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Californians Hit as Bad Debts Lead to Government Pension Cuts.

- Calpers may slash benefits from defunct agency that didn't pay
- More workers could suffer as retirement costs mount for cities

Maureen Lynch, 66, retired when the California government job-training agency where she worked was shuttered in 2014, assuming she could count on a $1,705 monthly pension for the rest of her life.

But her former employer, East San Gabriel Valley Human Services Consortium, left a $406,027 unpaid bill to the California Public Employees' Retirement System, which manages benefits for 3,000 local governments and districts. As Calpers, the nation's largest public pension, deals with a growing gap between what's been promised and what's been set aside, it may slash the checks of Lynch and 190 other workers by 63 percent — the rate by which the agency has fallen short.

"We were always told that it was set in stone. Now to find out that's not true — is the sky blue? Is water wet?" Lynch, who lives in a 1994 motor home, said of her pension. "We've paid 100 percent of our responsibility into it. I just don't understand how they can come along and cut so much out."

The East San Gabriel agency would be the first to see benefits reduced by Calpers since November's action against the tiny city of Loyalton, illustrating what can happen to promises once viewed as sacrosanct when money runs out. Two other small California agencies may also face cutbacks, affecting five people, as Calpers pushes back against derelict governments.

"We end up being the bad person because if the payments aren't coming in, we're left with the obligation to reduce the benefit, as we did in Loyalton," Richard Costigan, chairman of Calpers's finance and administration committee, said in an interview. "Otherwise the rest of the people in the system who have paid their bills would be paying for that responsibility."

Across the country, states and local governments have about $2 trillion less than what they need to cover retirement benefits — the result of investment losses, inadequate contributions and perks granted in boom times. In Puerto Rico, where the retirement system is nearly out of cash, pensioners may take a hit, while employees in cities including Dallas and Chicago are also under pressure to give back some benefits to prevent their plans from collapsing.

Calpers has been paying benefits at a faster pace than it brings money in. In December, the system moved to ensure its long-term sustainability by reducing the assumed return on its investments to 7 percent from 7.5 percent. That will trigger higher annual contributions from governments, since it can't count as much on financial-market gains to cover the obligations.

"Unless something is done to stem the mounting costs or to find ways to fund those mounting costs for employees, then the only recourse, beyond reducing service levels to unsustainable levels, is going to be to cut benefits for retirees," said Michael Coleman, fiscal policy adviser for the League of California Cities.

Calpers, which holds some $311 billion of assets, says it's following its fiduciary responsibility. It doesn't set benefits but manages them on behalf of local governments, most of which are fulfilling their obligations. Permitting monthly checks to flow to retirees whose former employers haven't paid their bills undermines a system that has just two-thirds of what it needs to cover liabilities due in the years ahead.

Both the Independent Cities Association, a nonprofit with one retiree, and Niland Sanitary District, which has four workers in the system, may also see benefit reductions. The board of the cities' group, which promotes municipal issues, hopes to resolve the matter, its attorney Arnold Alvarez-Glasman said in an interview. Debbie Salas, a Niland board representative, didn't reply with detail to emails or return phone messages.

The action against Loyalton was believed to be the first time, at least in recent decades, that Calpers reduced employee benefits.

The case of the former East San Gabriel agency would be felt more broadly. Known locally as LA Works, the service at its height had about 140 employees and an annual budget, funded mainly through government grants, of about $13 million, said Tom Mauk, a consultant hired to help wind down its books. It went out of business after Los Angeles County severed its relationship, citing overbilling by the agency.

Calpers had asked the cities that formed the entity — Azusa, Covina, Glendora, and West Covina — to pay the debt to the retirement plan because, as staffers said during a February board meeting, of their ethical responsibility.

"What's unacceptable is the fact you have a number of employees who were promised a benefit, nobody is paying to meet that liability and people are walking away from their responsibility," Costigan said in an interview.

Municipal officials said they have no legal obligation. Any payment could be considered an illegal use of public funds, said Chris Freeland, West Covina City Manager.

"Personally, I think it's a way to deflect from their handling of pensions for the last several years," said Glendora City Manager Chris Jeffers of Calpers's request.

Retirees feel abandoned. Sandra Meza, who spent nearly three decades at the job-training service and receives about $3,300 a month, said she plans to attend a March 15 meeting of the agency to appeal for help. The 62-year-old Chino resident views the cities and Calpers as equally responsible.

"When it comes to money and business, sometimes moral and ethics don't mean anything to those people," she said.

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