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FOR IMMEDIATE RELEASE

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California Mayors File Statewide Pension Reform Initiative

Sacramento, Calif. – A group of California Mayors today announced the filing of a statewide ballot initiative that would provide state and local governments with the tools needed to fix California's unsustainable public employee retirement plans.

"Skyrocketing retirement costs are crowding out funding for essential public services and pushing cities, counties and other government agencies closer to insolvency," San Jose Mayor Chuck Reed said. "This initiative gives government leaders the flexibility to solve their pension problems so they can both provide critical services to the public and make sure that our employees and retirees are paid the benefits that they have earned."

San Jose Mayor Chuck Reed (D) was joined by San Bernardino Mayor Pat Morris (D), Santa Ana Mayor Miguel Pulido (D), Anaheim Mayor Tom Tait (R) and Pacific Grove Mayor Bill Kampe (D) in submitting the ballot initiative to the Attorney General. The proponents are aiming to qualify the initiative for the November 2014 ballot. A copy of their letter to the Attorney General accompanying submission can be found here.

The Pension Reform Act of 2014 would amend the California Constitution to give government agencies clear authority to negotiate changes to existing employees' pension or retiree healthcare benefits on a strictly going-forward basis.

The measure explicitly protects retirement benefits government employees have already earned, while allowing benefits to be modified for future years of service.

Read the entire ballot initiative language here: www.ReformPensions2014.com

"Many of California's public employee retirement plans are simply unsustainable and it's in everyone's interest to provide the tools to fix the problem now before even tougher actions are necessary," added Mayor Reed. "During tough economic times, we believe employees would much rather adjust their *future* expectations than risk seeing their *accrued* benefits slashed in bankruptcy. We've already seen that tragic situation play out in cities like Stockton and Central Falls, RI. Our teachers, police officers, firefighters and other dedicated public servants deserve to know that the pensions they've earned will be there when they need it – not just the day they retire, but also when they're 85 or 90."

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Federal law allows private pension plans to prospectively change employee retirement benefits. At least 18 states have the flexibility to do so for public employees as well.[1] However, in California, a series of judicial decisions has made it extremely difficult for government employers to make any changes to retirement benefits for existing employees, even if he/she has only been on the job for a single day. (Click here to read Professor Amy Monahan's article detailing the genesis of the so-called "California Rule" on vested rights.)

"In Pacific Grove, pension costs have crowded out library hours, overdue street and infrastructure maintenance, and other important services," said Mayor Bill Kampe of Pacific Grove. "This initiative states a simple and fair principle for a retirement benefit: you've earned it when you've done the work. If you haven't done the work, it's still negotiable. It's the right thing for the people, for the city, and ultimately for the employee's retirement security. We need to fix a very broken system."

Given California's skyrocketing retirement costs and huge unfunded liabilities for pension and retiree healthcare benefits (see "California Pension Facts" below), numerous independent experts have argued that prospectively modifying current employees' benefits is the only way to solve the problem. This includes the state's Little Hoover Commission, which determined:

> *"Public agencies must have the flexibility and authority to freeze accrued pension benefits for current workers, and make changes to pension formulas going forward to protect state and local public employees and the public good."*
>
> *- Little Hoover Commission: Public Pensions for Retirement Security (2011)*

"Exploding public pension costs have become the T-Rex of California's state and local budgets---eating all public services and leaving behind dangerous, dark and pothole-filled streets, closed libraries, degraded parks and blighted buildings," said Mayor Pat Morris of San Bernardino. "If we expect our government to remain solvent it is critical that California voters curb the appetite of this monster in a way that protects employees existing pension benefits while giving us the tools necessary to control the costs of the future pension benefits. If we fail to act, then many other cities and counties will soon follow my city into bankruptcy."

"In Santa Ana, our annual retirement contribution has more than doubled over the past decade," said Mayor Miguel Pulido of Santa Ana. "This has been a contributing factor in the City of Santa Ana having to reduce its full-time workforce by approximately 40% during the past six years. We need to consider meaningful reforms to reduce current benefit levels and obligations in the near term in order to maintain basic services."

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[1] Alicia H. Munnell and Laura Quinby, Center for Retirement Research at Boston College: *Legal Constraints on Changes in State and Local Pensions,* August 2012: http://crr.bc.edu/wp-content/uploads/2012/08/slp_25.pdf

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“There is no denying the impact that the rising cost of public employee pensions has had on municipal budgets in our state and across the nation,” said Mayor Tom Tait of Anaheim. “The huge unfunded liabilities in our state’s pension funds pose significant risk to local governments’ ability to meet our obligations to retired employees. Cities need the proper tools to protect basic public services while ensuring the retirement security of retired employees. This proposed measure gives us those tools.”

The Pension Reform Act of 2014 also includes provisions to:

- Prevent the State of California, pension plan administrators, and other government boards from interfering with elected leaders’ or voters’ ability to amend their public employee retirement benefits for employee’ future years of service.

- Protects existing collective bargaining agreements by requiring government employers to wait until current labor contracts expire before negotiating changes to retirement benefits.

- Require any government agency with a pension plan that is less than 80% funded to prepare and publish a public report outlining how it can achieve full-funding in 15 years.

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California Pension Facts

Taxpayer contributions into California's 85 public employee pension systems totaled $17.4 billion in FY 2010-11. This is 5 times more than the amount paid in FY 2000-01.

Source: CA State Controller, "Public Retirement Systems Annual Report": FY 2010-11 & FY 2000-01

California's public employee pension systems collectively reported $158 billion in unfunded pension liabilities and had an aggregate funding ratio of 79% as of June 30, 2011.

Source: California State Controller, FY 2010-2011 Public Retirement Systems Annual Report

Many pension experts, including the Stanford Institute for Economic Policy Research, have stated that the California's true unfunded liabilities are hundreds of billion of dollars higher than officially-reported figures due to the optimistic assumptions that are currently used.

Source: Stanford Institute for Economic Policy Research, Pension Math (Dec. 2011) & More Pension Math (Feb. 2012)

CalSTRS, the state's pension fund for teachers, is significantly underfunded:

- CalSTRS' actuary calculated the plan's funding ratio at 66% (as of June 30, 2012) and estimated that the fund would deplete all of its assets by 2044.
- CalSTRS is only 44.7% funded under new GASB rules adopted in 2012.
- CalSTRS needs another $4.5 billion per year to be fully funded in 30 years.

Sources: CalSTRS, Sustaining Retirement Security for Future Generations (February 2013); CA Legislative Analyst's Office, Addressing CalSTRS' Long-Term Funding Needs (March 20, 2013); CalSTRS, Government Accounting and Standards Board Pension Accounting Changes (Sep. 10, 2013)

In addition to pension obligations, the State of California and the state's 20 largest cities collectively have $78 billion in obligations for retiree healthcare benefits but had only set aside $4 billion. Most of these government employers have not put aside any funds.

Source: California Common Sense, California's Neglected Promise: How California has Failed to Prepare for its Accumulating Retiree Health Care Obligations (July 30, 2012)

As a result of new actuarial methods designed to achieve full funding, CalPERS member agencies expect to see their annual pension contributions rise by roughly 50% over the next seven years.

Source: Jim Christie, Reuters, "Calpers approves employer rate hikes of up to 50 pct" (April 17, 2013)

The average pension payment statistics often cited in CalPERS and CalSTRS reports are not indicative of the generous benefits offered today because they include employees who only spent part of their career working for the government and employees who retired decades ago under more modest formulas. According to the Stanford Institute for Economic Policy Research:

- The average CalPERS annual pension benefit for recent career retirees is $66,828.
- The average CalSTRS annual pension benefit for recent career retirees is $67,980.

Source: Stanford Institute for Economic Policy Research, Pension Math (Dec. 2011) & More Pension Math (Feb. 2012)