Politics

How law fattens state pensions

By John Hill and Dorothy Korber -- Bee Staff Writers
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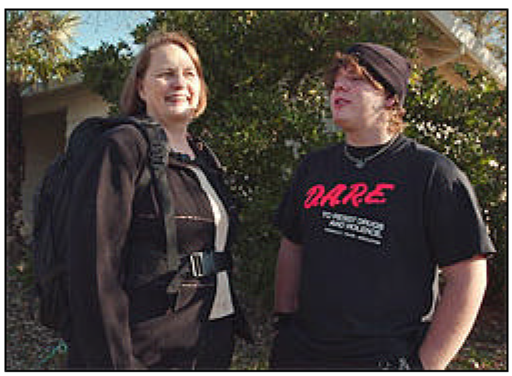
It was not the view of the San Francisco skyline that motivated state worker Sharon McGraw at age 58 to give up her comfortable home in Roseville for a one-bedroom, $1,500-a-month East Bay apartment.



Sharon McGraw and grandson Thomas Adams, 15, traveled to Europe last summer. At 58, McGraw moved from Roseville to Oakland for a promotion and pay raise that ended up adding $18,000 annually to her state pension when she retired 21 months later.

Sacramento Bee / Jay Mather

By putting up with the high rent and inconvenience for a mere 21 months, the accounting manager snared a hefty end-of-career pay raise that increased her state pension by $18,000 a year.

McGraw was taking advantage of a law that benefits thousands of government workers - and makes the Golden State unique. California is the only state in the union that bases its pensions on an employee's highest single year of pay, rather than averaging three or more years.

The law means that workers like McGraw, who get large raises near the end of long careers, can bank on bigger, publicly funded retirement allowances for the rest of their lives.

In many ways, it's a case study of the generosity of California's public pension system, a Bee investigation has found.

With little notice and no hearings, the law creating the one-year pension formula to settle a labor negotiation - SB 2465 - was passed at the end of the Legislature's 1990 session. There was only one dissenting vote.

"That bill stands out in my mind because it was so shocking," said the lone dissenter, state Sen. Tom McClintock, R-Thousand Oaks. "It was so far beyond anything being offered by the private sector."

The law's $63 million-a-year price tag was considered the cost of getting public employee labor unions to agree to a budget.

Short-term relief meant long-term fiscal pain. A Bee analysis of current retirement data suggests that in a decade the cost has ballooned to more than $100 million a year.

But there is an additional cost. The law encourages state workers to retire sooner, often at the peak of their careers. The year after SB 2465 passed, The Bee found, the number of state workers retiring shot up by 77 percent - from 3,636 to 6,452.

Top managers, who set the direction for entire operations, are in the best position to win late-career promotions that boost pensions and spur early exits. They leave public service, taking their pensions, their additional training and their expertise with them.

"It reduces the pool of experienced people in state service," McClintock said. "It's a lose-lose for taxpayers."

The other 49 states use a three-to five-year average for rank-and-file workers, according to two recent surveys of state retirement systems. This discourages pension "spiking" - those end-of-career salary hikes and promotions that generate bigger pensions, said William Ford, Wisconsin's legislative counsel, whose office conducted one of the surveys.

"Other states have not adopted the one-year formula because they are concerned about the type of problem you have in California," Ford said. "It makes the system easier to manipulate to increase pensions."

The single-year law is a prime example of how California has built one of the nation's most generous public pension systems.

Over three decades, the state has expanded the number of employees considered public safety workers, who are entitled to lucrative safety pensions. Many public safety workers, particularly in the California Highway Patrol, further increase their retirement income by claiming job-related injuries at the end of long careers, as The Bee reported earlier this year in an investigation titled "Chief's Disease."

California's pension for rank-and-file workers offers a richer formula for each year of service than that used by many other states - and it allows those workers to cash in at a younger age. Recently, the legislative analyst's office found that California pensioners get significantly more than their counterparts in the four states studied: Florida, Illinois, Oregon or Texas.

Good pensions have long been used to entice workers to take, and keep, government jobs.

"It's one of the real pluses of state service," said J.J. Jelincic, president of the California State Employees' Association.

But California's generosity is expensive and getting more so. The nonpartisan legislative analyst's office estimates that the state's pension obligation will almost triple in seven years, from about $1.2 billion in the 2002-03 fiscal year to $3.3 billion in 2009-10.

"We've had a series of improvements over the years that have contributed to the crisis," said Assemblyman Keith Richman, R-Northridge, who has proposed retirement system changes.

Making use of the new law

The one-year pension rule became law with little fanfare. Yet workers who retired in the past four years have received 5 percent more in pensions than they would have under a three-year system, according to The Bee's analysis.

To find workers who benefited from the change, The Bee analyzed state payroll data for state workers who have retired since 2000 and who received substantial pay raises before retiring.

Some of them collected cost-of-living and merit raises while keeping the same job. Others were promoted to higher-paying positions.

Sharon McGraw is in the second group.

McGraw's voyage to the Bay Area was launched in the summer of 2001, when her boss in Sacramento gave her a flier for the better-paying job in San Francisco with the Administrative Office of the Courts.

In her old job as a senior analyst in the executive branch in Sacramento, McGraw earned about $6,000 monthly. By the time she retired a year and nine months later, her salary was approaching $8,000 a month. A portion of the raise was simply compensation for the Bay Area's higher cost of living, she said.

In San Francisco, McGraw worked on a team that awarded medical insurance contracts for employees of the newly expanded court system.

"I planned to stay three years, but once the system was set up, the challenge was gone," she said, acknowledging that she "would have stayed for the extra year, probably, if the state used a three-year average for pensions."

Instead, McGraw retired in 2003 on her 60th birthday.

She figures the state got a good bargain from her retirement - her job opening, she said, was not filled. But McGraw acknowledged that the deal worked out for her as well.

Her new job led to about a 30 percent jump in her pension check, to $5,251 per month - $63,000 annually. In a state with a three-year average, the new job also would have raised her pension - but about 12 percent less than she got under California's one-year plan, according to a Bee analysis of her salary history.

Upon retiring, McGraw moved back into her Roseville home. She spends time with her five grown children and travels. In the past year, her itinerary included Spain, England, Singapore, Malaysia, Belize and Honduras.

"I'm very adventurous - all I take is a backpack," she said. "And it's not even that big a backpack."

Some careers cut short

Like McGraw, some workers made strategic career moves based on the one-year formula. Others say they didn't take it into account - but when they calculated whether they could afford to retire, it was nonetheless part of the equation.

For Marsha Prillwitz, 55, the one-year rule helped make retirement feasible - but also cut short a career that the water efficiency expert says could easily have lasted another five years.

"I think it's a little bit of a shame, because I was kind of coming to the peak of my professional career," she said.

In 2003, nearing the end of 25 years with the state, Prillwitz won a promotion to chief of the office of water use efficiency in the Department of Water Resources. She planned to stay a while. But, after Gov. Gray Davis was recalled later that year, "I decided, maybe it's time to get out."

Her pension of about $41,800 a year is 20 percent more in retirement than she would have had without the promotion - and about 14 percent more than if she had worked for a state using the three-year average.

In McGraw and Prillwitz, public service lost two energetic managers with years of experience. In Ronald Byrant, the California Highway Patrol lost a newly fledged sergeant.

Bryant says the one-year rule was among the reasons he sought a promotion to sergeant at the end of a 28-year career as a road officer with the California Highway Patrol - but not the main reason.

Bryant was promoted to sergeant just a year and three days before his retirement in November 2001.

Bryant, now 62 and a resident of Suisun City, said he knew he would find it rewarding to be a supervisor, where he could help other officers and the public. Another attraction was that, as a sergeant, he no longer patrolled the roads day in and day out.

"You get tired of the madness after a while," he said.

Spending a year at the higher rank was rewarding in other ways, too, giving Bryant a 17 percent bump in his retirement, to about $66,500 a year - 12 percent more than he would have received using a three-year average.

Don Bossingham didn't even have to work the whole year in the higher rank to reap the full benefit.

Bossingham, who now lives in Castaic, was promoted to assistant chief of the CHP in March 2001. But he worked in that higher rank for just six months before going out on medical leave.

While still on the job, Bossingham had felt well enough to represent the CHP in a relay race in Las Vegas. Two days later, he sought a workers' compensation award for a foot he claimed was injured by years of duty, eventually netting a $44,000 award. He also got a medical pension for heart ailments.

Bossingham's promotion to assistant chief increased his pension by about 14 percent - to $103,000 a year.

Now 58, Bossingham said he didn't give any thought to the effect of the promotion on his retirement benefits. He retired when he did, he said, because "you get to a certain point where it's just time to leave."

Many enjoy pension bump

Deciding it's time to leave is not solely the prerogative of workers landing late-career promotions, of course. Others also benefit from the state's generous law. Any worker who stays in the same job but retires shortly after getting a raise gets a pension bump. A multiyear average for pensions would smooth out such a bump, but the one-year formula does not.

In July, for instance, correctional officers got a 10.9 percent raise. Although the state's budget crisis has delayed the raise for working officers, it counts right away for those retiring.

Under the one-year rule, an officer with 25 years of service who earned $65,000 annually - and retired only a year after the pay raise kicked in - would get about $3,200 more each year in pension than if his retirement were calculated with a three-year average.

That can add up. If the 400 correctional officers who retire annually each got the additional $3,200, that alone could increase the state's pension obligations by about $1.3 million a year.

Such long-term costs were barely debated when the Legislature passed SB 2465 in 1990, changing the pension formula from a three-year salary average to just one year.

Gov. George Deukmejian's administration negotiated the concession to mollify unions concerned about other accounting changes in the state retirement system, according to a consultant's analysis titled "Budget Balancing Through PERS While Paying Labor's Price."

Deukmejian and lawmakers, faced with a budget crisis, wanted the changes to shrink the state's pension costs - at least on paper. Switching to the one-year rule was the carrot that enticed public unions to agree to accounting changes that could weaken the retirement fund.

"One-year ... was payment for not objecting and not fighting it in the Legislature," said Jelincic, the state employees union president.

SB 2465 moved through the Legislature as smoothly as a motion to adjourn.

State workers know the ropes

Although the one-year law has garnered little public attention since, state workers tend to be fully aware of it.

"When you're with the state long enough, you know that kind of stuff," said Bill Bordessa, who retired in April from the Department of Food and Agriculture as branch chief of the milk and dairy foods control section.

Bordessa was promoted to the job two years before he retired, increasing his pension to about $47,000 - 27 percent above what he would have gotten without the higher-paying job. Bordessa said he was well versed in the one-year rule, and that it helped make his retirement at age 56 affordable.

"It wouldn't have been worthwhile to retire at that point without that," he said "It's worked out really well for me."

California is the only state that uses the highest single year of salary to calculate pensions.
The year after the one-year law passed, state worker retirements grew from 3,636 to 6,452.
The cost was estimated at $63 million a year in 1990, when law passed; last year it cost about $100 million.

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