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**Another California Brainstorm**

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Sacramento's sages have done such a splendid job of not adequately funding California's public pensions that now they want to do the same for non-government workers. Their latest brainstorm is to establish state-administered retirement plans for workers in the private economy.

This is not a joke. Social Security faces a funding shortfall as the baby boomers retire. The business world long ago began moving toward 401(k) plans from pensions that they couldn't sustain. (See GM, failure of.) The most far-seeing states have begun to move in the same direction, if the politics allow. But the other-worldly liberals who run the Golden State want to establish a new pension for five to seven million additional workers.

The legislation would require employers that don't already sponsor retirement plans to enroll their workers in state-administered "individual retirement accounts," but they are really defined-benefit pensions in disguise. Democrats are calling a spade a club in order to skirt the federal Employee Retirement Income Security Act (Erisa), which imposes fiduciary obligations on private employers that sponsor defined-benefit plans. Trouble is, the retirement plan Democrats have conceived has all the trappings of a cash balance account, a breed of defined benefit that guarantees workers a return on their investments.

Workers would be automatically enrolled (unless they opt out) and have to contribute 3% of their wages. A retirement board consisting of government officials and appointees would invest the money and guarantee a still-to-be determined rate of return. Employers would be required to withhold wages to fund the plan -- or pay a \$500 penalty per worker.

Democrats insist this is not another pension but merely a "modest supplement" to Social Security. But this is also how government pensions started 80 years ago. Legislative sponsor Kevin de Leon's office claims that workers would own their retirement plans just as they would IRAs, but there's nothing in the legislation that guarantees ownership or portability (in case overtaxed workers want to move to Texas or Florida).

The bill's proponents say taxpayers wouldn't be on the hook for any shortfalls. But once workers make contributions into any kind of government-administered pot, taxpayers can assume they have been volunteered to guarantee the returns. The legislation even establishes the mechanism by allowing the retirement board to "accept any grants, gifts, legislative appropriation, and other moneys from the state."

Democrats say that the plans will be "privately insured," but what financial institution, pray tell, would underwrite indeterminate returns? Calculating the liabilities would be a purely metaphysical exercise. The unfunded liability for the California Public Employees' Retirement System, or **Calpers** (which implicitly guarantees a 7.5% return), is \$290 billion, and this new pension plan would cover about four times as many workers.

As a side note, **Calpers**, which is dominated by union allies, has expressed interest in managing the

investments. Just what the economy needs: More investment dollars influenced by politics.

The California Senate has already passed the bill on a party line vote, and the Assembly is expected to do the same shortly. Democrats seem to believe that offering private workers this fillip will relieve the political pressure to reform government worker pensions.

Governor Jerry Brown hasn't taken a position, but he ought to veto it on principle as a danger to the public fisc. If nothing else, he ought to have the self-respect to sit on it until the legislature takes up his proposals to reform the state's bleeding public pensions. Democrats who run the legislature won't even give him a vote.

The Governor believes (correctly) that voters will be more inclined to approve income and sales tax hikes this November if lawmakers show they're earnest about getting the state's fiscal house in order. They're not, which is clear enough from this latest attempt to make American workers more dependent on politicians.

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