The Pension Reform Act of 2014

Frequently Asked Questions

Updated: 1/20/2014

What does the Pension Reform Act of 2014 do?

The Pension Reform Act of 2014 provides governments and voters with the tools to bring rising retirement benefit costs under control. Specifically, the initiative protects the pension and retiree healthcare benefits that government employees earn for work performed, while allowing changes to be negotiated for employees' FUTURE years of service. Nothing in the initiative affects the retirement benefits that a government employee has already accrued for prior years of service.

How does this initiative help protect services?

Rising retirement benefit costs are crowding out funding for essential public services, such as education, public safety and road improvements. This initiative empowers government agencies to bring their retirement costs under control so that they can preserve and restore critical services.

How does this initiative increase retirement security for government employees?

Currently, governments across California are making promises to their government employees they cannot afford to keep. This is unfair and unconscionable.

Without reform to our unsustainable retirement systems, more cities, counties and other agencies will be pushed closer to insolvency and our retired employees will be at-risk of seeing their accrued benefits slashed. That's what's happened in Stockton, Central Falls, RI and other cities that have gone bankrupt. This initiative gives governments and their voters the tools they need to ensure they will able to pay out the benefits that their employees have earned.

Does this initiative eliminate protections (vested rights) to pensions?

No. This initiative explicitly protects any retirement benefits that employees accrue for work performed. Employees' retirement benefits would become vested and protected as work is performed.

The initiative simply clarifies that government agencies can negotiate changes to any benefits they earn in the future, for work not yet performed.

Does this initiative impact collective bargaining?

No. The initiative explicitly requires that changes to government employee retirement benefits comply with applicable collective bargaining laws. It does NOT allow changes to be made unilaterally.

Does this initiative allow government agencies to invalidate labor contracts?

No. The initiative requires all government employers to comply with the applicable collective bargaining laws and wait until current labor contracts expire before negotiating changes to benefits.

Who is covered by this measure?

The initiative gives all state and local government agencies, including the UC, CSU, school districts, special districts, cities, counties and the state itself, the ability to prospectively modify its employee retirement benefits. The measure also applies to both new and current employees.

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Would government agencies be required to modify employee retirement benefits?
No. This initiative simply enables state and local government agencies to prospectively modify their retirement benefit plans should their individual circumstances require such actions. It does not mandate any government agency to reduce or eliminate any benefits, nor does it dictate a specific level of benefits for all government agencies in the state.

This initiative requires governments to create a stabilization report if their retirement plan is underfunded. Do they have to implement the actions outlined in the report?
No. This initiative allows each government agency to evaluate their fiscal situation, discuss the report with their constituents and their employees, and then determine what actions, if any, should be taken.

How do the provisions of this initiative compare to other laws governing pensions?
Under federal law, retirement benefits can be modified for private sector employees' future years of service. At least 18 states allow benefits to be prospectively modified for government employees too. This initiative applies the same standard to government employee retirement benefits in California.

Why is this initiative necessary?
Government leaders do not currently have the tools necessary to solve their employee retirement benefit problems. In particular, a series of court decisions have suggested that retirement benefits can be increased, but never reduced, for existing employees – even if the reduction is to a level that is significantly higher than what was in place when the employee was hired.

This initiative explicitly gives government leaders and voters the ability to negotiate changes that will help protect essential services and the long-term health of our state's retirement plans.

How much money will this initiative save?
The Legislative Analyst has found that this initiative could lead to a "potential net reduction of hundreds of millions to billions of dollars per year in state." However, exactly how much is saved will depend on the financial condition of each plan and the actions taken by the government and/or the voters to address the particular problem in each jurisdiction

I've heard that this initiative will cost taxpayers "billions of dollars". Is that true?
No. The only new cost mandated by the initiative is the development of a report for retirement plans that are less than 80% funded – the LAO found that this would likely only cost $5,000 to $20,000 per government agency, with costs significantly less after the first year.

Opponents have claimed that the initiative will lead to government agencies paying off their unfunded liabilities more quickly, which could increase costs by "hundreds of millions to billions" of dollars. However, they fail to note that the initiative does not require any government to do so, and that the LAO found that if any government agency chooses to do so, the costs would be "more than offset by retirement cost savings in future decades."

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Is it really fair to change retirement benefits for current employees?
This initiative only allows government employers and employees to negotiate changes to retirement benefits for an employee's FUTURE years of service, just like they can negotiate over future changes to wages, healthcare benefits and other terms of employment.

We recognize that such changes may impact how government employees plan for retirement - but the current system is simply unsustainable and it's much better to ask employees to adjust their future expectations rather lay them off, cut their pay, or risk being unable to pay the benefits they earned.

Are pensions really that big of a problem now that the economy is recovering?
Even as government revenues are growing again, the cost of public employee retirement benefits continues to rise at an unsustainable clip. CalPERS has told its member agencies that annual retirement contributions will rise by up to 50% over the next seven years; CalSTRS has stated it needs another $4.5 billion per year to achieve full-funding; and the state, as well as many local governments, have almost no funds set aside for retiree healthcare benefits.

It would take double-digit returns for more than a decade to eliminate our unfunded liabilities and cover these huge cost increases.

Isn't this initiative just the latest attack on government employees?
Let's be clear: Our state's pension problems are NOT the fault of our dedicated public servants. The blame lies squarely on the shoulders of elected leaders who promised benefits that we simply cannot afford. We want to hire more police officers to patrol our neighborhoods and more teachers for our schools. But we will only be able to do that if we gain control of our skyrocketing retirement costs.

Isn't Wall Street's recklessness to blame for our pension crisis? Couldn't we solve the problem by eliminating corporate tax breaks & loopholes?
While the Great Recession certainly exacerbated the situation, our pension problems are structural in nature. The problem has just as much to do with irresponsible benefit enhancements and the overly-optimistic assumptions that have been used to mask the true cost of these benefits. We agree that we need to re-examine our tax structure, but the size of our pension problems is much too big to solve with those kin of changes alone.

Are government employee pensions that generous? I've heard the average pension is $26K?
The average pension stats often cited include employees who retired decades ago or only for the government for a brief period of time. The average pension for recent career employees is significantly higher (more than $60,000) and much larger for public safety employees.