Testimony before the
Little Hoover Commission
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Mr. Chairman, members of the Commission, thank you for inviting me to speak before your panel today.

I welcome the opportunity to discuss with you pensions and pension reform – an issue that has generated much debate…some of it informed, some of it not.

What I would like to do today is describe for you the role that we believe CalPERS has to play in that healthy discussion.

I will also outline for you how the guardrails established under state law and by our own commitment to be a transparent, educated, and an honest broker of information can help guide policymakers and the public as this debate continues and as they confront the tough issues ahead.

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Even as we sit here today, pension change is occurring throughout California.

Many public pension systems have instituted or negotiated changes in their plans and benefit structures following steep losses caused by a historic financial meltdown.

We can see changes … too … in the agreements the State of California has negotiated with a half-dozen employee unions.

Among other things, those deals call for new retirement contribution rates for existing workers and benefit changes for future ones.

Some of these changes … many made in the give and take of serious negotiations far away from the overheated rhetoric of our critics … are aimed at recasting provisions that went into effect following the passage of Senate Bill 400, the pension bill passed by the Legislature and signed into law by the Governor 11 years ago.

Now … much has been made of the impact of SB 400.

But I'd like just for a moment to step back and recall some essential points that I think have been lost in all the conversations about SB 400 ... points that I hope will shed some light on this issue and bring some perspective to a debate in terrible need of it.

The first observation is that ... from the very beginning …SB 400's real purpose was to bring fairness and equity to retirees and state workers who over many years had seen their benefits fall significantly behind those of many other California public employees.

Here’s one way to look at this:

In 1999, the average monthly benefit for a CalPERS service retiree 11 years ago was $1,175 … and for a School member (non-teachers) it was $627.

Meanwhile … the federal poverty level for a family of two was $922 a month.

Not only had our retirees lost the battle to inflation long ago … there is no doubt that in many cases their pension earnings were hardly enough to keep them from poverty.

And it’s equally important to note that SB 400 was aimed at helping the State of California attract and retain skilled employees at a time of very strong job growth and very strong competition not only from the private sector but from other state and local public agencies as well.

Just last week we were reminded of this fact in a story published about the University of California retirement system.

In 1999, when the State was dealing with employee retention issues, University employees paid zero employee contributions toward their pensions and had higher benefits – a factor that could have easily led to employees leaving State service to become University employees. The situation was not unique, but emblematic of a wider problem.

In 1999, the essential problem was this:

Basic retirement benefits for the vast majority of our State and School members had not been improved for 30 years.

It is also important to point out that in 1999 financial returns were so strong that many employers took a holiday from paying into the CalPERS Fund. From 1999 through 2002 the State of California's payments were little to nothing.

Employees, however, continued to make their contributions…from 5-9 percent of their monthly pay.

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SB 400 had another important purpose … to eliminate a clearly inferior Tier 2 retirement benefit plan for those hired after July 1, 1991.

That helped level the playing field when it came to competing for the best and brightest workers against other public agencies whose benefit packages were typically more generous.

It also enabled workers who were in the Tier 2 system to buy back their service from their own pocket books to ensure greater financial security at retirement.

We can sit here and talk all day about SB 400’s failings … but it’s important to remember that the driving principles behind it were fairness and equity.

There is another important observation I want to make:

We live in a different world today.

Today’s economic climate is radically different from that one we were in 11 years ago.

We take great pride in our 78-year history … in our ability to weather the dynamic financial storms across eight decades … but we don’t live in the past.

One thing, though, does remain constant. State law still gives employers and employee groups the ability to change formulas through collective bargaining and take advantage of investment gains to shoulder much of the costs of pensions.

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You’ve asked us to address a few other issues as well so I’ll briefly cover them.

You asked how many contracting agencies have requested cost projections for a second tier of lower benefits.

Since the call for pension reform…we have tracked about 90 cities, counties and special districts that are making some form of pension changes.

Since January, we've provided 82 agencies with such cost projections for a second tier lower benefit plan.

During this same period, 16 agencies are in the process of amending their contracts to create a second tier and 14 have actually amended their contracts to create a second tier.

You also asked what role CalPERS has in creating "hybrid" systems for local agencies that feature defined-benefit and defined-contribution components.

Currently, there is nothing in CalPERS law to prevent an employer to design hybrid models … and our role in that process would be to provide the technical pension expertise if asked. We want public agencies and the State to full understand the implications of decisions they make and are committed to bringing our best thinking to the table when asked.

In light of what's happened in the City of Bell … you have also raised the issue of CalPERS role in identifying unusually large salary increases.

We don’t set salaries. We’re the administrators of the retirement programs.

But the link between compensation and pensions is so important that after what occurred in Bell we’ve taken a number of steps to increase accountability and oversight.

- First, we’re scrutinizing all salaries paid to CalPERS members that are $245,000 a year and above to make sure they are being reported correctly.

- Second, we’re establishing stronger guidelines for CalPERS employees to follow to enable them to flag and report up unusually high compensation and salary increases.

- Third, we brought together and created a task force of major public employer organizations, labor groups and legislative staff.

  The task force is focused on three key areas:
  - Greater disclosure of public compensation and benefit information;
  - Available options regarding limiting compensation for retirement calculations;
  - And mitigating the impact excessive salaries have on the retirement costs of agencies in the same liability pool.

- Finally, we are actively working with the Attorney General in his investigation into the high salaries and pension benefits paid to officials in the City of Bell and other cities.

  And we've placed a hold on the retirement accounts of the individuals under investigation … and won't approve any pensions until we're satisfied they're appropriate under the law.

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You've also asked how we would now approach retroactive benefit increases and whether we are taking sides in the current debate about realigning pension benefits and costs.

It's important to note that it's the Legislature's role in this process when statute is required to implement … whether it's to ratify changes made by state collective bargaining agreements … or to approve changes after determining the appropriate contribution and benefit levels.

Today, CalPERS takes neutral positions on legislation concerning changes in retirement benefits that are subject to collective bargaining or sought by contracting agencies that would implement bargaining deals applying only to those agencies.

Retirement benefit design is a matter between employers and employees through collective bargaining.

We have an important role in education member agencies about the potential impact of design changes and facilitating transparent flow of information.

I want to remind the Commission that the State pension commission looked at many issues around pensions and the question on how to ensure that government had the tools necessary for sound decision making. One of the Commission's recommendations found its way into Senate Bill 1123 authored by Senator Patricia Wiggins.

It expanded the information provided to the Legislature and local legislative bodies by requiring an actuary to the impact of future annual costs associated with post-employment benefits.

Another key point is that CalPERS played an important role to bring stakeholders together for the first time to have an honest dialogue around pension policy for the future.

We sponsored two Retirement Dialogues this year where we brought together leaders from all sides of the pension issue to discuss possible solutions.

Many of the speakers at our dialogues have also appeared before this commission.

In the coming months, we will be unveiling a toolkit for local elected officials that will explain the fundamentals of public pensions and we look forward to further engaging them in forthright discussions about retirement benefit designs.

And we will be working with employer organizations to come up with a variety of tools that decision makers can use to ensure they have complete, accurate information available to them as they look toward the future.

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In closing, I would like to say that our staff at CalPERS has worked behind the scenes with your staff providing factual information, history and context about our role as the administrator of pensions.

We have been impressed with their seriousness of purpose and willingness to look at all sides of the issue. We hope that they have found us to be transparent, factual and committed to engaging honestly in these dialogues.

And we thank them and thank you for your thoughtful engagement on these very important matters.

The State has many financial challenges, but I encourage this commission to separate the wheat from the chaff and base your recommendations on fact and not mischaracterizations or political rhetoric which doesn’t serve anyone well.

You have a monumental task, but I’m reminded by the fact that this issue of pensions impacts lives and families – those who devote 30 and 40 years to public service and who deserve to live their years in retirement with dignity, respect and some financial security.

Thank you for the opportunity to be here.

I’m happy to answer any questions.