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\$1 billion in pension savings

Proposed state overhaul is analyzed

By David M. Drucker, Sacramento Bureau

California taxpayers could save over \$1 billion annually under a proposed overhaul of the state employee pension system being pushed by Gov. Arnold Schwarzenegger and his allies, according to a nonpartisan government analysis of the plan.

The nonpartisan Legislative Analyst's Office determined that providing all new state employees with a 401(k)-style retirement plan could save the state "hundreds of millions of dollars to over \$1 billion annually." The overhaul initiative was authored by San Fernando Valley Republican Keith Richman and sponsored by the Howard Jarvis Taxpayers Association, a Schwarzenegger ally.

Assemblyman Richman, of Granada Hills, said the LAO's analysis confirmed what he already knew.

"Importantly, it will also bring budgeting predictability and allow us to pay our pension obligations every year rather than passing them on to our children and grandchildren."

State employee labor unions are adamantly opposed to the overhaul, as are many top Democrats.

Treasurer Phil Angelides has accused Schwarzenegger of trying to bring President George W. Bush's Social Security "privatization" plan to California, while labor officials claim his plan would decimate the retirement protection state employees need to survive when they retire.

"His proposal will not save one dime in the budget this year, or for that matter, in the next year either," said Jim Hard, president of the Service Employees International Union Local 1000, the largest union of state employees in California.

"It will cost taxpayers a great deal more to make the transition from a defined benefit retirement system to individual risk accounts."

Since 2000, the state's general fund contributions to CalPERS have jumped from \$160 million annually to \$2.6 billion, and estimates show they will continue to climb - hitting \$3.5 billion in 2009 before heading even higher.

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Info

For Schwarzenegger and his allies, the answer is creating a 401(k) system similar to the one commonly used by private-industry employees, where each worker's retirement payout fluctuates according to how well their investments perform in the market.

As with the typical 401(k), both the state employee and the state would contribute to each worker's retirement fund. Proponents of this plan say any initial transition costs would be made up – and then some – from the annual savings it generates.

Under the current "defined benefit" program, state employees are guaranteed a certain amount of money every year until their death after they retire at 55, regardless of how the massive CalPERS investment fund is performing.

Employees' annual take equals a percentage of the salary they earned in their final 12 months of service. For example, employees that work 20 years for the state and are earning \$60,000 at retirement receive 40 percent of that salary – or, \$24,000 annually – every year.

Schwarzenegger believes this system is untenable in light of the chronic budget deficits – including this year's \$9.1 billion shortfall – that Sacramento continually experiences.

"The governor is taking the long view on this because he doesn't want future governors and future legislatures to confront a multibillion-dollar pension crisis of the kind he inherited," Schwarzenegger's chief budget spokesman H.D. Palmer said.

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