

THE STATE

Gov. Softens Pension Stance

His finance director says Schwarzenegger is willing to bend on a proposal to shift state workers to private retirement accounts.

By Evan Halper
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SACRAMENTO — The Schwarzenegger administration is backing away from its demand that the state employees' pension system be replaced with private retirement accounts.

Finance Director Tom Campbell said Wednesday at a legislative hearing that the governor is open to changing the pension system in other ways, provided there are savings for taxpayers and predictable costs for the state.

His comments come as the governor travels the state collecting signatures for a possible ballot initiative that would move government workers hired in 2007 and later into 401(k)-style accounts in place of set payments guaranteed at retirement. But increasing opposition from police, firefighters and other unions appears to have weakened its prospects.

"If the Legislature puts forward a reasonable alternative ... I know the governor will be supportive," Campbell said. "I never said any counterproposal is dead on arrival."

The Democrats who dominate the Legislature have locked horns with Gov. Arnold Schwarzenegger over the proposed change, which the governor unveiled in his State of the State address in January.

"We must do what business has been doing," Schwarzenegger said in an unambiguous call to end guaranteed retirement payments for public workers. "We must move from a defined benefit to a defined contribution system."

Democrats say such a program would threaten state workers' financial security and achieve no immediate savings for the state.

The resistance Schwarzenegger is facing mirrors the problems the Bush administration is encountering in its campaign to privatize Social Security. Both proposals have panicked recipients of the government payments, who fear they could lose their retirement savings.

Campbell extended his olive branch as the state attorney general's office discovered an apparent error in the ballot measure the governor is supporting.

The problem: The measure may end cash payments to the families of police officers and firefighters who die or are injured on the job.

Under the measure, according to state attorneys, the family of a first-year police officer who dies in the line of duty would receive a one-time payment of no more than 6% of the officer's annual pay — just a few thousand dollars — as opposed to monthly payments totaling tens of thousands of dollars over many years.

The attorney general's finding, which the authors of the initiative dispute, led to angry testimony by public safety officers and their family members at Wednesday's hearing.

"Death and disability benefits are not frills," said Heather McCormack of San Jose, whose husband, Mark, a firefighter, died on the job last month. "The only real security for survivors comes in knowing that every month the check will be there, to pay the mortgage, to buy food, to keep the family going."

Campbell and Assemblyman Keith Richman (R-Northridge), the author of the initiative and a corresponding bill in the Legislature, said the attorney general's staff is mistaken. They said both the bill and the ballot measure would leave the death and disability benefits intact.

But Democrats seized on the issue. "It's the hole in the balloon," said Senate President Pro Tem Don Perata (D-Oakland). "It points up the fallacy of being able to just throw something on the ballot and believe you can fix everything."

The legislative process allows lawmakers to "walk around an issue, kick the tires and see what something is trying to accomplish and discuss whether it is accomplishing it," Perata said.

Perata said that as early as next week, the Democrats will present their proposals for improving — not overhauling — the pension system.

Perata said the bills would require state and local government agencies to continue paying into the public pension fund even when returns from the stock market are enough to cover money owed to retirees.

The Democratic proposal would also close loopholes that allow some state workers to get retirement pay based on a large salary boost in their final months on the job. "We want to work out some of the most egregious examples of where the system malfunctions," Perata said.

Administration officials say such proposals are unlikely to go far enough. They point out that five years ago, the state's payment into the retirement fund for government workers was \$160 million. This year it is \$2.6 billion.

"Nobody in the private sector has these kinds of pension plans, so why should state employees have it?" the governor asked Wednesday in the Bay Area city of Hayward, where he was campaigning for the ballot measure and other proposals. "We want to make it as fair as possible for the taxpayers."

Schwarzenegger added that he will continue pushing the initiative in the hope that it will force lawmakers to agree to substantial changes to the pension system. He compared the effort to his push last year to reform the state's workers' compensation system. In that case, he said, the threat of a ballot measure that would have taken the issue out of their hands forced lawmakers to forge an agreement with him. "The beginning of this signature gathering has put extra pressure on them," Schwarzenegger said. "It will be just like last year, when we were negotiating workers' comp."

Times staff writer Robert Salladay contributed to this report.

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