its investing acumen high. So when a bill to boost retirement benefits surfaced, CalPERS published a brochure with a promise: "NO INCREASE OVER CURRENT EMPLOYER CONTRIBUTIONS IS NEEDED FOR THESE BENEFIT IMPROVEMENTS."

Lawmakers overwhelmingly passed Senate Bill 400 with only seven no votes.

For a while CalPERS was so prosperous that it let employers skip payments some years.

Then the 2008 market crash revealed that even CalPERS can't defy gravity. It logged multibillion-dollar losses and, even after a nearly 21 percent gain two years ago, lowered its investment assumptions and hiked what employers – and by extension, taxpayers – have to pay to cover those promised benefits.

CalPERS also suffered through an embarrassing influence-peddling scandal and a multimillion-dollar computer system debacle. To its credit, CalPERS commissioned the report that exposed the scandal. It's still cleaning up the IT mess.

All of that tarnished CalPERS' image – and sparked change. The fund now publishes online cost reports for employers – all 3,000 of them. It's reworking its investments. It posts travel costs and economic interest statements filed by fund leaders and investment staff.

CalPERS still has its critics, including Joe Nation, a Stanford public policy professor who thinks the pension fund's investment assumptions are far too optimistic. The former Democratic state lawmaker's studies have been invoked by ardent pension reformers, including former Gov. Arnold Schwarzenegger.

CalPERS has lambasted his work, but last month Nation was a panelist at a pension forum the fund hosted.

He thanked officials for inviting him, "and for trying to build a big tent here because, frankly, that hasn't happened in the past."

Editor's Note: This column has been updated from print and online versions to correct the reference to the CalPERS computer debacle from "multibillion" to "multimillion." Corrected at 9:37 a.m. on Sept. 6, 2012.

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Local officials still penciling out when California pension reform will help

By Jon Ortiz and Loretta Kalb
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Sweeping public pension legislation approved last week will change the relationship between thousands of California governments and their workers, but local officials are still figuring out the long-term outcome for taxpayers.

Many expect weeks of painstaking analysis followed by years of bargaining and employee turnover before they'll fully realize the savings. But in an era of squeezed budgets, local officials say they are ready to dig into retirement fund costs for some relief.
Once Gov. Jerry Brown signs the legislation, many think they'll have a bigger shovel.

"This will be the new base from which we operate for the next five, 10, maybe 20 years," said Dwight Stenbakken, executive deputy director of the League of California Cities.

Most of the pension legislation passed last week won't affect state employees. Many of the provisions are already in their contracts.

The fallout on local governments will vary greatly. Charter cities such as San Jose, San Diego and San Francisco aren't covered at all. Voters in those cities have passed their own pension changes.

For other municipalities and special districts, there's no one-size-fits-all plan; cities, counties and school districts are scrambling to analyze how the changes apply to them and when they might start saving money.

The bill state lawmakers approved last week shifts more pension costs to workers and cuts benefits for new hires, aiming over time to trim both what government employers pay in and what pension funds pay out.

Employees hired on or after Jan. 1, 2013, will be placed in less-generous defined-benefit retirement plans than workers hired earlier. The measure also puts a cap on how much of their pay will be used to figure their pensions.

New hires will have to wait longer to retire and pay at least half the cost of their pensions, with the employer paying the balance.

"It's been a very common practice for local employers to pick up their employees' pension costs," said Tim Yeung, a Sacramento-based labor attorney. "They've done it over the years instead of salary increases."

Lawmakers didn't change the pension formulas or retirement ages for current employees. Conventional legal wisdom has been that pensions, once promised, can't be altered.

But the measure does give municipalities a five-year window to negotiate the 50-50 pension contribution split with workers on the rolls before 2013. If talks fail, employers can impose the higher payments.

"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," said Sacramento City Manager John Shirey.

CalPERS estimates the measure will trim state and local public pension costs by $42 billion to $55 billion over 30 years. The changes will save just $146 million next year, with annual savings gradually increasing to $2.5 billion in the 20th year of the plan.

While there will be little help to the city's budget in the short term, Shirey said, it will bring significant savings over time.

Perhaps most dramatic will be the changes that await new hires within local firefighting ranks. Until now, many have been in pension plans that qualified them for retirement at age 50 at 3 percent of their highest annual salary multiplied by their years on the job.

All of the firefighters for the Cosumnes Community Services District, for example, are eligible for 3 percent at age 50. That means a firefighter who exits earning $81,000 annually would receive $48,600 per year in retirement payments after 20 years on the job.
Under the overhaul, Consumnes firefighters hired next year and new to the public pension system will be eligible for a reduced formula: 2 percent at age 50. In that case, given the same salary and service time factors, the formula would generate one-third less retirement income, or $32,400 a year.

In Yolo County, Deputy County Administrator Mindi Nunes said the new pension plan "is better than we expected."

Still, she is realistic. The county, which lost a large segment of its workforce in the downturn, isn't doing much hiring, and it will be years before savings on pension costs kick in.

The changes already in place for state worker pensions set something of a template for the measure lawmakers passed last week, Assembly Bill 340.

For example, retirement benefits for state employees hired since 2006 are calculated using a three-year salary average instead of their single-highest year. The rule deters "spiking," which allows an employee to take an end-of-career promotion or pay raise that drastically bumps up their pension checks.

Sacramento County already uses the three-year average to calculate retirement benefits for the vast majority of employees, and it recently established a reduced pension formula for miscellaneous workers hired after Jan. 1, 2012. The deal grants them 2.43 percent at age 65.

It's an actuary's guess whether that will prove to be less generous or more generous than the formula contained in the state's new plan.

The new legislation calls for 2.5 percent for workers hired starting in 2013. But the state plan sets an older age, 67, for the retirement benefit.

Another provision of the new law limits how much of a new worker's average final pay counts toward pension calculations: $110,000 for most employees; $132,000 for public workers such as teachers, police and firefighters who don't participate in Social Security. The figures will adjust annually for inflation.

Relatively few employees earn base pay that crosses the six-figure thresholds. A Bee analysis of state government payroll data, for example, shows that about 9,000 state workers, or 4 percent, earned $110,000 or more last year before overtime.

The pension cap will keep many rank-and-file law enforcement officers from moving into management jobs, predicted Ron Cottingham, president of Peace Officers Research Association of California, which represents 64,000 public safety employees.

"You could also see a brain drain" of experienced workers, he said, as higher employee contributions kick in. "People won't want to lose that much going forward, so they'll pull the pin and retire and go do something else."

Brown, who enthusiastically announced the measure last week, is expected to sign it soon. Then it will be organized labor's move. Some union leaders have suggested they would back a ballot referendum asking voters to overturn the law. They also could sue.

"Lawyers are looking at these things," said Cottingham. "We don't know yet if this is something that could be legally challenged."

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