

California Commentary

Paying “Young” People Not to Work

By Jon Coupal

The Center for Government Analysis has released a study of the 130 public pension systems in California, their financial health, and the extent of taxpayer liability for current and future obligations. For taxpayers, the news is *not* good.

The study, commissioned by the Howard Jarvis Taxpayers Foundation, presents some startling facts. For example, state and local governments’ (taxpayer) funding of pension systems nearly *doubled* over the five year period beginning with Fiscal Year 1997-98, from \$5.1 Billion to \$10.2 Billion.

By Fiscal Year 2003-04 the combined public employee retirement systems had an actuarial deficit of approximately \$50.9 Billion — in Fiscal Year 1997-98 these systems had an actuarial *surplus* of more than \$14.5 Billion. This is a turnaround of \$65.4 Billion in just five years!

The study’s author, Steve Frates, concludes that public employee retirement systems in California are in much less solid financial condition than was the case just a few years ago. Rapidly escalating pension benefits are putting an increasing strain on the actuarial status of these public employee retirement systems. State and local governments in California are having to devote ever larger dollar amounts to financing these public employee retirement systems.

While some may regard actuarial warnings of potential billions of dollars in future taxpayer

liability as dry and unfathomable, there is a secondary issue to which most can relate: Some agencies are paying relatively young people *not* to work.

In many systems, public safety employees can retire at age 50 after working 14 years and receive a pension equivalent to more than 40 percent of their salaries — those who have put in more years get more money. In the Los Angeles Police Department the average retirement age is 51.

Does anyone really think that age 50 is old in our society where living 80-plus years is common? Many in their fifties do their most productive work. For middle-aged workers, reasonable exercise and diet allow them to retain youthful energy for many additional years. And older officers can be assigned to duties other than front line beats. However, the current system encourages early retirement and those retiring “young” from public service often go on to second careers where the new employer gets the additional benefit of the retired public employee’s valuable experience.

In the private sector, employees in many systems can retire at age 55 after 16 years of service and receive 40 percent. This may sound like a minor difference, but actuaries recognize that even two extra years of work can make the difference between a retirement system’s success and failure.

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Shortcomings in the current system are penalizing taxpayers *twice*. First, when the retirement systems do not generate enough revenue, without an injection of taxpayer cash, to keep promises to those who have already retired, and second, when good, often the best, employees are lost to early retirement.

The governor has announced his intention to create a commission to evaluate our public employee retirement systems and to make recommendations to put both employees and taxpayers on a more solid footing. Among potential improvements and solutions that should be examined are an expansion of the San Francisco system, where additional benefits for public employees must go to the voters for approval; new rules for new hires that provide a generous 401k in lieu of the current defined benefit system, and measures to keep good public servants working longer.

Although recommended alterations in public employee retirement systems would impact new hires *only*, the public employee union leadership has a record of responding to *any* talk of change by attempting to panic current employees and retirees by claiming their benefits are under threat.

For example, the American Federation of State, County and Municipal Employees, AFL-CIO has just sent out a letter to Los Angeles city retirees that begins ominously: “Did you know you’ve been walking around L.A. with a target on your back?” The letter is filled with vague rhetoric about threats to retirees, but *nowhere* does it mention that benefits to current employees and retirees are guaranteed by law and cannot be changed. These benefits come as part of contracts that are guarded by the Impairment clause of the United States Constitution.

In spite of union smoke screens, it is in the interest of current city, county, and state em-

ployees to support reasonable retirement system changes for *new* workers, or the sad alternative could be layoffs for those employees that governments can no longer afford.

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