Pension Battle Pushes Precedent in Distressed California Town.

Letters sent by certified mail usually aren't how state and local governments signal they're about to breach the promise that public workers consider ironclad when it comes to retirement benefits.

But that's how Patsy Jardin, 71, of Loyalton, California, found out that she may lose much of her $48,000 annual pension because the town government failed to fund its long-term liabilities. Reading the letter delivered to her rural home made the former clerk "sick," she said in an interview. "It's my livelihood."

The board of the California Public Employees' Retirement System on Wednesday voted to cut the retirement benefits of Jardin and four others who worked for the former sawmill town of about 700 people in the Sierra Valley that quit the program. It may be the first time the largest U.S. public pension has taken such a step. Recent California municipal bankruptcies kept pensioners whole, underscoring the sanctity assigned to benefits earned by workers.

However, mounting retirement costs give many municipalities little choice, especially if they must make up for lackluster investment returns that were supposed to pay for the lifetime checks, said State Assemblyman Brian Dahle, a Republican who represents Loyalton.

"They can't bail everybody out in the same situation," Dahle said of Calpers before the decision. "There's a lot of municipalities in California, counties and cities, that are putting out a lot of their income to pensions."

Across the country, local governments are short about $2 trillion what they need to cover retirement benefits granted in boom times. Investment losses during the recession that ended in 2009, benefit increases, years of governments failing to make adequate contributions, rising retirements and fewer current workers paying into the systems have exacerbated the gap.

Sawmill Closing

Loyalton, like many other municipalities, extended retirement benefits decades ago — in 1985 — and then struggled to pay for them. The city's economic base dwindled with the 2001 closing of the Sierra Pacific sawmill and the waning of the regional timber industry.

At the most, the community employed three full-time staffers. Currently it has one full-time worker and four part-timers, said Brooks Mitchell, a councilman first elected in 2009. The City Council decided to leave Calpers because continuing to pay the same level of benefits and salaries would bankrupt the town, said Mitchell, who was picked by fellow council members to serve as mayor at that time.

In March 2013, city officially exited the retirement system. The next year, Calpers sent Loyalton a bill to cover the cost of the benefits and the unfunded liability: $1.6 million.

That’s money Loyalton doesn’t have. A spreadsheet from the city shows it projects ending November in the red by $2,700 as expenses exceed its cash flow of $50,600.

Calpers Notifications

“I didn’t realize we would be billed right off the bat for the $1.6 million,” Mitchell said. “Looking back we probably should have done a little more research.”

Calpers staffers told the agency’s board members that they tried to compel Loyalton to pay through 50 telephone calls and 10 collection notices, without success. Finally, on Aug. 31, they sent letters to the city saying it has 30 days or it will be in default. They also sent notices to the five former employees, four of whom had been receiving pensions, that their benefits would be reduced.

The three-paragraph missives came as a shock to Jardin and Jim Cussins, who retired in 2011 as a maintenance foreman. The council had told them pulling out of Calpers wouldn’t affect them, they said.

While they blame the city’s leaders, they also said the public pension system should have acted more quickly.

Benefit Reductions

“They let this go for three years and they don’t contact us until the last minute?” said Cussins, 55, who relies on his $36,000 annual pension. Cussins, who filled an open council seat in 2015, didn’t run for election last week and is departing the board in January.

Under the law, the pensioners could see their checks cut by 60 percent since the city is falling short by that rate to make the benefits fully funded.

In less than five minutes, the Calpers board dispatched with the Loyalton matter. It’s municipal employers who make the promise of benefits, said board member JJ Jelincic.

“If they won’t fund it, there’s not much we can do about it,” he said.

Possible Recovery

There’s a chance the retirees may recoup some of their lost money. Calpers’ Chief Financial Officer Cheryl Eason told board members the city pledged to cover what the pension system is cutting. But Cussins said after the meeting there was no council vote to do that, and he’s considering a lawyer to sue Loyalton.

Mitchell, the councilman and former mayor, said before the vote that the pension system is playing hardball because of its financial troubles. The system has about 68 percent of the assets it needs to meet obligations, and its staff has warned returns may lag the 7.5 percent target for a third year. Lower income from investments means higher payments from taxpayers to bridge the gap.

“They’re going to make an example out of the little city of Loyalton,” Mitchell said.
Wayne Davis, a Calpers spokesman, said the agency can’t categorically say it would be the first time it cut benefits in its 84-year history, Eason characterized the situation as “uncharted territory” during a September board meeting.

The pension system “would be basically stealing money from somebody else to pay somebody who wasn’t their employee” if they let the Loyalton checks continue because of the “really bad decision” by the municipal government, said Dave Low, chairman of Californians for Retirement Security, a group representing public workers.

“If it can happen here, it can happen someplace else,” he said.

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