

San Francisco Chronicle

State's retirees prosper

[Kathleen Pender](#)

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California's public-sector employees enjoy some of the nation's richest pensions, so it's not surprising to see them gearing up to fight Gov. Arnold Schwarzenegger's proposal to replace the state's defined-benefit plans with a defined-contribution plan for new workers.

Under California's largest defined-benefit plan, an employee who started working for the state at age 34, retired at 65 and earned \$60,000 in his last year would be entitled to a pension of \$46,500 a year, according to the state Legislative Analyst's office.

The same state worker would get a pension of just \$40,775 in Texas, \$29,606 in Oregon, \$28,913 in Illinois and \$28,410 in Florida.

Unlike most private-sector employees, however, most in the public sector have to contribute part of their salary to their defined-benefit plans.

The average contribution is around 5 percent in California, 4 percent in Illinois, 6 percent in Oregon and Texas and nothing in Florida, which also had the lowest pension benefit in the survey.

The Golden State also offers some of the best benefits in the nation for early retirees.

The aforementioned worker who decided to retire at age 55 could get \$25,200 a year in California, \$15,242 in Oregon and \$11,914 in Florida.

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Illinois and Texas don't offer pension benefits to people who retire at age 55.

The survey excluded public safety employees (who generally get bigger pensions), local-government employees and teachers. The survey, done as part of this fiscal year's budget analysis, looked at only California and the four other large or western states.

But other national surveys confirm that California government workers get some of the best retirement benefits.

California is one of the few states that lets its workers retire as young as 50 and collect a partial pension.

It has one of about two-thirds of state plans that give retirees an automatic cost of living increase, although it is limited to 2 percent per year, which is about average, according to the National Association of State Retirement Administrators.

Defined-benefit plans guarantee employees a certain monthly income in retirement.

The benefit is typically based on the employee's salary, years of service and age at retirement.

For public-sector employees nationwide, the average pension is equal to 1.8 percent of final pay times years of service for workers who retire at 60 to 65.

In the private sector, pensions are lower. The average formula is 1.5 percent of pay multiplied by years of service, according to the Bureau of Labor Statistics.

The formula for workers covered by the California Public Employees' Retirement System is 2 percent of pay times years of service for those who retire at age 55 and 2.5 percent for those who retire at age 63.

For teachers covered by the California State Retirement System, the formula is 2 percent of pay for those retiring at age 60 and 2.4 for those retiring at age 63. Those with 30 or more years of service get a bonus, although the pension can't exceed 2.4 percent of pay.

Workers covered by CalPERS also pay part of their salary into Social Security and get Social Security benefits when they retire.

Teachers covered by CalSTRS do not participate in Social Security. They pay more, 8 percent of their salary, into their defined-benefit plan than CalPERS members.

To calculate pension benefits, most pension plans, public and private, use an employee's average pay during his or her final three to five years of service.

CalPERS is rare in that it bases an employee's pension on his highest pay, said spokeswoman Pat Macht said.

"This is not something that was sought by the unions or state workers," Macht said. "It was offered to workers by the Republican administration in the (Gov. George) Deukmejian years" in exchange for the state not making the required contribution to the pension plan one year, Macht said.

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In the private sector, many employers have either reduced or eliminated their contributions to defined-benefit plans, in many cases replacing them with 401(k) plans.

In a soon-to-be-released report, the Employee Benefits Research Institute says the average pension income from a public-sector plan was \$20,167 in 2003 compared with \$11,059 from a private-sector plan.

Many public employees say they deserve better pensions because they are paid less than private-sector workers. But data from the employee benefits institute don't bear that out.

Using Census Bureau data for 2003, the institute calculates the average state and local worker salary was \$35,771 compared with \$34,603 for the average nonagricultural private-sector worker.

So public servants, especially in California, get good pensions. Does that mean Californians, if they get the chance, should vote to dismantle the state's defined-benefit plan for future workers?

The governor says he wants to do so because "California's pension obligations have risen from \$160 million in 2000 to \$2.6 billion this year."

About 12 percent of the increase was caused by benefit enhancements granted to employees when the state was flush with cash, according to Macht. Another 12 percent is a result of demographic changes.

According to Calpers, 75 percent of the increase in pension costs is needed to make up for the losses incurred by pension fund investments during the bear market. That should improve over time, lowering pension costs.

Clearly, pension benefits in California have outpaced most of the country. But that doesn't mean the entire system should be replaced.

"Ten percent of the nation's workforce is employed by state or local government," says Keith Brainard, director of research with the National Association of State Retirement Administrators. "In my view, government is uniquely situated in its role as both policy-maker and an employer to model responsible employer behavior as it pertains to retirement benefits."

Net Worth runs Tuesdays, Thursdays and Sundays. E-mail Kathleen Pender at kpender@sfchronicle.com.

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