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Ginger Rutland: Woe be to workers who blow whistles at CalSTRS

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In 2006, Scott Thompson, a pension program analyst for the California State Teachers' Retirement System, received an irate phone call from a woman who claimed to be 91-year-old pensioner Acevia Craft. The caller was angry because CalSTRS had reduced her pension payment.

The pension agency had done so at the behest of the IRS because Craft had not paid her taxes the previous year. Suspicious because the caller did not sound like a 91-year-old, Thompson alerted authorities. It turned out Acevia Craft had died in April 2005 and her children had buried her in her backyard so that they could continue fraudulently collecting their mother's CalSTRS pension.

"It was because of your dogged, yet polite insistence that ... the Crafts were caught and the monthly CalSTRS payments discontinued," Linda Riley, Thompson's former supervisor who is now deceased, wrote in a letter that accompanies his performance appraisal that year. "Scott, you embody the true spirit of the Write Team – you are fair, hard working, logical, perceptive and kind, and your customer service skills are outstanding."

Thompson would seem to be the kind of tenacious watchdog a pension fund would want to retain. But less than a year ago, security guards escorted him from CalSTRS' gleaming new headquarters building in

West Sacramento. The letter Thompson's boss handed him states that he was being placed on an "ordered leave of absence," during which time he would not be allowed on the premises. Ten weeks later, Thompson was dismissed from state service, a dismissal he is now fighting.

In a declaration filed with the unemployment insurance appeals board, Thompson's former boss says Thompson was fired because he reduced a retiree's pension without authorization and, when ordered to restore the payments to their original level, failed to do so.

Thompson says he was fired because he aggressively worked to stop pension spiking – the practice of school employees padding compensation at the end of their careers to enhance their retirement benefits – and top officials didn't like it.

And where do I come down? I believe Thompson's version of events, largely because I talked with several current employees at CalSTRS who knew him. None would talk on the record, scared they would be fired too. But all supported what he told me, as did a former CalSTRS employee.

Barbara Ponciano, who recently retired as a senior pension program representative, regards Thompson as a "hero." Spiking was "common knowledge" at the agency, and the higher-ups did nothing about it, she says. "Scott saw all that, and he was very vocal about it. We all talked about it. He took it upon himself to take it to the higher powers, and they didn't like it. They told him to stop."

As an analyst in the service retirement division, Thompson had the job of reviewing and then calculating retirement benefits for school employees. As such he was in a unique position to observe spiking.

That's what he thought he saw in the case of a school superintendent from San Mateo County. In his last year as superintendent, the superintendent's salary jumped from \$155,000 to \$265,000, an extraordinary 70 percent increase.

The Education Code governing spiking states that "remuneration that is paid for the principal purpose of enhancing a member's benefit" is not allowable when calculating pensions. When checking for spiking, one of the things the law requires is "consistent treatment of a member's compensation throughout a member's career." A 70 percent pay raise in one year is wildly inconsistent.

The second case that caught Thompson's attention involved a principal at a charter school in the Los Angeles Unified School District. In 2003, she earned what most principals in the LAUSD earned – \$120,000 that year. The last four years of her employment with the charter school the principal's salary jumped an extraordinary \$32,500 per year, on average, to finish up at \$250,000.

Because of this jump, Thompson says, the retired principal was able to collect a \$327,000 lump sum payment from CalSTRS when she retired as well as \$13,000 a month in pension payments, about \$7,000 more a month than Thompson believes she was entitled to.

Thompson reported both cases to his immediate supervisors, then to high-level managers at the fund and eventually to the CalSTRS board itself. He says nothing was done.

CalSTRS officials concede these late-in-career pay raises look suspicious. They also claim they were looking into them, inquiries that they claim began in 2008, the year Thompson flagged them.

So, what's taken so long? "We have had a number of different analysts that have handled this thing," said CalSTRS spokesman Patrick Hill, "and it had taken an unusual amount of time to close this matter."

Last week, Hill said that the superintendent's case is still under review. As for the charter school principal, the agency has concluded her big run-up in pay was not spiking.

"Her compensation is consistent with the salary schedule provided to us from (her charter school) which includes both salary and performance pay for meeting objectives," he said.

In recent reports to the CalSTRS board, pension fund staff have acknowledged shortcomings in their efforts to prevent spiking.

The system relies almost exclusively on school employers to report compensation correctly. It also audits employers but only a handful of more than 2,000 school districts, community college districts and charter schools each year. Its most recent audit summary noted that 40 to 60 percent of districts reported incorrectly. CalSTRS also acknowledged it overpaid more than 22,000 retirees some \$43 million just last year.

Spiking at CalSTRS goes unaddressed even as the retirement fund faces severe economic challenges. As of June 30, 2010, its last actuarial valuation, CalSTRS reported a staggering funding gap of \$56 billion, \$15.5 billion higher than the previous year.

"Absent a bailout by the Legislature," the Little Hoover Commission warned in its controversial pension report earlier this year, "the prospect of insolvency is very real at the California State Teachers' Retirement System."

A 1986 graduate of UC San Diego who spent years teaching English mostly in Eastern Europe before moving to Sacramento seven years ago, Thompson says he's taken on this fight because colleagues of his who wanted to could not.

"This was my first state job, so I didn't realize that it was possible for a problem this obvious and costly to be tolerated as a matter of policy," he told me in an email. "I continued to believe that if I presented the question the right way, to the right person, things would begin to change for the better."

As a reporter, you approach whistle-blowers like Thompson warily. Personnel disputes are always tricky, since employers are forbidden from going into detail about an employee's performance or reasons for dismissal.

Yet with Thompson I see a smart, competent ex-state employee with a passion to protect the retirement fund and taxpayers. His dismissal raises grave questions about CalSTRS' commitment to safeguarding the public trust and public dollars.

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