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Westly: Pension Initiative's Analysis Incomplete

Potential Costs to Social Programs and General Fund Aren't Addressed

SACRAMENTO – State Controller Steve Westly today called for a closer look at the fiscal impact “defined contribution” public pension plans have on state and local social services.

In a letter to the Joint Legislative Budget Committee Chair, Westly said he is concerned the pension overhaul initiative known as “The Fair and Fiscally Responsible Public Employee Retirement Act” contains an incomplete fiscal analysis. Westly requested the committee ask the Legislative Analyst to assess the initiative’s potential impact on public assistance programs.

“Wholesale changes in the way we provide for our retirees could leave them with less money to live on – and ultimately shift the burden to health and welfare programs,” Westly said. “To ask voters to consider this initiative with an incomplete fiscal analysis would be irresponsible.”

Westly pointed out that the LAO and Department of Finance analysis of the initiative was vague in its cost savings assessment – which states it will take “several decades” for the state to realize savings. The analysis also doesn’t address the potential for increased costs to state and local social programs if defined contribution pensions fail to provide retirees with sufficient income.

Research indicates that many mandatory defined contribution plan participants will retire with less than they would under a defined benefit plan. Westly also cautioned that retirees in a defined benefit plan might outlive their retirement assets and have to rely on social services.

“Californians are not getting the breakdown they need to make an informed decision,” Westly added. “We need to paint a clear picture on how pension overhaul might significantly affect our bottom line.”

Text of Westly’s letter follows.

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STEVE WESTLY
California State Controller

March 7, 2005

Honorable Wesley Chesbro
Chair, Joint Committee on Legislative Budget
State Capitol, Room 5035
Sacramento, CA 95814

Dear Senator Chesbro:

Several proposals to dramatically overhaul California's public pension systems are currently being considered through the legislative and initiative processes. This is a serious undertaking that requires thoughtful consideration of both positive and negative impacts on workers, taxpayers, and our state budget.

I am deeply concerned that voters are not getting the facts they need to make an informed decision about shifting from a "defined benefit" to a "defined contribution" plan.

Specifically, the initiative known as "The Fair and Fiscally Responsible Public Employee Retirement Act" contains an incomplete fiscal analysis. The Legislative Analyst's Office and Department of Finance analysis is vague in its assessment of cost savings – stating that it will take "several decades" for public agencies to see an unknown amount of savings to taxpayers.

But the analysis is silent on the potential for increased costs if defined contribution pensions fail to provide retirees with enough money to live on, and they are forced to rely on state and local health and welfare programs or other public assistance. These spending increases could offset potential savings and significantly alter the overall fiscal impact on the state.

I respectfully request that you immediately ask the LAO to analyze in-depth the potential costs as well as savings of this proposal, and present the analysis to the appropriate legislative committees.

Other states' experiences and research indicates that many mandatory defined contribution plan participants will retire with less than they would under a defined benefit plan and/or outlive their retirement assets. Under either scenario, demand on state and local social programs could increase.

In Nebraska, for example, public employees in a mandatory defined contribution plan posted an average return of 6 to 7 percent, compared to 11 percent for the state's three defined benefit plans over a 20-year period.

As we consider wholesale changes in the way we provide for our retirees, we need to take a closer look at the fiscal impact of shifting to a defined contribution plan on state and local social programs. To ask voters to evaluate this initiative without such analysis would be irresponsible.

Thank you for your prompt attention to this matter.

Sincerely,

STEVE WESTLY
California State Controller

cc: Elizabeth Hill, Legislative Analyst
Tom Campbell, Director Department of Finance
Senate President pro Tempore Don Perata
Assembly Speaker Fabian Nuñez
Senate Republican Leader Dick Ackerman
Assembly Republican Leader Kevin McCarthy
Assemblymember John Laird, Vice Chair Joint Committee on Legislative Budget
Members, Senate Committee on Public Employment and Retirement
Members, Assembly Committee on Public Employees, Retirement and Social Security
Members, Assembly Committee on Public Sector
Members, Joint Committee on Legislative Budget