**When it comes to pensions, California is no Detroit**

**The Golden State's troubles are solvable if unions and conservatives each give a bit.**

By John D.R. Clark, Los Angeles Times. December 29, 2013

The Detroit bankruptcy court judge's ruling that employee pensions are "on the table" for potential reductions has spurred yet another round of acrimonious debate between those on the right who blame public-sector pensions for virtually all of government's fiscal problems and employee unions that deny there's a problem at all.

Neither side is right.

Most of the pension funds in extreme crisis (including those in Illinois, Kansas, Detroit and Chicago) got that way not because of the pension system itself but rather because elected officials failed to make the annual required contributions needed to keep funds solvent. Skipping these payments was politically expedient during the Great Recession, but the unpaid bills compounded quickly.

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The amounts now owed to some of the worst-funded plans, like Detroit's, are beyond the realistic ability of their sponsoring governments to pay. This, of course, infuriates union members who note, accurately, that if the bills had been paid on time, the crisis wouldn't exist, at least in its present proportions.

California has a different problem. Here, it is not possible for local agencies to defer or reduce their required contributions to the California Public Employees Retirement System, or [CalPERS](http://www.latimes.com/topic/california-public-employees-retirement-system-ORGOV000359.topic). California's pension problems have much more to do with pension enhancements. This was a major factor, but far from the sole cause, of bankruptcies in Vallejo, Stockton and San Bernardino.

Before pension formulas were increased in 1999, the typical police and fire employee accrued 2% for each year of service as long as the employee retired at 50 or later. A person who started as a firefighter or police officer at 20, say, could retire at 50 with 60% of his or her pay. The post-1999 enhanced formula adopted by most jurisdictions statewide was 3% for each year worked if they retired at 50 or later. This meant that those same 30 years were now worth 90% of salary, a 50% jump.

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On average, cities and counties in California pay about 35% of every police and fire salary dollar as the employer contribution to CalPERS. Employees themselves contribute an additional 8% to 12%. This is why California's pension system is not in a crisis, despite what the anti-union critics say. Our local governments and their employees are making contributions totaling 40% to 50% of salary to keep the state's pension system solvent.

But it's easy to see why governments are having a hard time shouldering the financial burden. That burden has been made harder by CalPERS' decision to slowly ratchet back its investment return and other assumptions to more conservative positions. This will further improve CalPERS' financial situation (which is already pretty good), but employer rates will also rise. The total contributions of employer and employee may one day hit nearly 60% of a salary.

This is the part of the problem that unions have been loath to recognize.

More than 40% of the pension contribution made by cities and counties for police and fire employees is attributable to the increase from pension enhancements, which raised the payout after 30 years of employment from 60% to 90%. For a medium-sized suburb with 100 sworn police officers and 50 sworn firefighters earning an average base pay of $80,000 annually, the difference between the old pension formula and the new amounts to $1.8 million a year.

Reforms enacted last year in California trimmed back pensions for new hires to a level roughly similar to the pre-1999 levels. But the rub for employers is that because these new formulas apply only to new employees, it will take at least 10 years to realize significant savings. In the meantime, governments will be funding the higher-formula employees throughout their working life and retirement.

Still, the new pension formulas will eventually bend the cost curve downward. What they won't do, but should, is require an increase in the percentage that employees have to pay.

It would not be unreasonable to ask the grandfathered employees to increase their contribution to, say, one-third of the employer-employee total. This might mean a very high employee contribution of 20%, but it would still be a bargain considering it buys a lifetime pension of 90% of very generous pay.

In the end, neither side's extreme rhetoric comes close to accurately describing the situation. Conservatives who lay the blame for the bankruptcies of Vallejo, Stockton and San Bernardino solely at the feet of employee pensions must understand that many factors led to these cities' insolvency, including huge losses of tax revenue, population flight and inflexible salary increase requirements embedded in their charters. The vast majority of cities and counties in California are not on the same path as Vallejo, Stockton and San Bernardino.

By the same token, employee unions have to accept that the enhanced benefit formulas for public safety employees are not sustainable without increased employee cost-sharing. It is true that none of these benefit enhancements was a secret deal; they were publicly adopted contracts considered in the full sunshine by elected officials only too willing to curry favor with employee unions at the time, especially police and fire unions. But there is a point at which such generosity is unsustainable when coupled with other major cost generators and tax losses, as we saw in varying degrees in San Bernardino, Stockton and Vallejo.

There is a realistic and moderate solution, however.

Conservatives need to dial down the rhetoric and stop trying to use pensions as a Trojan horse to abolish public employee unions. They also need to accept that defined-benefit pension plans with firm guarantees for the future are good public policy if managed prudently. Union members need to acknowledge that, in order to keep some very favorable benefits, they will have to contribute more of their own pay. They also need to accept that state and local governments have limits: salary, benefits and job security have to remain in line with a city's actual resources.

That's all it would take. If only it weren't politically unacceptable to both sides.

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