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California Court Upholds San Diego's Pension Reform Plan.

SAN FRANCISCO — A California appellate district court ruled unanimously on Tuesday to dismiss a lawsuit brought against the city of San Diego by the state's Public Employees Relations Board.

The decision upholds Proposition B passed by San Diego voters in 2012 that replaced defined benefit pension plans for newly hired public employees, except police officers, with 401(k)-style defined contribution plans.

San Diego Mayor Kevin Faulconer tweeted on Tuesday that the court had "protected the clear will of voters and upheld pension reform."

Public workers in California and across the nation typically receive a "defined benefit" pension plan, that leaves the city or other governing municipality on the hook to pay the retirement benefit if invested contributions do not grow to the defined benefit amount.

A 401(k)-style plan, on the other hand, is called "defined contribution" plan and does not guarantee a particular benefit amount, leaving the city with no risk.

The appellate court's ruling potentially saves San Diego millions of dollars that it could have been forced to spend creating pensions for roughly 2,000 workers hired since 2012.

Michael Sweet, partner at Fox Rothschild, said this legal fight is ending with a whimper.

"Certainly if the court had gone the other way, it might have taken some of the wind out of the sail of pension reform efforts," said Sweet. "But it isn't a grand ruling on the questions that are still out there: Under what circumstances, if any, can changes be made to pension plans of existing public employees?"

California has long been a battleground for the fight over public pension reform. The largest debt for most California cities and counties is pension liability. Pensions were also a significant factor in the recent municipal bankruptcies of Vallejo, Stockton and San Bernardino, but pensions were not cut in those cases.

By REUTERS

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(Reporting by Robin Respaut; Editing by James Dalglish)