Public employees at all levels of government have been negotiating reforms to pensions for the last three years. Unfortunately, the press has not fully, nor accurately, reported on all these events and certainly when they have, perhaps only one story has been written, compared to the hundreds of stories that they continue to write about the need for pension reform.

It should be important to take full account of all the changes that have been made in pension systems throughout the last several years. I would like to give you a brief summary of some of the things that I have witnessed.

It is important to note that unions have long been active in negotiating changes at both the state and local levels that have reduced public costs in a variety of areas, including pay, benefits and retirement.

Under Governor Arnold Schwarzenegger, several State Employee bargaining units negotiated changes to their retirement benefits. These changes included increasing employee contributions to PERS and reducing pension formulas, which have already eased state budget costs by over $600 million over the last two years. These reductions were on top of an imposed 3-day a month furlough program which reduced state employee take home pay by 15%. Similar furlough programs were imposed at the local level as well

Under Governor Schwarzenegger, the CHP, CAL FIRE Firefighters and correctional officers negotiated away the 3% at 50 and went to the 3% at 55 formula. In addition, they increased their contributions to PERS to 10% and they changed the determination of final compensation from the average of highest single year (which, by the way, was granted by former George Deukmejian back in 1990) and went to the average of the highest three years.

Governor Brown was elected in 2010 and proceeded to implement similar agreements for the remaining state employee bargaining units that had not reached agreement with Governor Schwarzenegger. They modified their retirement formulas and increased their contributions to PERS in similar fashion. Again, well over half a billion dollars has been saved by the state.

Similar changes were negotiated in California cities, counties and local districts, where public employees have agreed to pay more into pension plans, reduce benefits and lower costs.

- 400 rate plan amendments created a new (lower) tier of benefits for new employees
- 229 rate plan amendments implemented a 3-year final compensation period for new employees
- 46 rate plan amendments offered an additional 2-years of service credit (golden handshake)

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- Rate plan amendments implemented cost-sharing with employees for additional benefits

Then again under Governor Brown, most State Bargaining units just agreed this summer to a reduction in pay (4.62%) through a Personal Leave Program (PLP). Those that did not agree had it imposed upon them. This is a continuation of Governor Schwarzenegger's furlough program.

Now we have AB 340 – the biggest reduction in retirement benefits in the history of California. The Governor's signature on this legislation represents a giant rollback to retirement security for California's aging workforce.

While we support elements of the pension reform package that end pension spiking and other abuses of the system, the new law slashes benefits to pre-Governor Ronald Reagan levels with an end-run around collective bargaining.

The increase in retirement age will likely result in an increase in workers compensation claims and disability benefits, especially for public safety personnel, and will make it increasingly difficult to attract quality public workers to serve Californians.

AB 340 Summary

1. AB 340 will not affect current employees' retirement benefits, except for an increase in cost-sharing. Current employees will continue to receive all current retirement benefits and formulas.
2. New employees hired January1, 2013 or after will continue to receive defined benefit pensions, but the formulas will be reduced.
3. New employees will be required to pay 50% of normal costs (normal costs are the costs to fund current benefits, not including unfunded liabilities). Because retirement formulas for new employees will be reduced, normal costs for new employees could be lower than the 7% paid by current employees.
4. Employers have the right to negotiate to increase the amount current employees pay towards their retirement. AB 340 would allow employers, beginning in 2018, to unilaterally implement an employee contribution rate of 50% of normal cost, or an 8% employee contribution for miscellaneous and 12% for safety, whichever is less.
5. If there is an Employer Paid Member Contributions (EPMC), it will continue to picked up for current employees. EPMC will not be available to new employees, who will be required to pay 50% of normal costs.
6. New employees will have their pensions calculated based on the highest three-year average.

7. Final compensation for pensions can only include regular, recurring pay. This anti-spiking provision prohibits the practice of padding final compensation by adding multiple years of sick leave, vacation or other pay that is not earned in the final year of work.
8. Retired annuitants will have to wait 180 days before returning to work and will be limited to 960 hours. This addresses situations such as City Managers retiring on Friday, returning to work Monday and collecting both a pension and a paycheck.
9. Public employees who commit felonies in relation to their job will lose any pension earned following the commission of the felony.
10. In the unlikely event that pension benefit increases are granted in the future, they cannot be applied retroactively to service already performed. Benefit increases can only be provided from the date of the increase forward.
11. Pension holidays are prohibited. Employers will no longer be allowed to reduce contributions to zero when pensions have excess funding. They must always pay their share of normal costs.
12. Purchase of "air time" will be eliminated. Currently, employees can purchase up to five years of service credit for time they did not work. Other service credit purchase options, such as military service credit, are still allowed.
13. The CalPERS board is not changed. The Governor may push for modifications to the board in the future.
14. New employees will have their pensionable salary capped at $110,100, or $132,120 for those not covered by Social Security. These caps will be increased by a cost of living factor. Few, if any, classified employees will be impacted by these caps.

Respectfully submitted by, Ron Cottingham, President, Peace Officers Research Association of California (PORAC).