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### **Budget-busting pension costs: Is there a fix?**

By Ed Mendel

MARTINEZ — Contra Costa County is projecting that annual pension costs for its employees will soar from about \$140 million currently to \$250 million in six years, a 77 percent increase.

The county's pension costs have attracted national media attention because of reports in the Contra Costa Times that two fire chiefs, who retired at ages 50 and 51, are receiving pensions much larger than their base salaries on the job.

But county officials said the main driver of the soaring costs is not the pension "spiking" of a few top officials, but the stock market crash that wiped out 27 percent of the value of the county pension fund.

"This is going to be a brutal period of time," David Twa, the county administrator told the supervisors at a board meeting this week. "There is no way to sugar coat this. This is an issue we are going to struggle with mightily over the next few years."

Public pension funds like the Contra Costa County Employees Retirement Association have been getting much of their revenue from investments — as much as 75 percent in some cases, far more than contributions from employers and employees.

A ballot measure narrowly approved by voters in 1984, Proposition 21, lifted a cap that said no more than 25 percent of a public pension fund could be invested in stocks, blue chip at that.

The rest of the fund had to be in less risky investments such as bonds. The stock lid came off as the market began a long boom, allowing funds such as the University of California's to go two decades without contributions from employers or employees.

Years of double-digit investment earnings led to the belief that generous pension benefits, notably SB 400 in 1999, could be paid for by investments with little or no need for increased contributions from employers or employees.

Now a historic market crash has punched a big hole in pension funds. Government agencies face years of increased pension contributions to make up for the losses, threatening funding for other programs.

Public pensions are an unusual government expenditure. The annual contribution that must be paid by government

agencies is set by retirement boards, not elected officials, and vested benefits can only be cut if replaced by something of equal value.

At the meeting of the Contra Costa supervisors, some of the possible solutions were mentioned. Will the stock market rebound enough to cover the losses? Can actuaries use "smoothing" to delay increased contributions?

Since benefits for current and retired workers can't be cut, how about a "second tier" that reduces benefits for new hires? And to share the pain with the employer, should current employees pay more toward their pensions?

Supervisor John Gioia, who also sits on the retirement board, said a big increase in the stock market would reduce the projected cost increases, but probably not significantly because of the way gains and losses are smoothed.

Similarly, he said, a big downturn would not sharply increase costs. The cost projections assume average annual earnings of 7.8 percent, which is typical of many public pension funds but unlikely to be achieved in the view of some experts.

Although there can be pressure to aid employers by lowering contributions, Gioia said, retirement boards have a duty to maintain the integrity of the retirement system.

"Most counties have maintained the current formula, which is smoothing gains and losses over a five-year period," he said. "CalPERS (the giant California Public Employees Retirement System) is sort of an outlier.

"They have tried to minimize the impact of wide swings in the market by going to a 15-year smoothing period, which I think people realize is sort of unique and no one is about to go there."

CalPERS <u>adopted a plan</u> in June that will phase in cost increases for about 2,000 local government plans over a three-year period. A decision on the contribution for the state, which faces a \$20 billion budget shortfall, is expected this month.

A <u>reform group is trying</u> to put an initiative on the ballot next November that would cut public pension benefits for new government hires. Administrator Twa told the Contra Costa board a "two-tier" plan would take 10 to 15 years to produce savings.

Gioia said the county system operates under a law that assumes an equal 50-50 split of contributions between employers and employees. He said the average split in Contra Costa has the county paying 75 percent.

"Probably the only way you get an immediate savings — but this is clearly an issue subject to negotiations — is the cost share," said Gioia.

Rollie Katz of Public Employees Union, Local One, told the board the county agreed "moons ago" in contract negotiations to increase its pension contributions, rather than increase pay.

"Now suddenly it's the flavor of the month," Katz said. "Oh, if we just cut that out, we'd address this pension problem.' That's a pay cut for our members."

Katz said the county's pension costs are soaring for the same reason that individual investment retirement plans, 401(k) s and IRAs, are suffering — a "global financial crisis" caused by the greed of the wealthy not the pensions of workers.

"I think it's very important that you recognize the reason for these large increases in your costs for pensions in the next few years are not caused by some outrageous gaming of the system by a couple of fire chiefs who got some outrageous

pension that offends our members every bit as much as it offends anybody who reads the Contra Costa Times," Katz told the board.

An *analysis of the fire chiefs'* pensions by a fiduciary counsel, Reed Smith, has been posted on the website of the Contra Costa retirement board, which plans to hold a hearing on the issue on Jan. 11.

The analysis shows how Craig Bowen, a San Ramon fire chief, had a base salary of \$222,507 and retired with an annual pension of \$283,958. The pension calculation was boosted with management pay, stand-by pay, an auto allowance, and cashing in administrative leave and vacation time.

Some of the increase is allowed under court action, the "Ventura" decision and the "Paulson" settlement, said the analysis. But the final compensation may have been overstated by at least \$37,526.

"Thus, we can see how just one example of what the press labels 'pension spiking' (albeit an extreme case) could result in a benefit cost approaching a million dollars over time," said the analysis.

At the board meeting, the supervisors also heard from a number of in-home health workers who made emotional pleas against cutting their health care and pensions, which one woman said averaged \$129 to \$149 a month.

"I'm working very hard," another woman, Juana Padilla, told the board. "Please don't cut the medical and the pensions."

Reporter Ed Mendel covered the Capitol in Sacramento for nearly three decades, most recently for the San Diego Union-Tribune. More stories are at http://calpensions.com/ Posted 3 Dec 09

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### 5 Responses to "Budget-busting pension costs: Is there a fix?"

1. Tough Love Says: December 3, 2009 at 4:23 pm

Quoting ... "Katz said the county's pension costs are soaring for the same reason that individual investment retirement plans, 401(k)s and IRAs, are suffering — a "global financial crisis" caused by the greed of the wealthy not the pensions of workers."

Katz can "spin" this anyway she wants, but he bottom line isn't the FUNDING side, its the EXPENSE side.

At EVERY (yes EVERY) income level, a California Civil Servant's pension will be 2-4 times that of the typical Private Sector worker retiring at the SAME age, making the SAME pay, and having worker for the SAME # of years, and the 2-4 times rises to 4-6 times for policemen & firemen.

The PROBLEM isn't the funding, its that the pension formula is simply TOO GENEROUS, unsustainable (using the words of Ron Seeling, CalPERS chief actuary), and unfair to TAXPAYRES that pay for the vast bulk of these plans.

# 2. *Dr. Mark H. Shapiro* Says: December 3, 2009 at 5:33 pm

The problem is not that the average public employee's pension is too generous. It is that the pensions of private sector workers have been decimated to pay the outrageous salaries, pensions and perks of the few at the top of private sector businesses.

These few have successfully diverted the attention of their employees from their own meager retirement benefits to those of public employees.

### 3. Pete Says:

December 3, 2009 at 8:02 pm

There is no reason to have government unions. They and the government are like two parasites that are sucking the life blood out of the taxpayer. We need to take the government off the government union payroll somehow.

### 4. *Tough Love* Says:

December 3, 2009 at 8:49 pm

Quoting ... Dr. Mark H. Shapiro ......

"The problem is not that the average public employee's pension is too generous. It is that the pensions of private sector workers have been decimated to pay the outrageous salaries, pensions and perks of the few at the top of private sector businesses.

These few have successfully diverted the attention of their employees from their own meager retirement benefits to those of public employees."

Your are certainly correct that top corporate management has abused the system, and the lower pensions for the Private Sector masses is one element of a broader strategy to enrich themselves. But, in the Private Sector, there are fundamental controls in place to prevent pay, pensions, and benefits of all types from getting too excessive. Its called bankruptcy.

Similar controls do not exist (or do so only in a vague, hard-to-fathem sort of way) in the Public Sector. The quid-pro-quo between Civil Servant unions and politicians is completly out of hand with seemingly no limit on the excess (of taxpayer money) to be given away with abandon ... and with no foreseably consequences, personal or otherwise.

Pension and benefit reductions for CURRENT employees are soooo overdue to equalize the playing field.

### 5. *GP* Says:

December 8, 2009 at 1:15 am

California voters should call / email their state representative and inform them that they will vote Libertarian unless government employee unions are made illegal. That is the only way to ensure equal treatment of public and private sector workers. Period.

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