

## Background on Pension Reform

This background document is aimed at keeping city officials informed about the current state of pension reform in California.<sup>1</sup>

Public pension reform has emerged as a major issue in recent years as state and local agencies have struggled to adjust to declining revenues and volatile financial markets. Questions have emerged over whether public agencies can continue to offer the level of pension benefits that they have in the past.

Local governments, reeling from budget pressures, have been at the forefront of this discussion. In many cases, agreements have been secured at the local collective bargaining table resulting in second tiers for new employees, greater cost sharing among existing employees as well as other concessions. While reform efforts continue at the local level, some argue that larger statewide reforms must happen in order for pension systems to remain sustainable in the long term.

At the state level, the pension discussion is taking shape in different forms. In February, a report by the Little Hoover Commission (LHC) sparked a heated debate about how far some are willing to go to make what is believed to be necessary changes.

In late March, after budget negotiations broke down, Gov. Jerry Brown released his 12-Point Pension Reform Plan. As part of these same negotiations, Senate Republicans released proposed pension reform ideas, many of which are contained in a package of bills authored by Sen. Mimi Walters (R-Laguna Niguel). Additionally, there have been efforts to place an initiative on the ballot for the next statewide general election.

Some contend that for reforms to take place they have to happen now, otherwise the momentum for change

on this issue will be lost. It will be interesting to see whether the Legislature will seriously address this issue or whether the voters will be deciding the fate of public pensions. In any event, public employee unions are gearing up for a fight to protect the pensions they've been promised, and recently launched a new website [www.dontscapegoatus.com](http://www.dontscapegoatus.com), which is dedicated to debunking various assertions about the need for reforms.

The following is a snapshot of the discussions on pension reform in California.

### Little Hoover Commission recommends changes

In February, LHC issued its report *Public Pensions for Retirement Security* with comprehensive recommendations to reform California's public pension systems including altering unearned future benefits for current employees, putting into place a "hybrid" model containing both a defined benefit and defined contribution, and placing caps on the amount of salary that can be used to calculate retirement benefits. LHC made several other recommendations.

### Governor proposes 12-Point Pension Reform Plan in March

The Governor released his pension reform proposal shortly after budget negotiations broke down in March which:

- Eliminates "airtime" purchase;
- Revokes pensions if convicted of felony arriving out of official duties;
- Prohibits retroactive increases in benefits;
- Requires full funding of pension obligations;
- Prohibits employer paying member share of contributions;
- Prohibits pension spiking; and
- Applies reforms to UC and local system

### Senate Republicans release demands

Several of LHC recommendations were put forward by the Senate Republicans in March as part of the budget negotiations including altering unearned future benefits for current employees, putting into place a "hybrid" model containing both a defined benefit and defined contribution, and placing caps on the amount of salary that can be used to calculate retirement benefits.

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<sup>1</sup> The information contained in this document was used in a handout at the League's Legislative Action Days for a panel discussion on pension reform. The information may have changed since its production on May 19, 2011.

### **Senator Walters introduces pension reform package (Senate Bills 520 - 528)**

These bills propose to impose a hybrid retirement plan; require full funding of post-employment health care benefits with employees and employers each pay half; eliminate “airtime” purchasing option; prohibit PERS pensions for publicly-elected officials; eliminate retroactive benefit increases; raise minimum retirement age for state employees to 55; eliminate pension spiking; limit collective bargaining of pensions except for amount of employee contributions; and replace elected with appointed PERS board members.

### **League Board identifies pension sustainability as a strategic goal**

The League is committing to work with stakeholders to promote sustainable and secure public pensions. Actions taken to date include the following:

- Roughly 300 cities responded to a survey to determine what changes are taking place locally.
- League website added the Pension Information Center, a clearinghouse for pension-focused research, studies, surveys and other relevant information, including the City Managers’ Department white papers and local area group principles.
- Pension reform panel discussions held at League conferences.
- Employee Relations and Revenue and Taxation Policy Committees reviewing reform proposals.
- City Managers’ Department developed a Pension Reform Action Plan that will be reviewed by the League policy committees and the board.

### **Statewide ballot measures**

No statewide ballot measures have qualified for the February or November 2012 ballot or have been cleared for circulation. However, former Assembly Member Roger Niello’s proposed initiative, the “Public Employee Pension Reform Act,” has been submitted to the Attorney General for review. Signature gathering may begin once the review is completed. This proposed initiative would prohibit retroactive benefit increases, provide minimum retirement age of 62, require five consecutive years of service, limit benefits to 60% of highest base wage over three years and require equal employee and employer contributions.

Additionally, California Foundation for Fiscal Responsibility advocates its proposal “The Fair and Sensible Public Employee Retirement Plan Reform Act,” which, among other things, seeks to align state and local government retirement benefits with those offered by the federal government and large private employers.

- Commissioned a legal opinion on the question of “vested rights” to pensions
- Continue outreach to employee unions and other stakeholders

### **Voters on pension reform**

In January, the [Public Policy Institute of California released its “Californians and their Government” poll, which found:](#)

- Three of four Californians view the money spent on public employee pensions as a problem;
- The percentage calling it a big problem has grown ten percent since January 2005;
- Republicans (54%) more likely than independents (42%), Democrats (35%) to consider big problem;
- Four in ten across income groups hold this view, while this perception increases with older age; and
- 67% would favor changing the pension system for new public employees from defined benefits to a defined contribution system. Support increases with rising income.

A Los Angeles Times - USC poll conducted in April found that:

- 70% support cap on pensions for current and future public employees;
- 66% of Democrats support pension caps for current and future workers;
- 68% support raising employee contributions to their retirement plans;
- 66% support a blend of traditional pensions and a 401(k); and
- 52% support increasing the retirement age.