

# **Bond Case Briefs**

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## **California's Brown Raises Prospect of Pension Cuts in Downturn.**

- **Supreme Court is set to consider if benefit cuts permissible**
- **Ruling could provide relief to cash-strapped localities**

California Governor Jerry Brown said legal rulings may clear the way for making cuts to public pension benefits, which would go against long-standing assumptions and potentially provide financial relief to the state and its local governments.

Brown said he has a “hunch” the courts would “modify” the so-called California rule, which holds that benefits promised to public employees can’t be rolled back. The state’s Supreme Court is set to hear a case in which lower courts ruled that reductions to pensions are permissible if the payments remain “reasonable” for workers.

“There is more flexibility than there is currently assumed by those who discuss the California rule,” Brown said during a briefing on the budget in Sacramento. He said that in the next recession, the governor “will have the option of considering pension cutbacks for the first time.”

That would be a major shift in California, where municipal officials have long believed they couldn’t adjust the benefits even as they struggle to cover the cost. They have raised taxes and dipped into reserves to meet rising contributions. The California Public Employees’ Retirement System, the nation’s largest public pension, has about 68 percent of assets needed to cover its liabilities. For the fiscal year beginning in July, the state’s contribution to Calpers is double what it was in fiscal 2009.

Across the country, states and local governments have about \$1.7 trillion less than what they need to cover retirement benefits — the result of investment losses, the failure by governments to make adequate contributions and perks granted in boom times.

“In the next downturn, when things look pretty dire, that would be one of the items on the chopping block,” Brown said.

### **Bloomberg Politics**

By Romy Varghese

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— *With assistance by John Gittelsohn*