CSAC Guiding Principles on Pension Reform

2012

Preamble

Public pension reform has garnered widespread interest and generated significant debate among policy leaders. Rising pension costs have called into question the long-term sustainability of pension benefits and pension abuses have left the public with little confidence in the fairness of the benefits. Much consideration will be given in the coming year to the appropriate remedy for restoring equity, trust, accountability, and financial sustainability to public pensions.

CSAC believes that there is a need for statewide reform to ensure that public retirement systems are sound and fiscally responsible. Local elected officials should adopt pension systems that meet the needs of their workforce, maintain principles of sound fiduciary management, and preserve their ability to recruit and retain quality employees. Proposed reforms should meet these broad goals, as well as CSAC's guiding principles.

Guiding Principles

Ensure Sustainability

Counties believe in providing career employees with fair and adequate retirement benefits. Market losses and increased benefits granted over time have increased the risk of unsustainability, with retirement funds dipping to their lowest historical funding ratios and growing pension fund contributions coming at the expense of other taxpayer funded services. While many counties have negotiated second tier benefits for new employees, more significant change may be necessary to ensure that pension promises made to existing employees can be kept with minimal reduction of services to communities. To ensure fiscal and service sustainability, pension reforms should:

- **Provide for More Equitable Sharing of Costs and Risks between Employee and Employer**
  A more equitable sharing of pension costs and risks promotes shared responsibility for the market vulnerability of pension systems and reduces the incentive for either employees or employers to advocate for changes that result in disproportionate costs to the other party, while diminishing the exclusive impact on employers for costs resulting from increases in unfunded liability.

- **Provide Flexibility to Reduce and Contain Costs**
  Local elected officials should be able to negotiate cost sharing agreements that are equitable and promote shared responsibility for the financial health of pension funds. Legal, statutory, regulatory, and administrative barriers for such agreements should be removed. Counties should be afforded all the tools necessary to reach responsible and fair local agreements. Likewise, the Legislature should not approve legislation that shifts the balance of local labor negotiations in favor of employee representatives. Pension reform should seek to maximize options and reduce inequities in counties' ability to negotiate benefits, regardless of the pension system each county belongs to. Counties must be able to control rising pension costs so that service cuts and employee layoffs are minimized.

- **Increase Pension Fund Accountability**
  Public pension fund boards have a duty to ensure benefits are available to members and to minimize employer, and thereby, taxpayer costs. The constitution and state statutes should promote responsible financial management and public transparency and discourage conflicts of interest. Pension fund decisions should be based on sound principles and realistic fiscal and actuarial assumptions and not subject to political influence.

Improve Counties' Ability to Recruit and Retain the Best Talent

Counties must be able to recruit the best individuals to deliver a wide variety of services to all Californians. While not all counties provide the same salary or pension benefits there may be areas where counties can benefit from the implementation of statewide reforms. For those counties that have adopted pension reforms locally or for those who have maintained more modest benefits, efforts to create a level playing field for pension benefits among 1937 Act, independent, and CalPERS systems can assist in the recruitment of new talent in the future. Recognition must be given to the diversity of existing benefit structures across counties; participation in social security, as well as total compensation tradeoffs that have been made locally over the course of many years must be acknowledged. Policy makers should avoid restricting public sector compensation in a manner that makes it difficult for counties to recruit for positions that can be a challenge to fill. Counties should pursue a uniform approach to total compensation in order to give a more accurate picture of salaries and benefits across agencies and to allow comparisons to be more precise.

Eliminate Abuse

Public pension benefits provide an important public benefit by assisting public agencies to recruit and retain quality employees. Any fraud or abuse, both real and perceived, must be eliminated to ensure public trust and confidence in government to provide these benefits and to preserve the overall public value of these systems. Pension spiking and other attempts to manipulate pension benefits should be eliminated.