

Readers' Forum: Misguided attempt to top pension spiking

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By John Gioia

Guest Commentary

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THERE HAS been a lot of media coverage recently about the issue of "pension spiking" among public employees in California. "Pension spiking" essentially refers to the ability employees to increase their "final compensation" in their last year of employment so that the annual pension benefit is based on an amount that is higher than the base salary.

For example, cashing out unused and accrued vacation time, holiday time or administrative and sick leave immediately before retirement has been used to inflate final-year compensation, thereby boosting the lifelong pension payout.

In a purported attempt to address pension spiking, Assemblywoman Fiona Ma, D-San Francisco, has introduced Assembly Bill 1987. The authors of AB1987 have stated that the bill will close loopholes and diminish the practice of "pension spiking." Unfortunately, the bill does not solve the problem that it is claiming to solve.

AB1987 is a poorly drafted piece of legislation that would cost Contra Costa taxpayers even more in the long run. It would essentially lock in prior 'pension spiking' practices under the guise that it is an 'anti-spiking' bill.

Some of the policy declarations included in AB1987 are that "the efficacy of the retirement systems is threatened by the behavior of those who seek to unfairly and unjustifiably enhance or 'spike' their pensions" and that "any manipulation of (retirement) benefits creates harm for the employees, beneficiaries, employers, and taxpayers and should not be permitted."

The problem is that the bill's substance allows such manipulation to continue to occur.

Pension law is complex and not easily understood. When AB1987 was first introduced, it was hailed as a partial solution to pension spiking, in large part because of its stated intentions and nice sounding language. It took careful analysis by pension law experts to uncover the bill's real implications.

Now that we know that pension spiking will not really be solved by this bill, hopefully, the Legislature will amend it to truly address the problem.

While it is important to resolve the pension spiking problem, the greater challenge remains the unsustainability of pensions in general. In Contra Costa County alone, our pension costs will increase dramatically between now and 2015.

For our 2010-11 budget, the county has had to increase its contribution for retiree pensions by \$11 million. Assuming the county's pension fund earns its targeted investment rate of 7.75 percent, the county will be paying an additional \$59 million for pensions in 2015.

Currently, for every dollar paid in employee wages, the county pays 41 cents for pension benefits. Without a real solution to the pension issue, the county will be forced to layoff hundreds of employees and drastically reduce important services to county residents.

We are not alone in Contra Costa. Pensions costs are growing and affecting public agencies throughout California.

Unfortunately, AB1987 does nothing to address the overall issue of unsustainability of government pensions in California, and worse, it perpetuates the system it purports to fix.

Let's hope the Legislature honestly decides to deal with the issue.

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