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### Daniel Weintraub: Battered public pension funds -- Everyone pays

**By Daniel Weintraub -- Bee Columnist**  
**Published 2:15 a.m. PDT Sunday, May 18, 2003**

I usually hate making predictions. But here is one that's based on sound evidence and which, I believe, is too important not to put on the record: Public employee pensions are going to be the government story of the decade in California.

Recent benefit increases are combining with huge investment losses and underpayments by government agencies to turn the state's once-flush pension funds into debtors. As these effects ripple outward from their source, payments to the pension funds are going to take an increasing share of money that would otherwise be going to public services, from law enforcement to health care and education.

At the state level, the new, higher payments have been hidden amid the massive deficits the



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government has been running of late. But the rising costs will become more apparent in the years ahead.

And now the same problem is starting to roll through city and county governments. There, more people are likely to notice that they are sacrificing to pay for public employee retirements far more generous than their own.

Last week, experts told the board of the California Public Employees Retirement System (CalPERS) that the state's major retirement fund will need a \$3 billion infusion from taxpayers next year, more than double what it got this year. And unless the stock market starts rising soon at a rapid clip, that number will grow even higher the year after next.

San Diego, meanwhile, is reeling from internal reports that show a rising and seemingly uncontrollable debt in that city's pension system, an unfunded obligation that could reach \$2 billion within five years. Contra Costa County, after approving a benefit increase over the warnings of the local grand jury, is facing a shortfall conservatively estimated at \$1.2 billion. In Sacramento County, administrators are budgeting a \$34 million increase in payments to the pension fund while cutting essential services. The increase alone is equivalent to 9 percent of the county's general fund budget.

Much of the trouble can be traced to a 1999 law approved on the floor of the Legislature after only a few minutes of discussion. As too often happens with such legislation, the measure passed late in the session and won nearly unanimous support with little review. It came at the height of the stock market boom. Huge surpluses in the pension funds, lawmakers were told, were supposed to make the benefit increases all but free.

But part of that assurance was based on accounting changes adopted by pension fund managers to artificially inflate the amount of money available. Those gimmicks helped hide the true cost of the benefit boosts. The original bill and several that followed will ultimately cost taxpayers billions of dollars. The exact amount is almost impossible to calculate because many agencies that have yet to grant the richer benefits will probably do so in the future. With each one that does, the toll will grow higher.

The measures allowed pension increases of up to 50 percent, not only for future employees but for workers whose retirement contributions had been based for decades on the expectation of a lower benefit. That provided an unexpected and unfunded windfall to employees on the verge of retirement. Retired state employees received a smaller across-the-board increase.

Many local government employees across the state are now eligible to retire with pensions equivalent to 90 percent of their salaries at age 60. Police and firefighters can leave with 60 percent of their salaries after just 20 years on the job, and up to 90 percent if they put in 30 years and retire after age 50. And all of these pensions come with automatic cost-of-living escalators virtually unheard of in private plans.

Higher benefits aren't the only culprit in the demise of the pension funds' bottom lines. The stock market's plunge helped wipe out big surpluses built up in the 1990s. And many state and local government agencies stopped paying into the pension funds when times were good, further depleting the reserves that are so badly needed today.

The pension saga, as big as it will become, is actually just a part of an even larger story that will be unfolding in parallel over the coming decade. It's about

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the growth of public employee unions as a political and lobbying force, and their ability to drain the treasury for their members' benefit.

Unlike private unions, which must bend before they bust their employers, public worker unions know almost no bounds because their employers, generally, can't go bankrupt. With millions of dollars in political contributions, the unions can also help elect, or defeat, the very people who are negotiating with them from the other side of the table, a built-in conflict of interest.

That conflict comes with a cost for California taxpayers. I'll be looking at the tab in the weeks ahead.

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#### About the Writer

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