Headline: California launches attack on public sector pensions

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California's Democratic-controlled legislature overwhelmingly passed a drastic pension reform bill and sent it to Governor Jerry Brown last Friday. The state will save between $52 billion and $72 billion on workers' pensions over the next 30 years, according to the California Public Employees' Retirement System (CalPERS), the state's largest pension fund—on top of $12 billion out of teachers' pensions over the same period.

The bill, which passed with overwhelming support in the California legislature on August 31, is descended from Democratic Governor Brown's initial proposal from October 2011, when he outlined a "12 point plan" for pension reform.

Brown's proposal would raise the minimum retirement age for public employees from 55 to 67, and from 50 to 57 for public safety workers. It would split pension plans into "hybrids" of the traditional CalPERS system, Social Security and a 401(k) retirement account dependent on the performance of the stock market, effectively trebling employees' contributions to their pension plans while government liabilities plummet.

Pensions would be determined as an average of an employee's three years of highest salary, as opposed to matching their single year of highest salary. Brown's plan has enjoyed the vocal support of the state's Republican lawmakers as soon as it was unveiled. A number of Democrats uncritically opposed Brown's plan on the principle that labor unions should be more involved in the process.

The plan that was passed last Friday doesn't include Brown's hybrid scheme for calculating pensions, but settles for increasing employee contributions to their pension fund to half of the total. All the other major aspects of Brown's plan have found their way into this legislation.

Although the new policy would affect only new-hires, the California government hopes to extract the same concessions from current employees through bargaining with the labor unions. Furthermore, employers can increase pension contributions from workers through collective bargaining with the unions and unilaterally after five years.

California has operated on a system of defined-benefit pensions for state employees, who are allowed to retire at age 55 and their pension is tied to their year of highest salary.

In the state which is home to more than 10 percent of the world's billionaires, a handful of "six-figure pensioners" are endlessly highlighted and vilified by the media. According to the San Jose Mercury, only 3.7 percent of the state's pensions exceed $110,000 and only 1.6 percent exceeds $132,000, the new pension cap which would be established by the new law.

Public pensions in California are enormously underfunded, with the state's two main systems owning assets about $165 billion short of their liabilities to pensioners.

The bill already has its critics from both parties arguing that the cuts in public sector pensions have not gone deep enough, noting that the new policy only applies to new hires and that significant savings won't be reaped for a number of years. The door to a further statewide attack on the pensions of current employees is still very much open, and is ardently supported by Governor Brown.

Brown is almost certain to sign the bill into law in the next few days.

Leaders of the unions representing public sector workers in California made a big show of anger and outrage at the new policy. In reality, the point the union executives stress in their statements is that the reform hasn't been “negotiated”—the unions have been cut out of the process.

Yvonne Walker, president of the Service Employees International Union (SEIU) Local 1000, which represents nearly 100,000 state workers, said on the eve of the congressional vote, “SEIU Local 1000 has always supported smart pension reform that ensures as many workers as possible can afford a modest level of retirement security as they grow older [emphasis added]. We have already adopted many of the measures proposed by the governor through the collective bargaining process.”

Revealing the union’s unconditional agreement with the principle that workers must make sacrifices in the name of capitalist rule, Walker states that, “The best way to accomplish pension reform is through sound actuarial review and collective bargaining, not by a rush at the end of the legislative session. Throughout California, public employees have sat down with their employers, made concessions and hammered out cost savings plans to help get governments through the recession.”

As always, the unions only posture as opponents of anti-working class legislation, while they collude with lawmakers offering their services. The instruments of “collective bargaining” will carry out the diktats of the ruling class most effectively.

Significantly, Californian cities which legislate, negotiate or otherwise impose their own pension reforms are exempt from the provisions of the bill. San Jose and San Diego have recently enacted sweeping pension reforms for city employees. This alongside Los Angeles County, which has reformed pension four times in the past 35 years with measures that set the bar for pension reform statewide.

Bankruptcy may provide the most potent avenue for freeing city and local governments of contracted pension liabilities over and above what is mandated at the state level. Stockton and San Bernardino have been the first California cities to file for bankruptcy, after having borrowed from bond markets to cover deficits in their contributions to pension funds.

A column in the Sacramento Bee states, “municipal bondholders and bond insurers... are now bent on testing commonly held notions that public pension promises can’t be broken.”

The Stockton and San Bernardino bankruptcies will be settled in court, with the most likely scenario that Wall Street firms are repaid their capital and pension contracts are ripped up by the bankruptcy courts. A common occurrence in the private sector, the voiding of public pension obligations would set a milestone precedent. It is estimated that 10 percent of California cities face the possibility of bankruptcy.

The all-out attack by the California government on public pensions can only be seen in the context of the ruthless driving down of living standards for working people throughout the country. Jerry Brown, Democrats and Republicans in the state congress and their cohorts in the labor union bureaucracy are leading this assault, setting an example for the public and private sectors all over the United States.