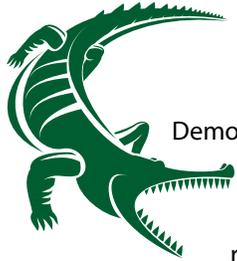


# CAPSule

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October 2013, Issue #13-10



## New Retirement THREAT

Democratic San Jose Mayor Chuck Reed has filed a pension “reform” initiative for the November 2014 general election ballot. It would allow state and local governments to modify retirement benefits for their current employees, benefits that they consider too expensive. Read the measure here: [www.ReformPensions2014.com](http://www.ReformPensions2014.com).

Chuck Reed is enlisting the support of Democratic mayors from big California cities. He and others determined to undermine the fiscal integrity of California’s public retirement programs are featured here: [www.DontScapegoatUs.com](http://www.DontScapegoatUs.com).

CAPS is an active participant in Californians for Retirement Security, the coalition of labor groups geared to protect the integrity of the defined benefit based retirement plans that cover the majority of California’s public employees: [www.LetsTalkPensions.com](http://www.LetsTalkPensions.com).

This proposed constitutional amendment would allow the state and local governments to cut back retirement benefits for current employees for the years of work they perform after the changes go into effect. Previous efforts to curb retirement benefits for public employees have largely focused on newly hired workers, but this initiative would shrink pensions for workers who are currently on the job.

Reaction from public employee representatives — like CAPS — was immediate and strongly negative. This is a BAD idea that is probably illegal under the state constitution. Any problems with underfunding public retirement plans — and there are dozens of such plans in California — is almost solely related to the failure of elected officials to invest promised resources in those funds over the years. It is not the fault of public employees, who had made their contributions every month and who have done their part in serving the public.

There’s also the issue of fairness — or unfairness — in this case. Changing the rules on retirement mid-career could spell fiscal disaster for hundreds of thousands of Californians. A sound retirement plan by definition includes planning years in advance. Changing the rules midstream will put the burden solely on employees to make up any difference between what was promised and what is actually paid. Any sense of financial security goes out the window.

Here’s what’s wrong with the proposed “Reed Initiative:”

The measure applies to benefits of future and current employees, including those near the end of their career and those that do not receive Social Security.

It breaks the promise made to scientists and other public employees by allowing their retirement benefits to be slashed in mid-career. A promise made should be a promise kept.

Politicians, not public employees, have created the fiscal problems. They should be held responsible, not workers who work hard and play by the rules, often putting their lives at risk.

This proposal would allow employers to take promised retirement benefits away from current employees and future employees. NOTE: The average pension for California’s public workers is just \$26,000 a year.

The California Supreme Court has ruled that the state constitution protects public employees from having their pension benefits cut in the middle of their career. The measure will trigger a massive legal battle, likely to cost taxpayers millions of dollars.

Retirement issues should be addressed at the bargaining table, not the ballot box. This proposal is made by the same politicians who failed to provide the leadership on retirement security in their own communities. Unlike more than 400 other California jurisdictions that have responsibly addressed their pension challenges, these politicians would rather wage an expensive political fight funded by special interests that will result in less retirement security for millions of Californians.

YOU can act to help counter this measure, which is likely to be financed by out-of-state interests. Please write your city and county leaders—and your local newspaper—urge your elected leaders NOT to sign on to the Reed initiative. It is important that we keep as many mayors off this proposal as it comes out of the gate. This measure is a product of right-wing think tanks and ex-Schwarzenegger aides rather than serious policy.



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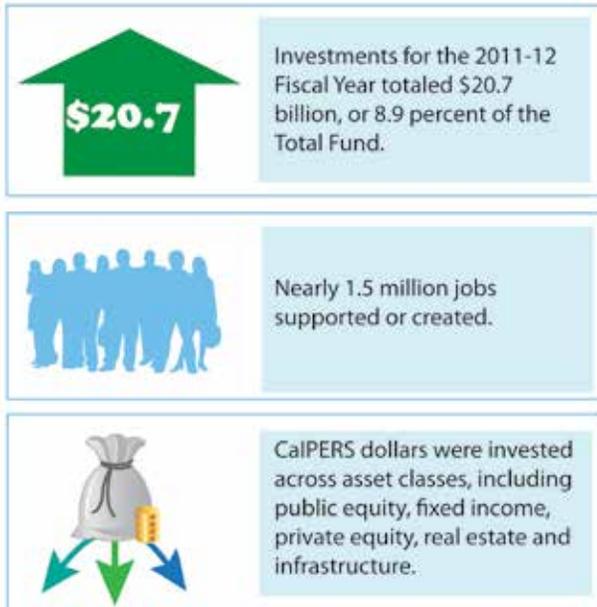
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# CalPERS Invests in California

CalPERS, like other public retirement funds based in California, is a strong catalyst for economic recovery and growth. CalPERS' annual report details the results from its investments in California for the 2011-12 Fiscal Year. They create and support jobs, infrastructure for communities and commerce, and business expansion and related economic activity.

## Key Findings for 2012



Since the inception of the California Initiative in 2001, which used exclusively private equity funds, CalPERS has invested a total of approximately \$1 billion in 490 companies located primarily in California. These companies have provided California communities with quality jobs and benefit levels for health and retirement that outpace statewide and national levels. CalPERS has approximately \$23 billion invested in California.

CalPERS is the largest public pension fund in the U.S., with more than \$265 billion in assets. CalPERS

administers health and retirement benefits on behalf of 3,064 public school, local agency and State employers. CalPERS members number more than 1.6 million in its retirement system and more than 1.3 million in its health plans.

## Flat Dollar Withholding Nixed

CalPERS recently determined it is not permissible under federal law to allow a flat dollar amount to be withheld for federal taxes. Since 1982, CalPERS has allowed its retirees to choose a flat dollar amount for federal tax withholding. For example, some members instructed that \$500 or some other amount be withheld each month. Consequently, approximately 15% of CalPERS retirees will soon be notified of this change, and to specify another appropriate withholding election, such as "married with two exemptions." Retirees who do not respond by January 1, 2014, will have their federal tax withholding changed to the a default: married with three exemptions, until they submit a revised tax withholding form. CalPERS is expected to mail the notification letters between October 21 and November 18. CalPERS members with tax questions should contact a tax consultant or the Internal Revenue Service.



## Bargaining Progress Slow

The CAPS Bargaining Team met with CalHR on October 15 and 16. Several tentative agreements were reached, but no progress was made on salaries. CalHR is sticking to the low-ball offer it made to CAPS previously: 4.5% effective July 1, 2015, with the possibility that 2% of that would be effective next July if certain revenue benchmarks are reached, and the Governor achieves what he believes is a "prudent" reserve. The CAPS Team again rejected this offer as insufficient.

One of the tentative agreements reached would allow state departments to cash out up to 20 hours of accrued vacation or annual leave annually based on availability of funds in that department. This and all tentative agreements would be effective only upon ratification of an overall agreement.



In the absence of a new MOU, the state's contribution towards the CalPERS retirement for state scientists will continue uninterrupted. In fact, the amount that the state provides to scientists for health benefits will increase next January based on a statutory – based formula. This was negotiated in years past to help ensure that CAPS can't be pressured into accepting a poor labor contract in order to sustain affordable health benefits. Meanwhile, state management refuses to extend to state scientists the increased reimbursement rates for meals and lodging. These have already been provided to state employees where a new labor contract is in place. A grievance arbitration over this dispute is now set for early January. In the meantime, CAPS urges its members to minimize travel, and to keep track of out-of-pocket travel costs related to state business. The next meetings are scheduled for November 20 and 21.

# Follow the Money

By David Miller, President

**Follow the money** is a popular catchphrase made famous in the 1976 movie *All the President's Men*. It suggested that the best route to discovering the motivation behind a devious scheme is to find out how and where the money is going.

This is exactly the way to look at the latest effort by San Jose Mayor Chuck Reed to "reform" public retirements in California. That measure would enable employers to change retirement benefits based on the future service of current employees. If you want to know the real motivation for doing it, and who's behind it, just follow the money.

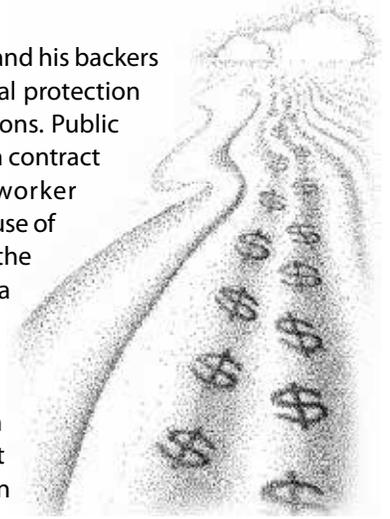
After all, why spend tens of millions on an initiative effort to scale back the retirement benefits for current public employees when the average monthly retirement payment from CalPERS is just over \$2300 per month? After hundreds of collective bargaining agreements have modified retirement benefits prospectively for

public employee groups throughout California? After Governor Brown signed his own sponsored legislation that, among other things, requires public employees to pay for half of the normal cost of their own retirement contributions?

I don't buy the conservative line that retirement costs for public employees are driving cities, counties and state government to financial ruin. With few exceptions, public retirement plans are fiscally sound and sustainable for generations to come. As the economy recovers, and financial markets provide better returns, the unfunded liabilities for public retirement plans -- including CalPERS -- will correspondingly shrink. So the critics and their billionaire sponsors have what they see as a window of opportunity to act before this issue finally recedes to the dark recesses of public perception.

In fact, a good case can be made that it already has. Recent polling sponsored by our retirement coalition, Californians for Retirement Security, shows that 63 percent of those surveyed oppose "allowing public employers to unilaterally cut retirement benefits for current employees." Just 33 percent were in support, and only 13 percent "strongly," compared with 43 percent "strongly" opposed. Opposition appeared broad across party, age, gender, racial and geographic lines. The polling suggested a 44-percent plurality favored maintaining current government worker pensions. A majority favored solving pension matters at the local rather than state level, and through collective bargaining, rather than ballot measures.

Another hurdle Mayor Reed and his backers need to overcome is the legal protection afforded public-sector pensions. Public retirement systems provide a contract between the state and a worker according to the contract clause of the U.S. Constitution. That's the interpretation of the California Supreme Court in a series of decisions dating back decades. The California court has ruled that state pension legislation creates a contract for government workers on the first day of employment.



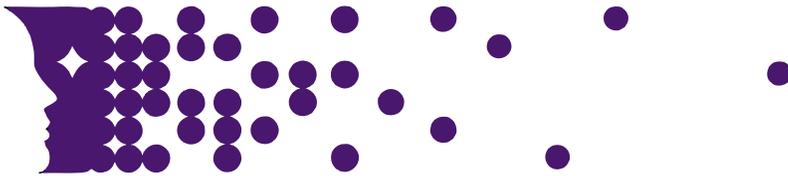
With all these major legal and political impediments, why do it? Billions in brokerage management fees, that's why. The sooner the public retirement plans are converted to a 401(k) equivalent, they are invested in individual retirement accounts, where brokers and their firms earn huge fees. That's the way it works in the private sector, and that's the way Wall Street wants it to work in the public sector.

**“Nothing is more important than protecting promised pension and health benefits for our members.”**

” This “conspiracy theory” isn't something I've invented. The assault on public pensions started with the

conversion of private sector pensions' defined-benefit retirement plans to individually managed 401(k) plans. The dust has settled on that one, and has proven to be a disaster for private sector employees, except those making the big bucks. The same effort is underway: to convert public sector pensions to the private sector model. A description of this effort was published in *Rolling Stone* magazine on September 26: "Looting the Pension Funds." The subheading summarizes the tale: "All across America, Wall Street is grabbing money meant for public workers."

The Chuck Reed initiative destined for the November 2014 General Election ballot is the latest chapter in this book. We truly are at Ground Zero, and CAPS is gearing up for this fight, along with virtually every other union in the state. NOTHING is more important than protecting promised pension and health benefits for our members. I understand that, and so do the rest of your CAPS leaders.



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### Third Quarter CAPS Grants

CAPS proudly awards a quarterly cash grant of \$300 to each of four CAPS members. The purpose is to promote professional development because state departments do too little in this realm. The CAPS Grants program has been in continuous operation for 20-plus years. ANY CAPS members can apply for a CAPS grant via the CAPS webpage: [www.capsscientist.org](http://www.capsscientist.org). Congratulations to the third quarter grant recipients for 2013:



● **Research Scientist Gabriele Windgasse von Wendorff** of the California Department of Public Health in Loomis will use her grant to offset costs of attending a September 2013 workshop on "Stakeholder Perspectives on the Perception, Assessment, and Management of the Potential Risks of Nanotechnology" in Washington, D.C.



● **Environmental Scientist David Lentz** of the Department of Fish & Wildlife in Sacramento will use his grant to offset costs for attending the April 2013 annual conference of the Western Division of American Fisheries Society in Boise, Idaho where he presented in the symposium on California redband trout.



● **Environmental Scientist Robin Madrid** of the Department of Fish & Wildlife in Irvine will use her grant to offset costs to attend the 22nd Biennial Conference of the Coastal and Estuarine Research Federation in San Diego during November 2013.



● **Environmental Scientist Stephanie Little** of California Department of Parks and Recreation in Morro Bay used her grant to attend the National Audubon Board Meetings in Washington, D.C. during September 2013, where she applied her skills to protect endangered wildlife and their habitats via affecting policy at the meetings.

*Note: the CAPS Grant program is independent from the two days of professional development earned by every state scientist annually in accordance with Section 15.3 (G) of the CAPS MOU.*