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Who Can Restore Equity in Private-Public Employee Compensation?

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Stanford's Institute for Economic Policy Research has recently issued two reports on the condition of public employee pension funds in California. The first identified a \$425 billion funding shortfall for three state pension systems: the California Public Employees' Retirement System, California State Teachers' Retirement System, and the University of California Retirement System. The second found a nearly \$200 billion shortfall for local government pension systems.

Both reports focused on the overall financial health of pension systems in California but did not touch on retiree benefit levels. It's time to begin that conversation.

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Discussing public employee retirement benefits is dangerous politically. So let's start with the legal status of benefits owed to public employees.

Public employee retirement benefits are legally protected. Period. Case and contract law guarantee retirement pay, even in obscene cases where public employees double dip (i.e., collect a large pension from one or more employers and work at full salary for another). If the public is angry about benefit levels or double dippers, we shouldn't blame public employees, but the political leaders who approve benefits that are excessive and unsustainable.

I may have a unique perspective on this issue because every member of my immediate family has worked in public service. My mother is a retired school librarian; my younger brother works as a firefighter/paramedic; an older

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brother was a high school science teacher; and my father retired from a public university. They and all public employees are owed what we have promised them.

But that should not stop us from doing what politicians hate—that is, having an adult conversation about how to rescue public employee pension systems. That will require increased contributions from both employers and employees and a re-examination of benefit levels.

A decade or two ago, total compensation for public employees, i.e., wages, salaries, and benefits, including retirement, was comparable to that of private sector workers. That is no longer the case.

According to the Census Bureau, state and local government workers now earn nearly \$40 an hour in total compensation, compared with \$27 for workers in the private sector. This simple metric does not take into account differences in skill levels, but a number of recent studies suggest that public employee compensation, even when skill levels are included, is higher than in the private sector.

The comparison between private and public sector pensions is perhaps the starkest. In the private sector, the average employer contributes just over 3 percent to a 401(k) plan. In California, state and local governments contribute as much as 33 percent to their employees' retirements. Some of that is to compensate for recent market losses, but it is a contribution nonetheless.

Retirement assets are also lopsided. For example, an average 65-year-old private-sector worker with 30 years of tenure at the same company has roughly \$180,000 in savings, compared with up to \$894,000 for a public-sector worker who can retire up to 15 years earlier. Even with Social Security benefits, that private-sector worker will earn about \$3,500 monthly in retirement, about one-half of similar public-sector workers. CalPERS will argue that its average benefit is only \$2,000 per month, but it fails to disclose that the figure reflects an average salary of \$60,000 for about only 15 years of work.

How did we get to such an inequitable place? Quite simply, public employee unions have owned Sacramento (and many local governments) for at least a decade or two. And finances have never been a focus for Sacramento (or for Democrats or Republicans, who are equally to blame for this disaster.) The question is: Who will stand up and restore the equity that once existed between private- and public-sector compensation? Given the leadership void on the political front, it may be up to voters via the ballot box.