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## Opinion

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### Editorial: A billion, borrowed Counties can't bear this pension burden

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Imagine if Sacramento County government borrowed a whole lot of money - enough to build a \$538 million arena for the Sacramento Kings - simply to keep the pension plan for government employees on pace with the generous benefits. Imagine if this same county, just seven years later, made the pensions even more generous. Imagine that as a result, they had to go out and borrow yet again - another \$420 million, making the total nearly \$1 billion in borrowing.

Sadly, this isn't hard to imagine. It's reality.

This kind of spending behavior of local and state governments could and should come into the public's focus as a result of Gov. Arnold Schwarzenegger's proposal to overhaul the pension programs of future employees. It's basically



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impossible to go back on what has already been done. But it's vital to grasp just how big a financial problem the pension burden is for not only Sacramento County, but also just about every local government up and down the state.

The governor's proposal would move future government employees into a retirement plan that doesn't guarantee a certain benefit based on the number of years worked, the last year's pay and all those formulas. Schwarzenegger is suggesting a 401(k)-style retirement plan. The government pays into that plan. The funds are invested. And they go to the employee upon retirement. This is the so-called defined contribution strategy. The existing programs are known as defined benefit pensions.

The problem with defined benefit pensions for public employees is that lawmakers tend to redefine the benefits, getting bigger and more expensive along the way. Sacramento County is a typical example of what has happened. The county borrowed \$538 million back in 1996 to fully fund its pension plan. Then the stock market went up. And so did the value of pension-fund assets for Sacramento County and virtually any other government that hadn't been hiding its funds under a mattress.

The political pressure was enormous to use these "excess earnings" to increase the pension benefits. So the county did, following the misguided lead of the state and other governments. The redefined benefits allow most employees to retire earlier at higher pay. A sheriff's deputy with 30 years' experience, for example, can now retire at age 50 at 90 percent of pay.

These enhanced benefits placed an additional \$460 million burden on the county's pension fund. Meanwhile, the stock market, after going up, went down. (Funny how that happens.) As of last year, about \$900 million in real stock market losses hadn't been fully reflected on the pension fund's books. That forced this new round of borrowing of \$420 million. Soon the annual payments on this debt will swallow \$80 million in county funds.

That's nearly a third of the entire budget of the Sheriff's Department. It's mind-boggling.

Schwarzenegger has proposed a way out of this pension mess. If the local governments or the Democrats in the Legislature actually have a better idea, or dare to defend the existing system, now is the time to make the case. But they need to do it soon. The current situation isn't supportable. There's nothing imaginary about that.

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