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Daniel Weintraub: California's pension benefits among the richest

By Daniel Weintraub -- Bee Columnist
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California policymakers like to think of themselves as national leaders. But when it comes to public employee pensions, our state legislators would do well to consult two of their less flashy peers: Wisconsin and Oregon.

Wisconsin because it is the home of the most comprehensive survey of state retirement benefits, a document that shows that by almost any measure, California's program is among the richest in the country. Oregon because our neighbor to the north had a worse pension mess than ours and recently took steps to correct it.

With pension costs climbing for state and local governments here, Gov. Arnold Schwarzenegger is proposing a reform that would shift the risk in retirement benefits from the taxpayers to individual public employees. In that light, it's worth looking at how California's current benefit structure stacks up to what public employees in the rest of the country receive.

The most recent Wisconsin survey - the Comparative Study of Major Public Employee Retirement Systems - was published in December 2003, with data through 2002. It looked at everything from the basic benefits themselves to

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employee and employer contributions, retirement age, how an employee's final salary is computed and cost-of-living adjustments.

The report doesn't examine special benefits for public safety employees, where California policy is indisputably at the extreme end of generosity, granting pensions that give Highway Patrol officers and most local police and firefighters 90 percent or more of their final salary for life and allow them to retire with full benefits as early as age 50.

But even the state's less generous benefits for the general work force are at the high end of the national spectrum. California's standard retirement formula is known as "2 percent at 55," which means that a retiree gets a pension equal to 2 percent for each year worked and can retire with that benefit as young as age 55. Employees who work 30 years for the state and quit at 55, then, get pensions of 60 percent of their final salary.

Workers who stay longer see their final pay multiplied by a progressively larger factor, up to 2.5 percent per year worked at age 63. So an employee who retires with 30 years service at age 63 would get a pension equal to 75 percent of his or her final salary.

And remember, this has nothing to do with California's famously expensive cost of living. That's already reflected in the salaries paid to public employees while they are on the active payroll. The most recent numbers from the U.S. Census bureau show that the average salary for full-time state government employees in California is \$57,000 - more than anywhere in the nation and 30 percent higher than the national average of about \$44,000. So even a modest retirement formula would crunch those salary figures into relatively generous pension benefits. But California's formulas are anything but modest.

For starters, consider that California, as of 2002, was the only state in the nation that figured retirement benefits based on the final year's salary alone. Almost every other state takes an average of the final three years' salary. California's unique policy gives every retiree at least a slight boost on the way out the door and is open to abuse by the few who find ways to dramatically increase their benefits for life by manipulating their final salary through a last-minute transfer or end-of-career promotion.

California's standard retirement age of 55 for general employees is on the young end of what other states offer. Only Massachusetts and Nebraska are as generous, and most states require employees to work until age 60 or 65 to receive the basic benefit.

California's employee contribution of 5 percent is about average. A few states have lower rates, and several require employees to contribute as much as 7 percent or 8 percent of their salary toward their retirement.

Finally, California's multiplier - the factor by which each year of service is multiplied to determine the employee's pension - is among the highest in the

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nation. Many states have multipliers that yield pensions 25 percent or 30 percent lower than California's, and almost all of the states where the formula is richer do not also offer their employees Social Security benefits, as California does for its general work force.

Combining the retirement age, the contribution rate, the multiplier and other benefits, California's plan is arguably the richest in the nation. And it is just these many factors that allow the benefits to steadily creep higher, because lawmakers, at the behest of the public employee unions, are constantly proposing narrow bills that tweak one element or another of the complicated retirement formulas. In isolation, each change seems modest, but taken together, they have created a Cadillac plan.

One of the virtues of a defined contribution plan of the kind Schwarzenegger is proposing for new employees is its simplicity. The worker puts in a certain amount, the taxpayers match it, the money is invested and the retiree owns his or her fund. No worries about formulas, retirement age and the like. What you see is what you get.

Next: In my next column I will take a look at how Oregon got into its pension crisis and how it's getting out.

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