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# Pension peril

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California should require no additional warning about the rising expense of public employee pensions. When the chief actuary for the state's largest public retirement fund warns of unaffordable costs, even the Legislature should recognize the need to change the system.

The same economic downturn that hammered public budgets in California also slammed pension funds, with potentially dire consequences for public budgets. The California Public Employees Retirement System reported that its investment fund lost $56 billion in the fiscal year that ended June 30. The fund now contains about $181 billion, but the drop of more than 23 percent was the worst single-year decline in CalPERS' history.

Nor is that picture likely to improve soon. At a seminar on public retirement issues this month, CalPERS chief actuary Ron Seeling said that that the state faced "unsustainable" public pension costs. Public agencies will struggle with unaffordably steep increases in required pension contributions unless the state finds a different approach, he warned.

Californians paying more in taxes for reduced public services might wonder just why public employees should have a pension system that is far more generous than anything private-sector workers can expect.

State legislators and local elected officials hold the answer to that question. The slumping economy has hurt pension funds, certainly, but the financial bleeding from retirement costs is largely a self-inflicted wound. Legislators in 1999 boosted pension benefits under the mistaken impression that high-flying investments would pay the entire cost. Cities and counties soon matched the state's largesse.

Instead, retirement outlays jumped. Ten years ago, the state's annual contribution for pension costs was $159 million; this fiscal year the tab will surpass $3 billion. And that number will only increase in coming years. The picture is much the same in cities, counties and other public agencies.

But state and local elected officials can stop the fiscal drain. California could, as Gov. Arnold Schwarzenegger proposes, roll back public pension benefits to pre-1999 levels, trimming the size of pensions workers can accumulate and raising the retirement age closer to private-sector levels. Public agencies could also curb costs by asking workers to contribute more toward their own retirement. Even then, public employees would still have retirement plans far surpassing most private benefits.

Those steps would only apply to new hires, not existing workers, so taxpayers would not see savings immediately. But cutting future costs is not wasted effort: The state's legislative analyst reported last week that the state's general fund faced long-term unfunded liabilities of more than $100 billion for pensions and benefits to public retirees.

Complacent state legislators and local officials let public retirement costs inflate, and now need to bring them back under control. And that task inevitably requires changes to the pension system; postponing action while public costs grow unsustainably is not a realistic strategy.