In a comprehensive report to Governor Brown and the California Legislature issued late Thursday, the Little Hoover Commission recommended a number of reforms to state and local pensions. Among its many recommendations, the Commission urged changes for current employees, even though the Commission’s report discussed at length the court decisions on vested pension benefits.

“While recognizing the legal challenges, this is a path that the state has no choice but to pursue. Public agencies must have the flexibility and authority to freeze accrued pension benefits for current workers, and make changes to pension formulas going forward to protect state and local public employees and the public good.”

Current Reforms Are Insufficient

The Commission chronicled the detailed history of public pensions in the state and the major causes for the current “crisis” demonstrated by rapidly escalating agency contributions. It noted:

“Adding a ‘second tier’ of lower pension benefits for new hires, for example, will not deliver savings for a generation, while pension costs are swelling now as Baby Boomers retire.”

The Commission then concluded:

“In another five years, when pension contributions from government are expected to jump 40 to 80 percent and remain at those levels for decades in order to keep retirement plans solvent, there will be no debate about the magnitude of the problem. Barring a miraculous market advance and sustained economic expansion, no government entity – especially at the local level – will be able to absorb the blow without severe cuts to services.”

**Other Legislative Recommendations**

Aside from freezing pension benefits for current employees and making all future years of service subject to a reformed plan, the Commission recommended a number of other legislative enactments, including:

- Capping the salary that can be used to determine pension allowances (somewhere between $80,000-$90,000), or cap the pension, at a level that is reasonable and fair.
- Restricting pension allowances to exclude service in an elected office.
- Requiring employees and employers to annually adjust pension contributions based on an equal sharing of the normal costs of the plan.
- Moving all public pensions from the current defined benefit model that guarantees retirement payouts, to a three-legged hybrid system that includes a small defined benefit pension, Social Security, and an employer-matched 401(k) component that is professionally managed.
- Giving state and local governments the authority to alter the future, unaccrued retirement benefits for current public employees.
- Setting appropriate pension eligibility ages to discourage early retirement of productive and valuable employees.
- Setting a tight definition of final compensation, computed on base pay only, over a five-year average to prevent and discourage pension “spiking.”
- Setting uniform standards for the maximum hours that retirees can return to work and continue to receive public sector pensions.
- Prohibiting employees and employers from taking contribution “holidays,” except under rare circumstances.
• Prohibiting retroactive pension increases. All pension improvement can apply only to future service.

• Prohibiting “pension holidays” that allow government to skip contributions when pension funds are flush.

Notably, the Commission did not adopt a number of the California Foundation for Fiscal Responsibility’s (CFFR) more controversial recommendations, such as excluding all pension matters from collective bargaining, and a state-wide initiative to subject current employee pensions to reform.

You can see a complete copy of the Commission’s report here.

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**Labor Relations Academy 8: Negotiating Pension Benefits, Retiree Medical, And Health Benefits**

CALPELRA’s recent Academy 8 in Pleasanton received rave reviews. This all-day training is a must for those who are responsible for negotiating changes in pension and retiree medical benefits. This same Academy will be offered on March 8 in Lakewood and in San Diego County on April 7. Watch CALPELRA’s Academy schedule for additional offerings of Academy 8 in the coming months.

**CALPELRA members:** View a recent video issued by the Legislative Analyst’s Office in which LAO State Finance Director Jason Sisney discusses public retirement benefits and options for the future. The video is available to CALPELRA members on CALPELRAConnect.

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