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Pension initiative faces two tests: funding, courts

By Ed Mendel

A pension reform group that filed two versions of an initiative yesterday faces two tests: raising $3 million to place the proposal on the November ballot next year, and a court battle over making current workers pay more for their pensions if the measure passes.

As public pension costs have risen while government services are being cut in a weak economy, the reform group has filed initiatives in the past, which failed to attract funding even though some polls have shown 70 percent support for pension reform.

This time the group, now led by Dan Pellissier, raised $250,000 for polling and legal experts before filing initiatives designed to withstand court challenges and quickly cut government pension costs, particularly important for some struggling cities.

He said the next step is to raise about $3 million, enough to pay for a drive to gather 1.3 million voter signatures and provide a cushion well above the minimum needed to place a state constitutional amendment on the ballot.

"Not today," Pellissier said, when asked at a news conference if the group had the money. "But we have some commitments for future funding, and we have what we think is a good path in order to raise that amount of money."

He said George Shultz, a former U.S. secretary of state in the Reagan administration, is a part of the campaign team and "has a tremendous amount of influence with major donors."

In addition, Mike Genest, a finance director for former Republican Gov. Arnold Schwarzenegger, said he was "happy to be part of what's become a pretty large coalition of people who have been trying for quite some time to make some progress on this issue."

Aaron McLear, Schwarzenegger's former press secretary, told the news conference fundraising should be aided by having agreement among reformers, who have not always been "on the same page," and a firm proposal to show potential donors.

But some separation quickly emerged when Marcia Fritz, president of the California Foundation for Fiscal Responsibility, *told the Sacramento Bee* she was "not a part of this," even though she was mentioned at the news conference.

The California Pension Reform group led by Pellissier is a spin-off from the foundation founded by the late former Assemblyman Keith Richman, R-Northridge. Pellissier, a former Richman aide, said the initiative is a Richman "legacy."

A *Fritz article* in the Los Angeles Times yesterday urged legislators to find "common ground" for taxpayers and public employees "within the framework" of a pension reform proposed by Gov. Brown, some parts requiring voter approval.

Pellissier and Genest said the governor's plan needs to be "more aggressive." They were skeptical that Democratic legislative legislators and their union allies will agree to the governor's plan, much less add more cuts in employer costs.

"It is possible, very unlikely, that the Legislature could pass something that would be strong enough to have our team decide that we would not move ahead with our proposal," said Pellissier.

Brown's proposal is designed to avoid a court challenge on a key issue: The widely held view that court rulings mean pensions promised state and local government employees on the date of hire can't be cut without a new benefit of equal value.

The *reform group's plan* is designed to withstand a court challenge because current workers could be required to "pay more for their same benefits and for a share of unfunded liabilities."

In the reform group's initiatives a curb on "spiking" (boosting pensions by cashing out unused sick leave, vacation time and other things to increase final pay) covers current workers, not just new hires as in the governor's proposal.

Fritz's article mentions a curb of one "abuse" that is in the governor's plan but not in the reform's group plan: a limit on "double-dipping" or the collection of a government pension and paycheck.

"We think there are some issues with folks who retire and their life circumstances change," Pellissier said. "Their spouse dies and they have obligations they have to meet. We weren't really comfortable weighing in heavily on double-dipping."

Like the governor's plan, the reform group's initiatives have curbs on other abuses: retroactive benefit increases, the purchase of service credits or "air time" to boost pensions, and contribution "holidays" or reductions for employers and employees.

But the big difference is that the governor's plan calls for "equal sharing" by employers and employees of the "normal" pension costs, what actuaries say is needed to pay for the current year.

That does not include the debt or "unfunded liability" that soared after the stock market crash and a weak economy dropped investment earnings well below the typical pension fund forecast, 7.75 percent, which critics say is too optimistic.

The governor's budget last May estimated that the unfunded liability for the three state pension funds (CalPERS, CalSTRS and UC Retirement) was $121 billion over the next 30 years, not counting an additional $60 billion for retiree health.

A Stanford graduate student report last year, using a lower earning forecast of 4.1 percent, estimated that the unfunded liability for the three state retirement systems is about $500 billion.

The reform group's initiatives address the unfunded liability by requiring equal "normal" cost contributions for employer and employees, except when the funding level of the system drops below 80 percent using federal private-sector pension standards.

Then government contributions to the normal cost would be limited to 6 percent of pay for most workers and 9 percent for police and firefighters. Employees would pick up the remainder of the normal cost until funding returns to 80 percent, potentially a significant increase over time.

Pellissier said employee contributions would be limited to an increase of 3 percent of pay a year. Current employees would have the option of switching to a lower-cost plan for new hires.

The original version of the initiative gives new hires a 401(k)-style plan. The alternative version would give new hires a "hybrid" similar to the governor's proposal that combines a lower pension with a 401(k)-style plan and Social Security, if available.

Many public pension systems are below 80 percent funding now using government standards. Pellissier estimated that switching to private-sector standards could drop funding an additional 10 to 15 percent.

The reform group expects to pick one version of the initiative after they receive titles and summaries and an analysis by the Legislative Analyst, probably a week before Christmas.

Pellissier said the goal is to begin circulating petitions for signatures in early January. He said the signatures should be submitted by April 20 to ensure qualification for the November ballot.

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 Nov 11

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