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## Opinion

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### Daniel Weintraub: A new idea for California's reform-minded governor

By Daniel Weintraub -- Bee Columnist  
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If Gov. Arnold Schwarzenegger is hoping in the coming year to fulfill his potential as a political figure willing and able to fight for difficult but necessary change in state policy, the public employee retirement system would be an excellent place to start.

Pension benefits for California's state and local public sector workers are taking an increasing share of government spending, and taxpayers remain at risk for the long-term cost of benefits already awarded. The system is ripe for reform.

A boost in benefits during the past several years means that most public safety employees can now retire in their 50s with nearly 100 percent of their final salary for life. Many local workers in the civil service can quit at age 60 with pensions as large as 90 percent of their salary. The bill for this largesse is just now coming due, with the cost of funding the pension programs soaring.

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Thanks to the benefit increases, coupled with investment losses in the stock market earlier this decade, the state is now paying more than 15 percent of payroll into the retirement fund for regular employees, and as much as 35 percent for Highway Patrol officers. Many local governments are paying far more, and from Contra Costa County to the city of San Diego, managers are being forced to cut other programs and services to pay for retirement benefits.

The solution is to change the way taxpayers fund retirement for the people who work for us, shifting from the traditional defined benefit plans to what are known as defined contribution plans.

Assemblyman Keith Richman, a moderate Republican from Los Angeles County who plans to run for state treasurer, has proposed a constitutional amendment that would adopt this change for all future public employees.

"The liabilities that exist now and the promises made to current employees will need to be kept," Richman told me. But he added: "This proposal will reduce costs, increase budgeting predictability and eliminate new, unfunded liabilities."

The key to understanding what Richman is proposing is to grasp the difference between the two basic kinds of pension systems: defined benefit plans and defined contribution plans.

Defined benefit plans, which rose to prominence in the middle of the last century, guarantee workers a certain income when they retire, depending on how much money they earned and how many years they worked. The employer manages the account, and the employees have limited ability to access the money if

they quit before the regular retirement age.

Defined contribution plans, which are becoming more common now, guarantee that the employer will match an employee's regular contribution to his or her retirement, up to a certain amount. The money is then invested, usually in mutual funds, at the direction of the worker. After vesting, the employee owns the account and can take it with him or her when changing jobs.

The most important difference between the two approaches is who bears the risk. In a defined benefit plan, the employer, or the taxpayers in the case of public employees, holds all the risk. The retiree is guaranteed a level of income, and if the funds invested don't earn enough to pay the guaranteed benefits, the taxpayers must make up the difference.

In a defined contribution plan, the employees are at risk, but can also benefit. An employee can usually be assured of a basic benefit by investing his or her retirement fund conservatively. If the employee takes more risk, and does well, the worker gets a more comfortable retirement income. If the funds do poorly, the employee is at risk of coming up short.

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Beyond the effect on individuals, there are several benefits to the public of making this change. The biggest is predictability. Rather than the wild swings we see now in the taxpayers' required contribution to the pension funds, this obligation would be set in advance as a share of the payroll.

Another potential benefit might be a change in attitude among public sector workers and their union representatives. Their retirement would depend on the performance of the private-sector economy rather than being guaranteed by the taxpayers. Public employees then would have the same stake in the economy that the rest of us now have. That would be a good thing.

Richman recognizes that the public employees are likely to oppose his plan, and their Democratic allies in the Legislature will probably block it from getting to the ballot through the Capitol.

"If a measure like this does not pass through the Legislature," he told me, "it may be necessary to go through the initiative process."

Sounds like a perfect project for our ballot-minded governor.

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