

CUTTING PUBLIC PENSIONS NOW WON'T SAVE CALIFORNIA

By George Skelton | Capitol Journal

From Sacramento--

Let's be clear: State employee pensions are not to blame for Sacramento's budget deficit. Not by any math.

Down the road, the current state pension system probably is not fiscally sustainable, as some studies have reported. It could burn a hole in the state vault — some time in the future. But not now or any time soon.

Yes, some local governments are suffering financially because of their politicians' short-sighted largess in negotiating overly generous pension schemes with public employee unions.

A Times article Friday by reporters Evan Halper and Catherine Saillant pointed out that at least 180 local governments in California kept sweetening employee pension plans even after the state's economy began tanking, sinking the entities further into debt. Now they're forced to lay off workers and reduce public services.

Maybe somehow the local governments were laundering state money meant for welfare moms, sick children and other worthy services into their pension funds. Could be. Maybe there's an indirect, clandestine link to state spending. But short of that, there's no connection between bloated local pensions and state budget bleeding.

Here are the dollar data on the state's pension costs: For the next fiscal year, pension payments out of the \$85-billion general fund are slated to total \$3.7 billion. Of that, \$2.4 billion is earmarked for state employees (CalPERS). The other \$1.3 billion is for teachers (CalSTRS). An additional \$1.8-billion payment to CalPERS will come from special funds that don't figure in the deficit. The projected general fund deficit, after roughly \$11 billion in spending cuts and funding shifts last month, is \$15.4 billion.

So, hypothetically, even if the governor and Legislature eliminated all payments to the state and teacher pension funds, they still would face a budget deficit of nearly \$12 billion. And, of course, that's not a realistic scenario. They're not going to completely stiff public employees and provide them with no retirement benefits at all.

Not even the most aggressive pension reformers advocate that. And none I've talked to claim their proposals would help fill the current budget hole.

"It would not have a significant impact," says former Republican Assemblyman Roger Niello of Sacramento County, who is pushing a pension initiative for the 2012 state ballot. "Frankly, I don't know of anything that can be done [with pensions] that would have a significant impact on this or next year's budget."

Maybe state employees could pay more into their pension system? Most already have agreed in collective bargaining to do that.

The point is this: When Gov. Jerry Brown says he needs to extend higher tax rates for five years to honestly balance the books, it is not a legitimate retort to claim that if the state merely whacked away at pensions, it could operate in the black. Pensions and taxes should be separated as policy issues. They're non sequiturs.

But they are justifiably linked politically.

When Republicans demand pension reform as a condition for their voting to authorize a tax election, that's good old-fashioned politics.

If only they could cut the deal.

Republicans are afraid to agree to anything — no matter how coveted by the GOP — that contains the whiff of a tax hike. And the Democratic governor tries to avoid angering public employee unions, although he did recently by unexpectedly offering his own pension reform outline.

Public pensions in California — state and especially local — not only are unsustainable fiscally, they're doomed politically. There's a lot of pension envy by private sector workers who have been stripped of the retirement benefits they once had banked on. Why, they ask, should they contribute tax money for a level of pension generosity denied them?

When tax talks between Brown and Senate Republicans collapsed, the governor quickly unveiled his own pension ideas. Too bad for Republicans. If they had negotiated a deal, the credit for any pension reform could have been all theirs.

Brown didn't go far enough for Republicans and reformers. He went too far for unions. Actually, he probably went about the right distance, considering the stormy political climate. There's still much, after all, to be negotiated.

The governor's proposals would apply to state and local employees alike. It's a long list, but three of the more significant proposals would:

-- Cap pensions at \$106,000 annually. The cap would rise for retirees not eligible for Social Security. "We think that's a very reasonable pension, a very adequate amount for people to live a fine life on," says Brown's veteran labor director, Marty Morgenstern. "Beyond that, we think it's excessive." Tell that to some retired city managers, police chiefs and university administrators, speaking of excessive.

-- Prohibit pension "spiking" by basing benefits only on base wages — no overtime or unused vacation — during the three highest consecutive earning years. State pensions now are pegged to a three-year average, but many local governments calculate retirements on the single highest year.

-- Offer employees a "hybrid" system of reduced pension pay combined with a 401(k)-type plan that they could cart with them to a private-sector job.

Republicans insist on making a hybrid system mandatory. Brown's proposal "assumes public employees will volunteer for lower benefits, which ignores reality," asserts Senate Republican Leader Bob Dutton of Rancho Cucamonga.

"We're far from locked in concrete," Morgenstern says.

The biggest criticism of Brown's plan is that the key changes would affect only new employees.

Morgenstern replies that altering prospective benefits for current workers is legally questionable. "We could say we're going to do that and win some political points and wind up in courts forever," he says. "It's a long shot."

But it's a shot Brown should take. There would be big budget benefits in the future, even if absolutely none right now.