

TALKING POINTS/BRIEFING MATERIALS

Californian for Retirement Security

August 28, 2102

BOTTOM LINE MESSAGE FOR MEDIA/PUBLIC: We are shocked and outraged that the Legislature and governor have succumbed to political influence to impose the biggest rollbacks of pension benefits in California history. This deal violates collective bargaining principles. It unilaterally imposes impairments to retirement benefits outside the collective bargaining process, including reductions in benefits, increasing retirement age, pension caps, three-year averaging and other benefit cutbacks for new employees. These hits come on the heels of a host of negotiated benefit rollbacks, negotiated furloughs and several years where public employees have foregone salary increases. This deal is bad for California's economy, it is bad for our teachers, firefighters, safety officers, school employees. And it is bad for all who serve our state every day for the promise of modest retirement security.

The plan in a nutshell (More details below):

- New employees will be required to pay 50% of normal costs. Current employees: the employer can bargain to require current employees to pay any portion of the retirement contribution.
- The hybrid will be dropped, and instead a reduced formula will be implemented.
- The retirement age for misc. employees will be increased to 67 for maximum retirement and 57 for maximum safety retirement.
- The governor's rules for the three year final compensation, regular, recurring pay and limiting post retirement employment to 960 hours will be implemented.
- The Governor's proposals on taking away pension earnings from felons; to prohibit retroactive pensions; to eliminate pension holidays; and to eliminate purchase of service credit for air time will be implemented.
- Pension Boards. The Governor's proposal to change the pension boards and to increase vesting and employee contributions for health care will not be implemented.
- New proposal: Pensionable salary will be capped at \$110,000 for those in Social Security and \$130,000 for those not in Social Security.

Bullet talking points about the deal:

- We are outraged and shocked that a Democratic Governor and Democratic legislature are taking a wrecking ball to retirement security for teachers, firefighters, school employees, and police officers. While we support common-sense changes to end spiking and abuse of the system, this package unfairly and unilaterally slashes pensions for middle-class, working families.
- This proposal contains nothing but cuts and takeaways. Workers lose on every point and get nothing in return. These same workers have been doing their part for years to help right California's fiscal ship.

- This package comes on the heels of several years of layoffs, pay cuts, and increased costs for health care. Union workers have negotiated in good faith to be part of the solution during these hard economic times. They have agreed to increase employee contributions for retirement, reduced benefits and implement a two-tiered pension formula.
- This package imposes the biggest pension rollback in California history. It will hurt all Californians by forcing public employees to seek more public assistance in their retirement, hurting the state's economy by cutting retirement benefits for middle class workers; and making it more difficult to keep experienced teachers in the classroom and veteran police officers on our streets.
- Forcing current employees to pay half of normal costs would have been unconstitutional and there are Supreme Court cases showing this is a vested right. Imposing this, even as part of negotiations, is asking for a serious impairment of benefits. The package will allow employers to unilaterally impose an increase in employee contributions for current employees. It states that after five years the employer can impose up to 50% of normal costs, but no more than 8 percent for miscellaneous employees and 12 percent for safety. This is unprecedented authority to circumvent collective bargaining and impair vested rights.
- This is far more than "low hanging fruit." This is the fruit, the branch, the tree trunk, and the roots. This is a sweeping proposal that undermines collective bargaining, and is being enacted unilaterally thru the political process rather than in good faith negotiations at the bargaining table.
- The rush to raise retirement ages fails to consider the ability of older workers to perform their duties in stressful occupations such as police dispatchers, or physically demanding jobs such as heavy equipment operators. We wonder how many 67 year old jack hammer operators will be injured and disabled on the job? When I call for a paramedic, will the 67 year old dispatcher be able to provide pre-arrival instructions and get help for my loved ones in time? Will I need a strong, able-bodied firefighter to rescue me?
- At a time when we should all be focused on job creation, these mandates effectively eliminate tens of thousands of job openings each year that would normally occur as new workers enter public employment following the retirement of older workers. Cutting pensions also eliminates millions of dollars that retired public employees pump into our state's economy and their local communities.
- On questions about whether unions will sue over elements of this package or withhold support on Prop 30: We are consulting with our legal departments and we are assessing our options.

Bullet talking points about pensions:

- Public employees already are doing their part. State workers have saved taxpayers \$600 million in pension concessions. Hundreds of California cities, counties and local districts

have increased employee pension contributions and lowered public costs at the bargaining table. Public employees have foregone raises, endured pink slips and dealt with increased workloads. Public employees support efforts to curb pension system abuses such as spiking and creating pension reserve accounts for bad economic times.

- Gold Plated Pensions are a myth. The average public pension in California is \$26,000 a year. California retired teachers, who do not collect Social Security, earn an average \$3,300-a-month after an average 27 years in the classroom. Six-figure pensions amount to less than 2 percent of public pensions and public employee pensions equal just 3 percent of California's budget. Pensions largely are paid for by employee contributions investment income. Public employees pay up to an average 12 percent into their own retirement. Teachers contribute 8 percent of their salaries to their pensions, do not receive Social Security and most teachers over the age of 65 do not receive retiree health care benefits either. They pay for their pensions with every paycheck.
- Pensions are not the problem. Pension costs are one of the smallest growing costs in all of state government. The state pays less today for pensions on a percentage basis than in 1980. The refusal of a small, politically entrenched faction to allow a vote on tax extensions, paired with the Wall Street abuses that left our nation's economy in shambles, dwarfs the impact of pension costs by a ratio of about 20 to 1.
- Greedy Corporations and CEOs are the problem. Recently approved tax breaks for corporations are costing taxpayers a billion dollars a year for the next five years, according to the Legislative Analyst. Meanwhile, bankers and Wall Street bosses even now are enjoying raises and bonuses while the economy continues to stagnate around them. The median pay for chief executives at 200 of the nation's largest companies rose 23 percent last year, the New York Times reported.
- Stable pensions create jobs. Pension payments to retired public employees generated \$26 billion of economic activity in California in 2010 alone. A study commissioned by CalSTRS concluded that the California economy gained \$6.71 for every dollar invested in pensions by employers and taxpayers. Consider the irony of blaming middle class public servants as the nation's corporate CEOs enjoy record breaking raises.

Details of the Brown/Legislative Deal:

Applies to all California state, local, school and other public employers, new public employees, and current employees as legally permissible.

1. Equal Sharing of Pension Costs: All Employees and Employers.

Governor's Plan: While many public employees make some contribution to their retirement - state employees contribute at least 8 percent of their salaries - some make none. Their employers pay the full amount of the annual cost of their pension benefits. The funding of annual normal pension costs should be shared equally by employees and employers. My plan will require that

all new and current employees transition to a contribution level of at least 50 percent of the annual cost of their pension benefits.

The Deal: New employees will be required to pay 50% of normal costs. Current employees will not immediately be required to pay 50%, but the employer can bargain to require current employees to pay any portion of the retirement contribution. There will be language allowing the employer to unilaterally implement an increased employee contribution, with certain limits, and this provision will take effect in five years.

2. "Hybrid" Risk-Sharing Pension Plan: New Employees.

Governor's Plan: Most public employers provide employees with a defined benefit pension plan. The employer (and ultimately the taxpayer) guarantees annual pension benefits and bears all of the risk of investment losses under those plans. Most private sector employers, and some public employers, offer only 401(k)-type defined contribution plans that place the entire risk of loss on investments on employees and deliver no guaranteed benefit..

The Deal: The hybrid will be dropped, and instead a reduced formula will be implemented. This formula will reduce retirement benefits for new employees to levels beyond the pre-SB 400 levels. There will be a reduced misc formula and a reduced safety formula.

3. Increase Retirement Ages: New Employees.

Governor's Plan: Under my plan, all new public employees will work to a later age to qualify for full retirement benefits. For most new employees, retirement ages will be set at the Social Security retirement age, which is now 67. The retirement age for new safety employees will be less than 67, but commensurate with the ability of those employees to perform their jobs in a way that protects public safety.

The Deal: The retirement age for miscellaneous employees will be increased to 67 for maximum retirement and 57 for maximum safety retirement.

4. Require Three-Year Final Compensation to Stop Spiking: New Employees.

Governor's Plan: Pension benefits for some public employees are still calculated based on a single year of "final compensation." That one-year rule encourages games and gimmicks in the last year of employment that artificially increase the compensation used to determine pension benefits. My plan will require that final compensation be defined, as it is now for new state employees, as the highest average annual compensation over a three-year period.

The Deal: All new employees will fall under the three year final compensation rule as proposed by the Governor.

5. Calculate Benefits Based on Regular, Recurring Pay to Stop Spiking: New Employees.

Governor's Plan: Where not controlled, pension benefits can be manipulated by supplementing salaries with special bonuses, unused vacation time, excessive overtime and other pay perks. My plan will require that compensation be defined as the normal rate of base pay, excluding special bonuses, unplanned overtime, payouts for unused vacation or sick leave, and other pay perks.

The Deal: The Governor's proposal on regular, recurring pay will be implemented.

6. Limit Post-Retirement Employment: All Employees.

Governor's Plan: Retirement with a pension should not translate into retiring on a Friday, returning to full-time work the following Monday, and collecting a pension and a salary. Retired employees often have experience that can deliver real value to public employers, though, so striking a reasonable balance in limiting post-retirement employment is appropriate. Most employees who retire from state service, and from other CalPERS member agencies, are currently limited to working 960 hours per year for a public employer, and do not earn any additional retirement benefits for that work. My plan will limit all employees who retire from public service to working 960 hours or 120 days per year for a public employer. It also will prohibit all retired employees who serve on public boards and commissions from earning any retirement benefits for that service.

The Deal: The Governor's proposal to limit post retirement employment to 960 hours will be implemented.

7. Felons Forfeit Pension Benefits: All Employees.

Governor's Plan: Although infrequent, recent examples of public officials committing crimes in the course of their public duties have exposed the difficulty of cutting off pension benefits those officials earned during the course of that criminal conduct. My plan will require that public officials and employees forfeit pension and related benefits if they are convicted of a felony in carrying out official duties, in seeking an elected office or appointment, or in connection with obtaining salary or pension benefits.

The Deal: The Governor's proposal on taking away pension earnings from felons will be implemented.

8. Prohibit Retroactive Pension Increases: All Employees.

Governor's Plan: In the past, a number of public employers applied pension benefit enhancements like earlier retirement and increased benefit amounts to work already performed by current employees and retirees. Of course, neither employee nor employer pension contributions for those past years of work accounted for those increased benefits. As a result, billions of dollars in unfunded liabilities continue to plague the system. My plan will ban this irresponsible practice.

The Deal: The Governor's proposal to prohibit retroactive pensions will be implemented.

9. Prohibit Pension Holidays: All Employees and Employers.

Governor's Plan: During the boom years on Wall Street, when unsustainable investment returns supported "fully-funded" pension plans, many public employers stopped making annual pension contributions and gave employees a similar pass. The failure to make annual contributions left pension plans in a significantly weakened position following the recent market collapse. My plan will prohibit all employers from suspending employer and/or employee contributions necessary to fund annual pension costs.

The Deal: The governor's plan – The Governor's proposal to eliminate pension holidays will be implemented.

10. Prohibit Purchases of Service Credit: All Employees. (Air time)

Governor's Plan: Many pension systems allow employees to buy "airtime," additional retirement service credit for time not actually worked. When an employee buys airtime, the public employer assumes the full risk of delivering retirement income based on those years of purchased service credit. Pensions are intended to provide retirement stability for time actually worked. Employers, and ultimately taxpayers, should not bear the burden of guaranteeing the additional employee investment risk that comes with airtime purchases. My plan will prohibit them.

The Deal: The Governor's proposal to eliminate purchase of service credit for air time will be implemented.

11. Increase Pension Board Independence and Expertise.

Governor's Plan: Will add two independent, public members with financial expertise to the CalPERS Board. "Independence" means that neither the board member nor anyone in the board member's family, who is a CalPERS member, is eligible to receive a pension from the CalPERS system, is a member of an organization that represents employees eligible to or who receive a pension from the CalPERS system, or has any material financial interest in an entity that contracts with CalPERS. My plan also will replace the State Personnel Board representative on the CalPERS board with the Director of the California Department of Finance.

The Deal: The Governor's proposal to change the pension boards will not be implemented. These provisions could not be implemented without a state ballot initiative in accordance with Proposition 162.

12. Reduce Retiree Health Care Costs: State Employees.

The Governor's proposal to increase vesting and employee contributions for health care will not be implemented. This proposal violated the collective bargaining law.

***New Proposal: Pension Cap*

Pensionable salary will be capped at \$110,000 for those in Social Security and \$130,000 for those not in Social Security. Note that this is pensionable salary, not pensions. If an employee works 25 years and retires with a 2% factor, they will receive 50% of \$110,000, or \$55,000. An employee who worked enough years to get 90% (45 years at 2%) would get \$99,000.