

1-9-2012

Reduces Pension Benefits for Public Employees. Initiative Constitutional Amendment.

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Reduces Pension Benefits for Public Employees. Initiative Constitutional Amendment. California Initiative 1546 (2012).
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DEBRA BOWEN | SECRETARY OF STATE
STATE OF CALIFORNIA | ELECTIONS

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June 21, 2012

County Clerk/Registrar of Voters (CC/ROV) Memorandum #12202

TO: All County Clerks/Registrars of Voters and Proponent

FROM:


Katherine Montgomery
Initiative Program Manager

RE: Initiative: Failure of #1546, Related to Public Employee Pensions

Pursuant to Elections Code section 9030(b), you are hereby notified that the total number of signatures for the hereinafter named initiative constitutional amendment filed with all county elections officials is less than 100 percent of the number of qualified voters required to find the petition sufficient; therefore, the petition has **failed**.

TITLE: REDUCES PENSION BENEFITS FOR PUBLIC
EMPLOYEES. INITIATIVE CONSTITUTIONAL
AMENDMENT.

SUMMARY DATE: January 9, 2012

PROPONENT: Daniel Pellissier



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January 10, 2012

County Clerk/Registrar of Voters (CC/ROV) Memorandum #12014

TO: All County Clerks/Registrars of Voters and Proponent

FROM:


Katherine Montgomery
Initiative Program Manager

RE: Initiative: 1546, Related to Public Employee Pensions

Pursuant to Elections Code section 9004 (c), we transmit herewith a copy of the Title and Summary prepared by the Attorney General on a proposed initiative measure entitled:

**REDUCES PENSION BENEFITS FOR PUBLIC
EMPLOYEES. INITIATIVE CONSTITUTIONAL AMENDMENT.**

The proponent of the above-named measure is:

Daniel Pellissier

danielpellissier@californiapensionreform.com

#1546

**REDUCES PENSION BENEFITS FOR PUBLIC
EMPLOYEES. INITIATIVE CONSTITUTIONAL AMENDMENT.**

CIRCULATING AND FILING SCHEDULE

1. Minimum number of signatures required: 807,615
California Constitution, Article II, Section 8(b)

2. Official Summary Date: Monday, 01/09/12

3. Petitions Sections:
 - a. First day Proponent can circulate Sections for
signatures (Elections Code § 336) Monday, 01/09/12

 - b. Last day Proponent can circulate and file with the county.
All sections are to be filed at the same time within each
county. (Elections Codes §§ 9014, 9030(a)).....Thursday, 06/07/12

 - c. Last day for county to determine total number of
signatures affixed to petitions and to transmit total
to the Secretary of State (Elections Code § 9030(b)).....Tuesday, 06/19/12

(If the Proponent files the petition with the county on a date prior to
06/07/12, the county has eight working days from the filing of the petition
to determine the total number of signatures affixed to the petition and to
transmit the total to the Secretary of State) (Elections Code § 9030(b).)

 - d. Secretary of State determines whether the total number
of signatures filed with all county clerks/registrars of
voters meets the minimum number of required signatures
and notifies the counties.....Thursday, 06/28/12*

 - e. Last day for county to determine total number of qualified
voters who signed the petition, and to transmit certificate
with a blank copy of the petition to the Secretary of State
(Elections Code §§ 9030(d)(e)).....Friday, 08/10/12

* Date varies based on the date of county receipt.

INITIATIVE #1546
Circulating and Filing Schedule continued:

(If the Secretary of State notifies the county to determine the number of qualified voters who signed the petition on a date other than 06/28/12, the last day is no later than the thirtieth working day after the county's receipt of notification). (Elections Code §§ 9030(d)(e).)

- f. If the signature count is more than 888,377 or less than 767,235 then the Secretary of State certifies the petition as qualified or failed, and notifies the counties. If the signature count is between 767,235 and 888,377 inclusive, then the Secretary of State notifies the counties using the random sampling technique to determine the validity of **all** signatures (EC §9030(f)(g); 9031(a))Monday, 08/20/12*

- g. Last day for county to determine actual number of all qualified voters who signed the petition, and to transmit certificate with a blank copy of the petition to the Secretary of State. (Elections Code §§ 9031(b)(c)).Wednesday, 10/03/12

(If the Secretary of State notifies the county to determine the number of qualified voters who have signed the petition on a date other than 08/20/12, the last day is no later than the thirtieth working day after the county's receipt of notification.) (Elections Code §§ 9031(b)(c).)

- h. Secretary of State certifies whether the petition has been signed by the number of qualified voters required to declare the petition sufficient (Elections Code §§ 9031(d), 9033). ...Sunday, 10/07/12*

*Date varies based on the date of county receipt.

IMPORTANT POINTS

- California law prohibits the use of signatures, names and addresses gathered on initiative petitions for any purpose other than to qualify the initiative measure for the ballot. This means that the petitions cannot be used to create or add to mailing lists or similar lists for any purpose, including fundraising or requests for support. Any such misuses constitutes a crime under California law. Elections Code § 18650; *Bilofsky v. Deukmejian* (1981) 124 Cal.App.3d 825, 177 Cal.Rptr. 621; 63 Ops.Cal.Atty.Gen. 37 (1980).
- Please refer to Elections Code §§ 100, 101, 104, 9008, 9009, 9013, 9021, and 9022 for appropriate format and type consideration in printing, typing and otherwise preparing your initiative petition for circulation and signatures. Please send a copy of the petition after you have it printed. This copy is not for our review or approval, but to supplement our file.
- Your attention is directed to the campaign disclosure requirements of the **Political Reform Act of 1974**, Government Code section 81000 et seq.
- When writing or calling state or county elections officials, provide the official title of the initiative which was prepared by the Attorney General. Use of this title will assist elections officials in referencing the proper file.
- When a petition is presented to the county elections official for filing by someone other than the proponent, the required authorization shall include the name or names of the persons filing the petition.
- When filing the petition with the county elections official, please provide a blank petition for elections official use.

KAMALA D. HARRIS
Attorney General

State of California
DEPARTMENT OF JUSTICE



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P.O. BOX 944255
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January 9, 2012

The Honorable Debra Bowen
Secretary of State
Office of the Secretary of State
1500 11th Street, 5th Floor
Sacramento, CA 95814

Attention: Ms. Katherine Montgomery
Elections Analyst

Dear Secretary Bowen:

Pursuant to Elections Code section 9004, you are hereby notified that on this day we sent our title and summary for the following proposed initiative to the proponent:

- 11-0064, "Government Employee Pension Reform Act of 2012"

A copy of that title and summary and text of the proposed initiative is enclosed. Please contact me if you have questions.

Sincerely,

DAWN L. MCFARLAND
Acting Initiative Coordinator

For KAMALA D. HARRIS
Attorney General

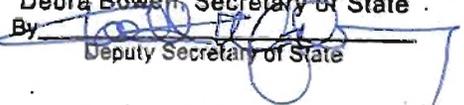
DLM:

cc: Daniel Pellissier

FILED
In the office of the Secretary of State
of the State of California

JAN 09 2012 5:00pm

VIA EMAIL

Debra Bowen, Secretary of State
By 
Deputy Secretary of State

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

REDUCES PENSION BENEFITS FOR PUBLIC EMPLOYEES. INITIATIVE

CONSTITUTIONAL AMENDMENT. Reduces pension benefits for current and future public employees, including teachers, nurses, and peace officers, but excluding judges. Eliminates constitutional protections for current and future public employees' vested pension benefits. Creates hybrid pension plan for new employees, capping collective benefits at 75 percent of salary. Limits cost-of-living adjustments for retired and current employees. Prohibits public retirement systems from providing death or disability benefits to future employees. Requires that current employees add up to three percent of their salary to their pension contribution annually, when pension plan is underfunded. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local government: **Over the next two or three decades, either increased annual costs or annual savings in state and local government personnel costs, depending on how this measure is interpreted and administered. In the long run (several decades from now), depending on how the Legislature designs the required hybrid retirement plan, potential annual savings in state and local government personnel costs of billions of dollars per year (in current dollars), offset to some extent by increases in other employee compensation costs. (11-0064)**

November 15, 2011

RECEIVED

NOV 15 2011

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Initiative Coordinator
Office of the Attorney General
State of California
PO Box 994255
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative – Amendment #1

Dear Ms. McFarland:

Pursuant to Article II, Section 10(d) of the California Constitution, I am submitting the attached proposed statewide ballot measure (“Government Employee Pension Reform Act of 2012”—Version #2; AG #11-0064) to your office and request that you prepare a circulating title and summary of the measure as provided by law. I have also included with this letter the required signed statement pursuant to California Elections Code sections 9001 and 9608. My address as registered to vote is shown on Attachment ‘A’ to this letter.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact the undersigned at DanielPellissier@californiapensionreform.com.

Very Truly Yours,



Daniel Pellissier

Version 2 Amendment 1

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO VOTERS

SECTION 1. STATEMENT OF FINDINGS

A. California government agencies recognize the value of providing adequate retirement benefits to their government employees. At the same time, government agencies have a responsibility to taxpayers to ensure such benefits are reasonable, adequately funded and do not drain funds needed for essential government services.

B. California's state and local pension systems present an immediate crisis. The California legislature's government reform agency, the Little Hoover Commission, issued a report in February, 2011 stating, "*California's pension plans are dangerously underfunded, the result of overly generous benefit promises, wishful thinking and an unwillingness to plan prudently.*" The Commission also concluded the current governance structure of our pension funds "*lack oversight and accountability.*" Taxpayers are left holding the bill for the excessive benefits promised by our politicians and our poorly managed pension funds. In fact, the problem is so serious, in October 2011, the City Managers' Department of the League of California Cities sent a letter to its board of directors indicating nothing short of an amendment to the state constitution was required to solve the government pension problem.

C. Under the federal law for private sector pension funds, a pension plan with assets less than 80 percent of its liabilities is deemed "at-risk" and the pension fund must take remedial financial measures. According to the Commission, all 10 of California's largest pension funds are presently at-risk, leaving generations of California taxpayers with over \$240 billion in unfunded pension debt, or more than \$20,000 for each California household.

D. In addition, the system is riddled with abuses. End-of-career "spiking" of a government employee's wage enables many to earn more in retirement than they ever earned while working and many retirees are receiving annual benefit increases that exceed the cost of living. Plans even allow pension payments to government employees who commit felonies in connection with their government employment. Pension board members and staff have been accused of conflicts of interest and failure to adequately perform their fiduciary duties to protect the fiscal integrity of their funds, especially by adopting unrealistic assumptions about future earnings and allowing large unfunded liabilities.

E. Raising taxes will not solve the problem. The level of taxation required to eliminate the hundreds of billions of unfunded pension liabilities would cripple our economy and thereby further reduce government revenues. Similarly, cutting government or reducing services to pay for the rising pension obligations is not possible without severely impacting critical government services like public safety, education and critical safety net services. As the Commission noted: "*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.”

F. Lastly, we cannot correct the problem simply by establishing a second, less costly, pension system for new workers. The Commission was very clear on this point, *“The situation is dire, and the menu of proposed changes that include increasing contributions and introducing a second tier of benefits for new employees will not be enough to reduce unfunded liabilities.”* The problem *“cannot be solved without addressing the pension liabilities of current employees.”*

G. Government employees, survivors and beneficiaries deserve the benefits reasonably expected to be received and to preserve the basic character of earned retirement benefits. Taxpayers agree with these goals but also deserve to have a government pension system that is free from windfalls and other disproportionate benefits which bear no relationship to the fundamental principles of a sound retirement system. California must adopt constitutional rules for pensions that adequately balance governmental employees' needs with the taxpayers' ability to fund those pension systems in a long-term, sustainable fashion without unduly stressing government's ability to provide essential government services.

SECTION 2. STATEMENT OF PURPOSE

The people hereby enact the “Government Employee Pension Reform Act of 2012” to:

A. Provide fiscally responsible and adequately funded pension benefits for all past, current, and future government employees and retirees;

B. Authorize the government's exercise of its inherent police powers to protect essential government services, and temporarily require government employees, including those hired prior to the effective date of these provisions, to contribute a larger share of their pension benefit costs and to meet other requirements while their pension funds are at risk; and

C. Require Pension Boards to possess the necessary expertise to manage government pension assets and liabilities, to be free from conflicts of interest and to exercise their fiduciary responsibilities based on generally accepted principles of sound accounting.

SECTION 3. GOVERNMENT EMPLOYEE PENSION REFORM ACT OF 2012

Section 12 of Article VII of the California Constitution is added to read:

Sec. 12(a) The state and all other government agencies may provide reasonable and fiscally responsible pension or other retirement benefits for their government employees subject to the limitations provided herein.

(b) Subject to the exclusions identified below, government employees first hired on or after July 1, 2013 only shall be entitled to participate in retirement plans which comply with the following:

(1) The Legislature shall enact, by a two-thirds vote of each house, a hybrid retirement system for all government employees in accordance with this section.

(2) The hybrid retirement system shall be designed to provide, upon full retirement, replacement income as prescribed in this subparagraph:

(i) The service retirement formula applicable for the calculation of a defined pension benefit of any safety member classification shall provide a benefit upon retirement for a full career in government service at 58 years of age that, when combined with anticipated defined contribution plan benefits and any benefit payments under the federal Social Security Act, 75 percent of the member's base wage. For purposes of this clause, a "full career in government service" means 30 years of government service.

(ii) The service retirement formula applicable for the calculation of a defined pension benefit for any member in a non-safety classification shall provide a benefit upon retirement for a full career in government service at 67 years of age that, when combined with anticipated defined contribution plan benefits and any benefit payments under the federal Social Security Act, 75 percent of the member's base wage. For purposes of this clause, a "full career in government service" means 35 years of government service.

(iii) Any pension fund offering a defined benefit pension as part of a qualified hybrid plan shall:

(A) Calculate base wage based upon an average of their highest three years base wage.

(B) Limit the defined benefit to 25 percent of base wage after a full career in government service, except that government employees not participating in Social Security may receive up to 50 percent of base wage after a full career in government service.

(C) In no event provide for a pension benefit for the defined benefit portion that exceeds \$100,000 per year, adjusted for inflation every 12 months beginning July 1, 2014.

(D) Provide that the government employer and government employee shall equally share all costs of the defined benefit, including any payments for unfunded liabilities.

(E) Allow government employees to retire five years before their full retirement age with a full actuarial deduction for the earlier retirement applied to their pension benefit.

(F) Provide that the fund trustees minimize unfunded liabilities and long term cost by adopting accounting standards and actuarial assumptions that ensure the cost of defined benefits are fully paid in the year they are earned and not deferred to future government budgets and future government employees. Any future unfunded obligations associated with these benefits shall be repaid in accordance with generally accepted accounting principles.

(iv) Each government employer shall select a defined contribution plan administrator that offers a range of appropriate, professionally managed investment options and minimizes operations and investment costs. Upon retirement, the government employer or its retirement plan shall offer retirees an option to convert defined contribution benefits into annuities underwritten by regulated financial institutions meeting prudent capital and financial standards established by the Legislature. A government employer or retirement plan may also offer a collective defined contribution plan so long as the public employer or taxpayers bear no investment or actuarial risk for additional contributions.

(3) All death and disability benefits must be provided outside the retirement system except for integrated defined contribution benefits. Nothing in this provision shall prevent a governmental entity from providing such benefits.

(c) The following provisions shall apply to a retirement plan funded, in whole or in part, by a government agency and provided for the benefit of government employees whose employment commenced before July 1, 2013:

(1) No government employee who retires after June 30, 2016 shall receive pension benefits based upon a base wage greater than their highest annual average base wage over a period of three years.

(2) Within 120 days after the conclusion of a retirement plan's fiscal year, the responsible administrator shall obtain an independent review of the plan's assets and liabilities, including as a liability any outstanding balances of pension obligation bonds issued after July 1, 2011, using accounting standards and assumptions established by federal law for evaluating the funded status of private sector pension plans, including the Employee Retirement Income Security Act (ERISA). If, using market values, the plan's assets are less than eighty percent (80 percent) of the plan's liabilities (the "at-risk" funding level), the responsible administrator shall immediately notify the public and the government employer that the retirement plan does not meet the minimum funding level and is at-risk.

(3) If a government employer receives the notice pursuant to paragraph (c)(2) for any of its retirement plans indicating the retirement plan does not meet the minimum funding level and is at-risk, the government employer shall:

(i) Appropriate, or cause to be appropriated from a reserve account established pursuant to section 5 of Article XIII B, an amount necessary to fund the plan above the at risk funding level; or

(ii) Make a finding and declare that the amount needed to fund their retirement plan above the at-risk funding level required by paragraph (i) is not available without impairing the government employer's ability to provide essential government services. The failure of a government employer to make a sufficient appropriation required in subsection (i) or to make a finding and declaration under this subsection within 30 days of receiving the notice pursuant to paragraph (c)(2), shall be deemed to be a finding and declaration that funds are not available without impairing essential government services for the purposes of this section.

(4) If the government employer makes a finding and declaration pursuant to paragraph (c)(3)(ii), notwithstanding any other provision of law, including section 9 of Article I, or contract:

(i) The government agency shall immediately limit its contribution to the normal cost of the retirement plan to six percent (6 percent) of a government employee's base wage or nine percent (9 percent) in the case of public safety employees. Government employees not covered by Social Security benefits shall receive an additional government employer contribution to their normal cost obligation equal to 25 percent of the cost of the defined benefit provided to new government employees.

(ii) The government employee shall contribute the balance of the normal cost; provided however, in no event shall the obligation of the government employee under this section increase by more than 3 percent of the government employee's base wage per year. Furthermore, if the government employer and government employee's contributions so calculated leads to a contribution of less than 100 percent of the normal cost, the government employer shall make such additional contribution to ensure 100 percent of the normal cost is contributed to the retirement plan.

(iii) To the extent the government employer's obligation to the normal cost is less than it was at the time of the finding, such savings shall be contributed to reduce the unfunded liability of such fund. The government employer also shall have the right to require the government employee to make additional contributions to the unfunded liability of the retirement plan as the government employer determines to be necessary and equitable, provided that the aggregate increase of the government employee's contribution to the normal cost and the unfunded liability in the aggregate does not exceed 3 percent of the government employee's base wage per year.

(iv) Once a finding and declaration in paragraph (c)(3)(ii) is made, the provisions of this paragraph shall remain in effect until such government employer's retirement plan exceeds the at risk funding level provided in paragraph (2) at which time the limitations of this paragraph shall cease.

(5) If the government employer makes a finding and declaration pursuant to paragraph (c)(3)(ii), the government employee shall have the right to withdraw from further participation in such plan and enter into the plan available to new government employees pursuant to Section 12 (b) above.

(d) All government agencies that provide pension or other retirement benefits for their government employees may also separately provide death and disability benefits for the benefit of their government employees, regardless of the date of hire. The cost of such death and disability benefits is not subject to the cost limitations established in this section.

(e) Nothing in this section shall limit the amount of a government employer's contribution to a government employee's health care benefit.

(f) No government agency shall provide a retroactive increase in retirement plan contributions or benefits or in the formula by which such benefits are calculated.

(g) Any increase, if any, in payments to government employee retirees granted after December 31, 2012, shall not exceed the annual percentage increase, if any, given to Social Security recipients in the most recent twelve month period. Except as provided in the immediately preceding sentence, nothing in this section shall repeal, modify, change or impair the pension, retiree health, or other retirement benefits of persons who are receiving or are entitled to receive such benefits as a result of that person's retirement or separation from government agency employment prior to the enactment of this section.

(h) Nothing in this section shall provide for retirement benefits to Members of the Legislature pursuant to section 4.5 of Article IV.

(i) No pension benefit attributable to funds provided by a government agency shall be paid to a government retiree who has been convicted of a felony arising out of his or her service to such government agency.

(j) On and after the effective date of this section, a member shall not make contributions to receive additional retirement service credit for any time that does not qualify as government service or military service by the pension or retirement system.

(k) Every government employer and government employee shall make full normal cost contributions to a defined benefit plan unless the funded status as calculated in section (c)(2) is greater than one hundred twenty percent (120 percent).

(l) No additional retirement plans or deferred compensation benefits may be created or used to circumvent the intentions or limitations of these provisions.

(m) Pension and other retirement benefits only vest upon the performance of the work for which the pension and other retirement benefits are earned and all benefits are subject to prospective modification at the sole discretion of the government agency.

(n) As used in this section:

(1) "Base wage" means salary or hourly wage, excluding, but such exclusion is not limited to, overtime pay, bonus pay, severance pay, premium pay, per diems, allowances for transportation, housing, equipment and clothing and payments for accrued but unused vacation and sick days.

(2) "Defined benefit plan" includes any retirement benefit plan other than a defined contribution plan, specifically but not exclusively including a pension plan, a supplemental income replacement plan, or any other formulaic retirement benefit which retains or confers a post-retirement obligation upon the employer.

(3) "Government agency" includes, but is not limited to, the state, counties, cities, charter counties, charter cities, charter city and counties, school district, special districts, boards, and commissions.

(4) "Government employee" and "employee" mean a person who is or becomes an employee of a government agency, excluding judges subject to the provisions of section 20 of Article VI.

(5) "Government employer" means a government agency employing one or more government employees.

(6) "Normal cost" means the annual cost attributable, under the actuarial cost method selected by the pension plan, to current and future years as of a particular valuation date excluding any payment in respect of an unfunded actuarial liability.

(7) "Other retirement benefits" include, but are not limited to, a defined contribution plan providing government employer and government employee contributions to a plan or trust for the benefit of a government employee and benefits under the federal Social Security system.

(8) "Pension" or "pension benefits" means a plan or trust providing a pension benefit determined by a formula based on factors such as age, years of service, and compensation.

(9) "Public safety employee" means a government employee who is a state safety member as provided for by statute enacted by the Legislature.

(10) "Retirement plan" means an annuity, defined contribution plan, pension, deferred compensation, Social Security replacement plan or other retirement benefit. Health care benefits are not included in this definition and the limitations of this Act.

(11) "State" means the state of California and every political subdivision of the state, including, but not limited to, the Regents of the University of California, California State University, and agencies thereof.

SECTION 4. INDEPENDENT AND EXPERT PENSION BOARDS

Section 17.5 of Article XVI is added to read:

Sec. 17.5(a) Notwithstanding section 17(f), commencing July 1, 2013, every board of a government pension or retirement system shall be comprised of board members, at least a majority of whom: (1) have demonstrated expertise in the financial, legal, accounting, health care, actuarial, investment, life insurance or benefits consultant fields; and (2) are not members or beneficiaries of any California government pension plan or retirement system, or have immediate family members who are members or beneficiaries of such a plan or system.

(b) The Director of the Department of Finance shall serve as a voting member of any state or local government pension fund with total liabilities that exceed \$5 billion.

(c) The Legislature shall establish the criteria and process for determining the eligibility and selection of board members pursuant to this section.

SECTION 5. GENERAL PROVISIONS

A. The provisions of this Act are severable. If any provision of this Act or its application is held invalid, that finding shall not affect other provisions or applications that can be given effect without the invalid provision or application.

B. This Act shall become effective immediately upon its approval by the voters pursuant to Section 10(a) of Article II. No government agency may enter into any employment contract or collective bargaining agreement providing for retirement benefits in excess of the limitations imposed by this Act. To the extent any current statute or constitutional provision adopted prior to the adoption of this Act is explicitly or implicitly inconsistent with the language or purposes of this Act, such statute or constitutional provision shall, upon the effective date of this Act, be rendered inapplicable, null and void.

C. Notwithstanding any other provision of law, if the State, government agency, or any of its officials fail to defend the constitutionality of this act, following its approval by the voters, the proponent, or in his or her absence, any citizen of this State shall have the authority to intervene in any court action challenging the constitutionality of this act for the purpose of defending its constitutionality, whether such action is in trial court, on

appeal, and on discretionary review by the Supreme Court of California and/or the Supreme Court of the United States. The fees and costs of defending the action shall be a charge on funds appropriated to the Attorney General, which shall be satisfied promptly.