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This time, let's get state pension reform done right

By Arnold Schwarzenegger -

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Last year, in my haste to reform our state's pension system, I made a mistake. I backed a proposed initiative that was poorly drafted, allowing critics to argue that the families of police or firefighters injured or killed in the line of duty could be denied death and disability benefits if the measure passed.

That was never my intention, and as soon as I realized the concern that our heroic public safety officers and their families had on the subject, I pulled the initiative and promised to come back at a later date to examine the entire issue of post-employment benefits.

Pensions are vitally important to retired state workers and their families, especially public safety officers who put their lives on the line every day. And they are contractual obligations that must -- and will -- be paid by government.

Soaring pension obligations, however, also remain one of the biggest problems facing governments everywhere for the simple reason that rising pension costs mean less money for other government programs such as education, public safety and health care.

The private sector, including such blue chip companies as United Airlines and General Motors, has faced similar pressures, but unlike state government, private companies can seek protection under federal bankruptcy laws. And they can use bankruptcy protection to seek relief from debts, including -- unconscionably -- walking away from their promises to current and former employees.

With about 335,000 employees, state government is the biggest employer in California, and the annual cost to our budget for pension obligations soared from \$160 million in 2001 to \$2.6 billion in 2006, reducing funds available for other purposes.

Like other employers, state and local governments also pay for retiree health benefits. According to the Legislative Analyst's Office, costs for retiree health benefits have increased five times faster than other state spending and were projected to exceed \$1 billion this fiscal year.

As with rising pension costs, skyrocketing health care costs for retirees crowd out funding for other government programs.

But unlike pensions, because of current bookkeeping practices, we don't know the total obligation on health care costs. That will change next year when new accounting rules take effect, but for now the LAO estimates \$40 billion to \$70 billion in unfunded liability for retiree health care for the state and billions more for local governments and school districts.

Whatever the final number, pension and health obligations are fast-growing liabilities that are rapidly consuming more and more of our budget dollars. We must seek ways to meet those obligations without harming other government programs and taxpayers or handing invoices to future generations.

That is why this week I am signing an executive order creating the Public Employee Post-Employment Benefits Commission.

This 12-member commission will examine this issue in a thoughtful, deliberative and open manner -- with input from all affected

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parties. It will identify how much state and local governments owe in unfunded retirement benefits and recommend to the Legislature and me on Jan. 1, 2008, how best to meet them.

I will appoint six members, and the Assembly speaker and Senate president pro tem will each appoint three, ensuring a balanced makeup that reflects the interests of taxpayers, other government programs, Democrats and Republicans, employers and labor unions.

I was elected governor to solve long-festering problems threatening the economic vitality of our state. With my partners in the Legislature, we reformed workers' compensation, methodically attacked our long-term infrastructure needs and are working hard on our prison and health care systems.

We must tackle these challenges head-on and seek bipartisan solutions that keep California strong. I am excited about the work this commission will do and look forward to its recommendations. And I am confident that once we know exactly what we are facing and our best options for addressing it, we can find a common-sense approach that protects California, preserves promised retirement benefits and ensures the Golden State's economic vitality.

About the writer:

- Arnold Schwarzenegger is governor of California.

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