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THE STATE

Sweet Pension Deals Now Haunt Counties

■ Elected officials gave public workers -- and themselves -- better benefits packages during boom times. The bill is coming due.

By Catherine Saillant, Times Staff Writer

Two years ago, San Diego County's chief financial officer, William Kelly, took the lead in designing a new \$1.1-billion pension plan for county workers.

As a result, Kelly, 54, has seen his own pension increase more than 70%, to \$130,800 a year. The county supervisors who approved the deal sweetened their retirement pay an average of 50%.

Such built-in incentives for elected officials and senior government managers to enrich union pensions were largely ignored during the boom years, when local governments across California boosted pension plans. In the 1990s, soaring investments meant that taxpayers were required to contribute little, if anything, to pension funds.

Now, however, the bills are coming due, investments have turned sour and counties across the state are struggling with budget gaps.

"Every day we are hearing about counties having to make cuts in jobs and services," said Steve Keil, legislative analyst for the California State Assn. of Counties. "Unless there is an incredible turnaround in the stock market, this is going to be a multiyear problem."

The state law that guarantees county and city leaders the same pension boosts that they negotiate for their employees is part of the problem, critics say.

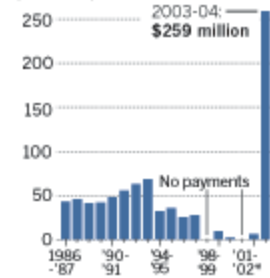
"There is a built-in incentive to accelerate pensions," said Gilbert Siegel, an expert in public-employee compensation and retired USC professor of public administration. "The system is bound to develop a set of political trade-offs between unions and elected officials. With so much at stake, it's 'You scratch my back and I'll scratch yours.'"

Graphics

Pension contributions

San Diego County owes \$259 million to its pension plan, its highest payment ever. With an \$810-million annual payroll, county officials are planning to defer some of the cost through borrowing.

San Diego County pension costs (in millions)



*County supervisors approve benefit increases for themselves and all other county employees.

Source: San Diego County Employees' Retirement Assn., annual actuarial evaluation, June 2002
Los Angeles Times

May 21, 2003

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San Diego County officials say they don't regret their decision, even though pension contributions for the coming budget year will be 32% of the county's \$810-million annual payroll. In 2001, taxpayers were not required to make any contribution to the county pension plan.

San Diego residents expect a top-notch government, and that is what they get, said county Supervisor Dianne Jacob, 63, whose own retirement pay went up \$17,000 as a result of the improved plan.

"There is no one who tops San Diego County," the supervisor said. "And the reason we are the best is because we attract the best and the brightest. I'm proud of the fact that the board was able to do what we did."

San Diego's case is extreme — the state's third-largest county now offers one of California's most lucrative public pension plans, allowing some workers to retire on full salary.

But the overall pattern — senior government managers negotiating pension agreements that also increase their own retirement pay — is locked into state law. That law states that county supervisors, city council members and trustees of special districts automatically get the same pension benefits that they approve for their employees.

An attorney who represents several Southern California cities said he has seen the dynamic firsthand. "I can't tell you how many times I've been in discussions where someone will say, 'Well, the city council won't oppose this benefit because they will get the increase too,'" said the attorney, who spoke on condition of anonymity.

Such laws have been common nationwide, but with pension debt climbing across the country, some other states have started to abandon them.

When the bear market began in 2000, just 31% of public-employee pension plans nationwide were underfunded, according to a report released last month by Los Angeles-based Wilshire Associates. That figure has since grown to 79%.

In Minnesota and Arizona, elected officials are part of a pension plan that is separate from those provided to employees. Typically, the plan for elected officials is a defined contribution program similar to the private sector's 401(k), said Keith Brainard, head of research for the National Assn. of State Retirement Administrators.

In Oregon, lawmakers recently passed a package of reforms to rescue the state's pension system from bankruptcy. Part of the package separated the benefits of elected officials from the plans offered to public employees.

"Whenever there are decision-makers who are approving benefit levels, they should not be part of the plan. There is a clear perception that a conflict of interest exists," said Rep. Tim Knopp, chairman of the pension committee in the Oregon House of Representatives. "You are more likely to run into trouble when that dynamic exists."

"We wanted to set the example that we are not going to help ourselves at

the expense of the taxpayers."

In California, many local governments approved higher pension benefits after the Legislature approved union-backed legislation allowing local governments to sweeten their retirement benefits.

While details vary from county to county, civilian workers now generally qualify for full retirement by 55, while police and firefighters can stop working as early as 50.

Orange County's retirement costs have climbed from \$38.3 million in 2001 to an estimated \$134 million for the coming budget year. The county is considering borrowing money to lower its payments, a retirement official said.

Riverside County will have to tap reserves to pay off its higher pension bills this year, a spokesman said.

Retirement costs in Los Angeles and Ventura counties, by contrast, are rising only slightly because officials in those jurisdictions resisted union pressure to grant better benefits.

In San Diego, after telling the public that the cost of the new pension plan would be modest, supervisors are scrambling to make a \$259-million payment to the county's retirement system that is due July 1. Under an agreement worked out with its retirement board, San Diego County was able to avert 1,500 layoffs only by borrowing money. This month, the county lengthened the repayment term from five to 15 years.

That will lower the county's payment for the coming year by about \$80 million. But the higher interest paid for long-term borrowing will ultimately tack an additional \$250 million onto the cost of the benefit hike, said Bryon White, the county retirement board's executive director.

"San Diego County has basically given away the farm," said John Descamp, a 35-year veteran of California's pension system and head of Sacramento County's pension program.

"Everyone wants more benefits earlier so they can retire and be replaced," Descamp said. "But no one is questioning the impact."

Certainly the county supervisors have little incentive to do so. An analysis by The Times shows that if the five San Diego supervisors were to retire this year, their pensions would, on average, be 50% higher than what they would have been two years ago. San Diego County retirement board officials agreed with the analysis.

The annual retirement pay now ranges from \$60,600 for Jacob, an 18-year veteran, to \$21,600 for board Chairman Gregory Cox, 54, now in his eighth year. Before the increases, their yearly pensions would have been \$43,000 and \$12,600, respectively. The other supervisors would enjoy similar increases.

Any conflict of interest in granting the higher benefits was unavoidable, supervisors say.

"Certainly, the members of the board will get the same benefits," Cox said. "But that's true with every manager. It was not a question of someone trying to enhance their benefits at the expense of the taxpayers."

A spokesman for one of the state's largest labor groups also defended the higher retirement benefits, saying benefit enhancements are necessary if government wants to attract and keep qualified employees.

California's cost of living is high and the bigger pensions reflect that, said Terry Brennand, a lobbyist for the Sacramento-based Service Employees International Union.

"In the grand scheme of things, public employees in California are not overpaid," he said. "Nobody's getting rich off of public service."

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