



Sunday, May 16, 2004

Governments going broke on pensions

County forced to issue bonds to cover huge payments to public safety retirees

By LARRY RAND/Staff Writer

In astronomy, a "black hole" is a collapsed star, with gravity so strong it traps all forms of energy. The government pension funds for "public safety employees" -- law enforcement, firefighters and related disciplines -- may be headed for the same kind of collapse.

Government analysts, senior staff and even labor leaders are saying that safety employee pension funds are sucking funding and focus from other areas of government.

In San Bernardino County, the Board of Supervisors had to approve a \$467 million bond issue last Tuesday just to get even with astronomical pension shortages that the county's own projections said could total \$1.1 billion by the end of this decade.

"It's a transfer of wealth transfer from citizens to safety employees," said Steven Frates, senior fellow for the Rose Institute of State and Local Government at Claremont McKenna College, "a huge transfer, making each retiring employee the equivalent of a millionaire.

"If you asked a stock broker for an annuity that provides \$75,000 to \$85,000 a year for life after 50 with a cost of living benefit," Frates said, "it would cost a million dollars."

At the state level, almost one of three state employees has achieved safety status, which qualifies a retiree for a deluxe pension. Some pay out 90 percent of salary for 30 years of service, with retirement as early as 50 years of age. Because they pay out three percent of salary for each year of service and allow retirement at 50, these are known as "3/50 pensions."

Special pensions with lower retirement age were first created for California law enforcement employees in 1935. The thinking was that policemen need to be young and fit. But some governmental analysts in 2004 question the need for recent pension liberalizations, which increased public safety retirement incomes by as much as 50 percent.

Frates said pension increases has shifted resources from employees to retired employees -- "not for more firefighters or police, but for a lavish lifestyle for retired public safety employees."

Frates questioned the need for many of the pensions. While some police departments have trouble recruiting, Frates said, there is no shortage of applicants for firefighting jobs.

Division Chief Art Bishop of the Apple Valley Fire Protection District worried about the other side of early retirement: a brain drain of senior staff.

"I'm hearing from all types of fire departments that there are hundreds of experienced firefighters retiring," he said. "These are the senior people who can mentor younger firefighters."

Bishop said that while fire departments are responding by forming mentoring groups, there is no substitute for experience.

"The first 10 years, a firefighter is learning his or her trade," Bishop said. "From 10 to 30 years is when the firefighter is achieving and getting comfortable with fighting fires. For leadership, there is no substitute for maturity and experience."

Not all of organized labor is throwing a victory party.

"A brain drain? Oh, heck yes!" said Thomas Ramsay, interim general manager of the San Bernardino Public Employees Association, which does not represent county law enforcement. "Senior employees or rank and file, a lot of them started pretty young. They work until they're 50 and then they retire. There has been an enormous exodus of those people.

"It's a heckuva lot more expensive than anyone thought it would be," Ramsay said. "Initial cost predictions were based on the big bull market of the late 1990s. When the markets went south, the surplus went south -- it was gone in a year or two. Now they have an enormous debt, and a lot of agencies are scrambling to cover it."

Ramsay said "the people who lay asphalt in 120 degree heat and the clerks" are helping to pick up the tab for 3/50 law enforcement pensions.

"In too many cases, the employees who don't get the 3/50 retirement are subsidizing the agency's costs," he said, "not getting salary and benefit increases because too much general fund money is going to pay for police and fire retirement.

Employees are even losing their jobs, because the contributions are mandatory."

San Bernardino County is likely to begin laying off personnel during the next fiscal year because money is tight. According to a May 10 memo from Roberta York, executive director of the county's Preschool Services department: "Up to 50 contract Teacher 1 positions, 19 non-teaching contract positions and two classified positions will be eliminated."

The economic impact of layoffs would be powerful; the largest employer in San Bernardino County is the county itself.

The only way out of the pension black hole seems to be the birth of a new star: another bull market for Wall Street. That would provide increased revenues to pension funds, which use employer contributions to invest in financial markets.

So far that hasn't happened. In fact, last year CalPERS, the state's pension fund that is the largest in the US and represents the California Highway Patrol, lost \$23 billion on investments, a punishing 14 percent hit.