Public Meeting Notice

Regular Meeting
Board of Administration
Tacoma Employes' Retirement System

1:00 p.m., Friday, June 13, 2008
Tacoma Municipal Building North
Conference Room 16
733 Market Street
Tacoma, Washington 98402

Except for occasional closed executive sessions permitted by law, the meetings are open to the public. Meeting notices, agendas, and minutes are also published at the Retirement System website: www.TacomaEmployesRetirement.com on the Internet and the Intranet. The toll free Retirement Number is 1-888-404-3787.

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1:00 p.m., Friday, June 13, 2008
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Agenda

Regular Meeting
Board of Administration
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1:00 p.m., Friday, June 13, 2008

Agenda Item: 1. Call to Order

Welcome Jim Curley as employee representative.

Agenda Item: 2. Roll Call

Mayor Bill Baarsma
Rey Arellano
Bob Biles
Rodney Croston
Jim Curley
Dave Peterson
Tim Ross
Ken Turner
Chris Webster
Diane Wetzel

Agenda Item: 3. Citizen Comments

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Agenda Item: 4. Consent Agenda

4A. Retirement Board Meeting Minutes

Background: Enclosed in the Retirement Board packet are the drafted minutes for the May 15, 2008 Quarterly Managers' and Retirement Board meetings for your review.

4B. Retirement Transactions

Background: Transactions for the Retirement Board's review and discussion.

4C. Fund Activity and Reports

Background: Attached you will find the Asset Allocation Monitoring Report and the memorandum from Wilshire Associates which states no rebalancing is recommended.

Director's Comments/Recommendations: Board review and approval of fund activity and Consent Agenda.

Action Requested: Board approval of Consent Agenda.

Quarterly Managers' Meeting Minutes
Board of Administration
Tacoma Employes' Retirement System

8:00 a.m., Thursday, May 15, 2008
Tacoma Municipal Building
Conference Room 16
733 Market Street
Tacoma, Washington 98402

DRAFT

MINUTES

1. Call to Order

The Tacoma Employes' Retirement System Quarterly Managers' meeting was called to order by Mayor Bill Baarsma, Chair.

2. Roll Call

Members Present:	Mayor Bill Baarsma, Bob Biles, Rodney Croston, Dave Peterson, Tim Ross, Ken Turner, and Chris Webster
Absent:	Rey Arellano, Joseph Cook, and Diane Wetzel
Others Present:	Maggie Coleman, Jim Curley, and Patricia Pabst
Investment Advisory Committee:	Alva Butcher, Lynda Livingston, and Allan Undem
Consultants:	Andrew Junkin, Wilshire Associates Jill Traina, Wilshire Associates
	Kelly Haughton, Russell Investments Tom Ryan, Russell Investments

<u>DISTRIBUTION OF MATERIALS</u>

The Retirement Board and Investment Advisory Committee received the following information from Wilshire Associates on CD and in hard copy:

- Executive Summary – First Quarter 2008
- Supplemental Meeting Material – March 31, 2008
- Investment Performance Analysis for March 31, 2008

DISTRIBUTION OF MATERIALS (CONTINUED)

Additional information provided by Wilshire Associates at the meeting:

- Currency Management – Hedge Ratios & Implementation
- Private Equity Market Overview
- Global Equity Structure Analysis
- BGI Research – Wilshire memorandum – May 2, 2008
- Russell Investments – Select Holdings – May 2, 2008
- Currency Management – Summary of Wilshire Consulting Publications – 2008
- Bridgewater Daily Observations – May 2, 2008

The Retirement Board and Investment Advisory Committee received the following items from Barclays Global Investors:

- Barclays Global Investors Alpha Tilts Fund Performance Review – May 15, 2008

EXECUTIVE SUMMARY

It was noted that Tacoma Employes' Retirement System's rates of return were as follows: -5.21% for the quarter ending March 31, 2008, -3.50% for the one-year period, 9.37% for the three-year period, and 14.07% for the five-year period. The Executive Summary for the period ending March 31, 2008 serves as an addendum to the minutes.

RUSSELL EQUITY INDEXES

Kelly Haughton and Tom Ryan provided a presentation on the Russell Equity Indexes.

POST ADVISORY CONTRACT AMENDMENT

Upon motion by Dave Peterson, seconded by Tim Ross, the Retirement Board approved the contract renewal with Post Advisory for investment management services for the period of September 1, 2008, through August 31, 2011, for an estimated amount of $360,000 for the first year, $360,000 for the second year, and $360,000 for the third year for a three-year total contract renewal amount of $1,080,000.

RUSSELL INVESTMENTS – SELECT HOLDINGS CONTRACT AMENDMENT

Upon motion by Bob Biles, seconded by Dave Peterson, the Retirement Board approved the contract renewal with Russell Investments for investment management services for the period of October 1, 2008, through September 30, 2011, for an estimated contract renewal amount for the first year of $196,000, $209,000 for the second year and $223,000 for the third year for a three year total contract amount of $628,000.

Wilshire Associates provided a memorandum date May 2, 2008 on the Russell Investments Select Holdings recommending an additional six month period of performance observation prior to future funding consideration. This will allow Tacoma Employes' Retirement System to continue reconsideration of its overall asset allocation.

RUSSELL INVESTMENTS

Russell Investments provided an article for Board distribution.

BARCLAYS GLOBAL INVESTORS –INFORMATIONAL REQUEST

At the February 21, 2008 Quarterly Manager's meeting, an inquiry was made regarding what percentage of the total budget was devoted to research and development of quantitative measures. Wilshire provided a May 2, 2008 memorandum with BGI's response indicating that they did not have concerns about the BGI's research budget.

BENCHMARK

Wilshire will recommend a performance objective (expected excess return over a benchmark) after discussions with Russell Investments.

GLOBAL EQUITY-EMERGING MARKETS

Upon motion by Chris Webster seconded by Dave Peterson, the Board moved to increase the allocation to emerging markets. Wilshire will provide additional information at the August meeting.

PRIVATE EQUITY

Wilshire indicated that they provide the Board with revised asset allocations reflecting implementation with or without a private equity plan.

PRIVATE EQUITY (continued)

Wilshire also indicated that they would have a private equity firm come to the August meeting to provide the Board with an educational presentation.

Wilshire also indicated that they would redistribute the Introduction to Private Equity "white paper" and PowerPoint presentation on Private Equity presented at the recent Wilshire Conference in advance of the August meeting.

DENVER INVESTMENT ADVISORS

Wilshire indicated that they would redistribute the "white paper" on Denver presented at the August 2007 Quarterly Managers' meeting.

WORKSHOP

It was recommended that a workshop be considered if necessary prior to the August Quarterly Managers' meeting to review Private Equity.

CONCLUSION

Upon motion by Ken Turner, seconded by Chris Webster, the Retirement Board moved to adjourn the meeting.

Patricia Pabst Retirement System Director	Robert K. Biles Secretary to the Retirement Board

Regular Meeting
Board of Administration
Tacoma Employes' Retirement System

1:00 p.m., Thursday, May 15, 2008
Tacoma Municipal Building
Conference Room 16
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Tacoma, Washington 98402

DRAFT

Minutes

1. Call to Order

Mayor Baarsma, Chair, called the meeting to order on Thursday, May 15, 2008.

2. Roll Call

Members Present:	Mayor Baarsma, Bob Biles, Rodney Croston, Dave Peterson, Tim Ross, Ken Turner, and Chris Webster
Others Present:	Maggie Coleman, Jim Curley, Patricia Pabst, and Melanie Panui
Absent:	Rey Arellano and Diane Wetzel

3. Citizen Comments

No comments.

4. Consent Agenda

The Consent Agenda distributed to the Retirement Board consisted of the draft April 10, 2008 Retirement Board Meeting minutes; the April Retirement Transactions; and the Fund Activity Reports, noting no rebalancing was required in accordance with the memorandum from Wilshire Associates dated May 06, 2008.

Upon motion by Bob Biles, seconded by Chris Webster, the Consent Agenda was approved.

5. Old Business

None

6A. Budget Committee

The Retirement System Director reported that the Retirement Office is in the process of beginning the budget for 2009-2010 and Budget Committee members need to be appointed.

Previous Budget Committee members were: Dave Peterson, Tim Ross, Chris Webster and Diane Wetzel.

Upon motion by Rodney Croston seconded by Tim Ross, the Retirement Board moved to appoint the following individuals to the Budget Committee: Bob Biles, Jim Curley, Dave Peterson, Ken Turner and Chris Webster.

7. Retirement Director's Report

Addendum

The Retirement Director's Report serves as an addendum to the Retirement Board Meeting minutes.

Staffing

The Retirement System Director reported that Eun Joo Ebenhoh has accepted a promotion to Senior Financial Analyst in the Finance Department supporting the Department of Public Works – Environmental Services' Waste Water Utility effective June 13, 2008.

The Retirement System Director reported that Kathleen Mason has been hired as Administrative Secretary effective May 29, 2008.

8. Good of the Order

Open Public Meeting Act

Steve Gross provided a brief overview on the Open Public Meeting Act.

It was noted that a meeting may not be called to order unless a quorum is present.

Steve Gross, legal counsel, indicated that he would review the By-laws to see if the By-laws should be amended.

Steve indicated that the discussion of disabilities is an exemption from the Open Public Meeting Act and is discussion is held in "closed" session.

Code of Ethics

Steve Gross provided a brief overview on the Code of Ethics.

Fiduciary Responsibility

The Retirement Director reported that Jeff Belfiglio from Davis Wright Tremaine will be at the July Retirement Board meeting to provide a presentation on Fiduciary Responsibility.

It was suggested that this presentation be held annually to refresh existing Board members and orient new Board members.

8. Good of the Order (continued)

New Board Member Orientation

The Retirement Director reported that new Board members are provided an orientation by the Retirement Office and the Legal Department.

It was suggested that the Board may wish to orient the new Board members as well at the June Retirement Board meeting.

The Board reviewed the following questions indicating that all of the questions would assist in engaging good dialogue.

These questions will be presented at the June 13, 2008 Retirement Board meeting for discussion under the Good of the Order.

-What do you like about being a Board member for Tacoma Employes' Retirement System?

-What is the most important role of a Board member?

-What do you know about being a Board member for Tacoma Employes' Retirement System that would be helpful for new Board members?

-What recommendations would you like to make to new Board members?

-What is your preferred method of communication?

-As a Board member, what thing(s) do you spend most of your time focusing on?

-What would you say is your overarching objective as a Board member?

-What is your level of interaction with those you represent; with other Board members?

Investment Advisory Committee

As a reminder, the Retirement Director asked that the Retirement Board provide names of individuals interested in serving on the Investment Advisory Committee to the Mayor as Chairman of the Retirement Board.

8. Good of the Order (continued)

Annual Report

The Retirement Director reported that a draft copy of the Comprehensive Annual Financial Report (CAFR) was included in the Board packet requesting any comments back by June 2, 2008.

It was further noted that comments or questions could be forwarded to Maggie Coleman by email at mcoleman@cityoftacoma.org or phone at (253) 591-5897.

Calendar Reminders

The Retirement Director reminded the Retirement Board that the Retirement Board meeting for June was rescheduled from June 12, 2008 to June 13, 2008 for the actuarial presentation on the experience study. A plan history and a history of previous plan design considerations will also be provided.

Wilshire Seminar

Dave Peterson and Chris Webster provided a report on the Wilshire seminar that they attended on April 21-22, 2008, and recommended the conference.

9. Debriefing

No discussion.

10. Adjourn

Upon motion by Chris Webster, seconded by Dave Peterson, the Retirement Board moved to adjourn.

Patricia F. Pabst
Retirement System Director

Robert K. Biles
Secretary to the Retirement Board

Melanie Panui
Acting Recording Secretary

WILSHIRE
CONSULTING

MEMORANDUM

To: **Tacoma Employes' Retirement System Board of Trustees**
From: **Jerry Hsu, Associate**
Subject: **Asset Allocation Rebalancing – No Rebalancing Required**
Date: **June 04, 2008**

Based on preliminary May 31, 2008 market values, Tacoma Employes' Retirement System was overweight in Equities while underweight in Fixed Incomes and REITs. All major asset classes were still within their respective target asset allocation ranges and no rebalancing is required at this moment.

WILSHIRE ASSOCIATES, INC.
1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401-1085
TEL 310.451.3051 FAX 310.458.6936 www.wilshire.com

Tacoma Employes' Retirement System
Asset Allocation Monitoring Report
May 31, 2008

	Market Value*	% of Total Fund		Range		Difference	
	$	Actual	Target	Low	High	%	$
Domestic Equity							
Northern Trust - S&P 500 Index	$ 150,639,183	13.33%	N/A	N/A	N/A	N/A	N/A
Northern Trust - Small-cap Core Index	$ 32,160,996	2.85%	N/A	N/A	N/A	N/A	N/A
Core Equity Subtotal**	$ 182,800,179	16.17%	16.00%	14.50%	17.50%	0.17%	$ 1,933,997
Denver Investments	$ 73,972,222	6.54%	6.00%	4.50%	7.50%	0.54%	$ 6,147,403
BGI Alpha Tilts	$ 52,535,063	4.65%	4.80%	3.30%	6.30%	-0.15%	$ (1,724,792)
INTECH	$ 55,884,576	4.94%	4.80%	3.30%	6.30%	0.14%	$ 1,624,722
Research Affiliates	$ 71,127,344	6.29%	6.40%	4.90%	7.90%	-0.11%	$ (1,219,129)
Russell Investments Composite	$ 23,506,802	2.08%	2.00%	1.00%	3.00%	0.08%	$ 898,529
Total	$ 459,826,186	40.68%	40.00%	37.00%	43.00%	0.68%	$ 7,660,730
International Equity							
Northern Trust - International Index	$ 92,232,752	8.16%	7.50%	6.00%	9.00%	0.66%	$ 7,451,729
TT International	$ 90,191,595	7.98%	7.50%	6.00%	9.00%	0.48%	$ 5,410,572
Total	$ 182,424,346	16.14%	15.00%	12.00%	18.00%	1.14%	$ 12,862,300
Total Equities	$ 642,250,532	56.82%	55.00%	49.00%	61.00%	1.82%	$ 20,523,030
Fixed Income							
Metropolitan West	$ 219,628,491	19.43%	20.00%	18.00%	22.00%	-0.57%	$ (6,454,237)
Post Adviory	$ 113,802,023	10.07%	10.00%	8.00%	12.00%	0.07%	$ 760,659
Total	$ 333,430,514	29.50%	30.00%	27.00%	33.00%	-0.50%	$ (5,693,577)
REITs							
Adelante Capital Management	$ 151,466,379	13.40%	15.00%	12.00%	18.00%	-1.60%	$ (18,095,667)
Total	$ 151,466,379	13.40%	15.00%	12.00%	18.00%	-1.60%	$ (18,095,667)
Cash	$ 3,266,214	0.29%	0.00%	0.00%	2.00%	0.29%	$ 3,266,214
Total Market Value	$ 1,130,413,640	100.00%	100.00%				

* The market values provided in this report represent preliminary data. The cash account market value is lagged one month.

** Per the Statement of Investment Policies and Objectives, the Core Equity Subtotal represents the combined market values of Northern Trust's S&P 500 Index and Small-cap Core Index accounts.

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Tacoma Employes' Retirement System
1:00 p.m., Friday, June 13, 2008

Agenda Item: 5. Old Business

None.

Regular Meeting
Board of Administration
Tacoma Employes' Retirement System
1:00 p.m., Friday, June 13, 2008

Agenda Item: 6. New Business

6A. Presentation - Exit Interview – State Auditors

Background: Joanne Klein and Trang Nguyen from the State Auditors will be presenting the exit interview for the 2007 Tacoma Employes' Retirement System's audit.

Retirement Director's Comments/Recommendations: Retirement Board discussion.

Action Requested: No action.

Regular Meeting
Board of Administration
Tacoma Employes' Retirement System
1:00 p.m., Friday, June 13, 2008

Agenda Item: 7. Retirement Director's Report

Addendum

The Retirement Director's Report serves as an addendum to the Retirement Board Meeting minutes.

Tacoma Employes' Retirement System
Retirement Director's Report

May 15, 2008

NASRA Newsclips

A hard copy of the NASRA Newsclips has been enclosed for you.

Staffing Up-date

Please join us in welcoming Kathleen Mason our Administrative Secretary.

Up-date

I will be on out of town on vacation the week of July 7th, Maggie Coleman will be attending the July 11th Retirement Board meeting on my behalf.

I am scheduled for foot surgery on July 17th the following week. I will be out of the office the following week recovering but will be telecommuting after a couple of days of recovery.

Web Site

Just a reminder the meeting notices, agendas, minutes, Annual Report, Summary Annual Report, forms and pension calculator are on our Internet and Intranet web site at www.TacomaEmployes'Retirement.com.

Pabst, Patricia

From: The NASRA Newsclips List [NASRA_NEWSCLIPS@LISTSERV.AMRMS.COM] on behalf of Keith Brainard [keithb@NASRA.ORG]

Sent: Friday, May 23, 2008 4:42 AM

To: NASRA_NEWSCLIPS@LISTSERV.AMRMS.COM

Subject: NASRA News Clips

NASRA News Clips

May 23, 2008

National Association of State Retirement Administrators

Girard Miller:

Actuary paid by New York legislature admits skewing projections in favor of unions

Unions Bankrolled Analyst Vetting Pension Bill

New York Times May 16, 2008

ALBANY — A bill offering thousands of additional city workers early retirement has been gaining support in the Legislature in recent weeks. New York City officials have protested, saying it would cost the city $200 million annually.

Not so, lawmakers countered. It won't cost a cent, they said, pointing to the review of a highly credentialed actuary to prove it.

But what the legislators did not disclose, as they cited the expert analysis of the actuary, Jonathan Schwartz, was that Mr. Schwartz had not been paid by the state to conduct his analysis. His work was bankrolled by unions, including District Council 37, the umbrella group of municipal unions that drafted the early retirement bill, which is now moving through the Legislature.

Lawmakers have cited Mr. Schwartz's analysis on hundreds of bills in recent years, with billions of dollars worth of potential costs. His projections were used to fulfill a legal requirement that every piece of legislation be accompanied by a "fiscal note" that examines its impact on spending. Mr. Schwartz's consultant work for the unions was discovered during a review of Department of Labor documents by The New York Times this week.

Mr. Schwartz, a former city actuary, said that he routinely skewed his projections to favor the unions — he called his job "a step above voodoo" — and admitted that he had knowingly overreached on the pension bill by claiming that it cost nothing, either now or in future years. "I got a little bit carried away in my formulation," he explained.

The Senate sponsor of the bill, Martin Golden, a Brooklyn Republican, said on Thursday that he had no idea Mr. Schwartz was a consultant for the unions. Assemblyman Peter J. Abbate Jr., a Brooklyn Democrat and the Assembly sponsor, said the bill was drafted by the union pushing the measure, and that it provided Mr. Schwartz's analysis.

"It's their bill," Mr. Abbate said. "They drew up the bill; they went to Jonathan Schwartz," he said, adding: "We assume he comes up with the real number. He was hired by them."

Mr. Schwartz's review, though, is presented in the legislation after an explanation of language changes, and appears as if it were a governmental analysis, rather than one financed by an interest group. It is the only analysis provided.

To critics of the Legislature, the reliance on Mr. Schwartz's analyses is a startling example of unchecked coziness between lawmakers and labor and the willingness of many legislators to blindly carry bills handed to them by special interest groups.

On almost every bill involving New York City pension benefits in recent years, Mr. Schwartz has provided the analysis.

"I'm shocked the Legislature would use someone who works for the union," said Blair Horner, the legislative director of the New York Public Interest Research Group. "This guy might be the best in the world at what he does, but at best there is a clear appearance of a conflict of interest."

Actuaries are experts in the field of forecasting risk, life expectancies and the future pension liabilities of municipalities and other pension funds.

Mr. Schwartz, 70, who was an actuary for New York City until 1986, said in a telephone interview on Thursday that his connection to labor groups was well known. Asked which unions he serves as a consultant, he responded, "How many unions are there?" He then ticked off a list of his clients, including the United Federation of Teachers and unions representing firefighters, detectives, correction officers and bridge and tunnel officers.

He said: "The Legislature knows full well I'm being paid by the unions. If they choose not to disclose that, that's on them, not me."

He still called the city's estimates that the early retirement bill would cost $200 million annually "off the wall," saying that "at the very least, that's high by a factor of four." But even that would leave the city with tens of millions of dollars of additional annual expenses at a time of growing economic uncertainty.

The bill would offer workers a second chance to buy into an early retirement plan that had been offered in the mid-1990's.

"What people call actuarial science is at least as much as an art as a science," Mr. Schwartz said.

"Back in my days as city actuary, I would go to that part of the range that would make things look as expensive as possible," he added. "As consultant for the unions, I go to the part of the range that makes things as cheap as possible, but I never knowingly go out of the range."

Mr. Schwartz resigned from his city job in 1986 after admitting he had given false testimony in a deposition in a lawsuit brought by female employees who claimed that their pension payments were lower than those made to their male counterparts.

Farrell Sklerov, a spokesman for Mr. Bloomberg, said, "It is an outrage that union-paid actuaries freely admit that they create artificially low fiscal impact statements in order to help push pension sweeteners through Albany, costing taxpayers millions upon millions of dollars."

The executive director of District Council 37, Lillian Roberts, declined to be interviewed.

In a statement, she said, "As far as the cost is concerned, actuaries disagree."

Last year, District Council 37 paid Mr. Schwartz more than $10,000, according to records from the Department of Labor reviewed by The New York Times.

John McArdle, a spokesman for the Senate majority leader, Joseph L. Bruno, a Republican, said, "We use the city's estimates before we make any decision."

Dan Weiller, a spokesman for Assembly Speaker Sheldon Silver, a Democrat, said, "The fiscal notes don't determine whether the bill gets done."

Both men said that bills received further financial review before approval and that in this particular case they would seek a so-called home rule message, which would require the City Council to approve the measure.

New York Times: Actuaries' public pension work called into question

Actuaries Scrutinized on Pensions

By MARY WILLIAMS WALSH New York Times May 21, 2008

By firing its actuarial consultant last week, the New York State Legislature shone a light on one of the public sector's deepest secrets: All across the country, states and local governments are promising benefits to public workers on the basis of numbers that make little economic sense.

The numbers are off-base for a variety of reasons. Sometimes there is a glaring conflict of interest, as there was in Albany, where the consultant was being paid by the workers seeking richer benefits. More often, there is subtle pressure on the actuary to come up with projections that make the pension fund look good.

Most of all, public pension actuaries use old methods that have fallen far out of sync with the economic mainstream. That does not necessarily mean their figures are wrong, but it does make them vulnerable to distortion, misunderstanding and abuse.

“Financial burdens have been hidden” as a result, said Jeremy Gold, a New York actuary and economist who was one of the first to call attention to the gap between actuarial figures and economic reality. Many economists now agree with Mr. Gold, saying they believe actuaries are routinely underestimating the cost of providing governmental pensions by as much as a third.

The difference “is going to come out of services, and the services are for the working poor,” Mr. Gold said.

In the private sector, pension funds are highly regulated, and actuarial numbers are less of an issue. But in government, actuaries and the consulting firms that employ them are starting to draw lawsuits in places like Alaska, San Diego, Milwaukee County, Wis., and Evanston, Ill.

In Texas, the attorney general is calling for actuaries to be registered, so the state can keep them on a shorter leash. Federal regulators are also flexing their muscles, and the actuarial rules-making board is being pushed to change.

Two big problems are being laid on actuarial doorsteps: overly aggressive investing and overly rich benefits. Benefits can go off the scale because widely used actuarial methods tend to make them look inexpensive. And this tends to encourage aggressive investing, because the greater the risk in the portfolio, the less costly it can seem to provide the benefits.

“Actuarial assumptions based on misinformation are a recipe for disaster,” said the Texas attorney general, Greg Abbott.

After the Fort Worth pension fund was found to have a crushing $410 million deficit, Mr. Abbott sent his staff to dig through more than a decade’s worth of documents, to find out why. They found that in 1990, an actuary had calculated that the city could put less money into the pension fund and increase workers’ benefits simultaneously — without making a dent in the fund — if he assumed that the fund would earn 10.23 percent a year on its investments.

This worked on paper but not in the real world. In reality, Fort Worth actually lost money on its pension investments that year. And the new benefits did, in fact, have a cost. But the city forged ahead, armed with an actuarial opinion letter stating that “the numbers are correct.” It generously sweetened public workers’ benefits five times in subsequent years.

From time to time, the actuary issued muted warnings, but he was ignored. He also began tweaking other numbers in his calculations, which kept the plan looking viable on paper. Meanwhile, the imbalances in the pension fund compounded.

“It went bust,” said David C. Mattax, the attorney general’s chief of financial litigation.

Fort Worth is now trying to come up with a reform package to bring the city pension fund back into balance. It is struggling, though, because its proposals are expensive, and some have been found unconstitutional.

Something similar happened in New Jersey. In 1994, the state needed money, and it made actuarial changes that allowed it to avoid putting billions of dollars into its pension fund. The state then spent the money on other things.

Members of the pension oversight board resigned in protest, and employee groups sued, but an actuary for the state provided a detailed opinion letter saying the new method "will securely fund the present benefits" and even produce a modest surplus.

Two years later, a state senate committee called back the actuary, Robert D. Baus, for questioning, to make sure all was well. Senator Peter A. Inverso noted that a $4 billion deficit had appeared in the pension fund. "That frightens me," he said. But Mr. Baus said that while the deficit had grown, "it does not change the fact that the system is funded." He said New Jersey would have to close the shortfall at some point, but in the meantime, "it does not mean that there is not enough money to cover the liabilities right now. There is more than enough."

No one asked exactly when the shortfall would have to be closed. Instead, legislators kept withholding pension contributions, even as they increased benefits again and again. Over the years the imbalances in the fund finally snowballed.

Now the fund is so deep in the red that Governor Jon S. Corzine's administration cannot find the cash to catch back up. The Securities and Exchange Commission is investigating.

Alaska is also struggling with a sick pension fund, and complaining its actuary got it into trouble. In Alaska, the state pension fund pays for retirees' health care as well as pension benefits. The actuarial firm that crunched the numbers for the plan, Mercer, made the assumption that health care inflation would fall to 4.5 percent by 2009. Instead, health care costs have gone up.

The difference looks small in percentage terms, but multiplied over many years, and 80,000 workers and retirees, it is enormous. Alaska has sued Mercer for $1.8 billion, arguing that it "failed to take into account real-world data," and, therefore, allowed the state to make unreasonably low contributions.

Mercer has said that it did nothing wrong, and that Alaska is trying to blame it for investment losses and other factors beyond its control.

Mercer is also being sued by Milwaukee County, where the pension fund has been draining the budget for years. The county accuses Mercer of underestimating the cost of new benefits that were promised in 2001. Mercer says the county caused the problems itself, through its mismanagement.

In Evanston, Ill., a former actuary has been accused of using aggressive assumptions about such things as investment returns, after a new actuary discovered a big shortfall. The former actuary has said his assumptions were valid and the plan had weakened because it was highly leveraged.

San Diego's official numbers produced by an outside actuarial firm were found to be so misleading that the S.E.C. sanctioned the city for securities fraud. The city sued the actuarial firm, which settled.

The New York State Legislature has dropped several proposed pension enhancements since lawmakers learned that the actuary, whose opinion was that the cost of the benefits would be zero, was being paid by a labor group. The actuary said his assumptions were within acceptable ranges. But the state's actuarial methods continue to be contentious, showing the pension fund is fully funded even when markets turn down.

Actuaries worry their profession cannot withstand too many large lawsuits. The board that writes actuarial standards has been working on revisions in how to make economic assumptions.

But change is coming at a creep. There are still a large number of actuaries for public plans who vigorously defend current methods.

In Washington, the Internal Revenue Service is seeking to intervene. It is an active regulator of corporate pension funds, but has seldom been involved with public plans until recently. At a recent informational event, I.R.S.

officials explained that they wanted to help, and would send out an anonymous questionnaire.

“The law in this area is complex, and mistakes do happen,” said Joyce Kahn of the I.R.S.’s Employee Plans Voluntary Compliance division. “They happen all the time.” She said errors cost much less if they are corrected right at the beginning.

Many public fund officials, however, have resisted cooperating with the I.R.S., citing states’ rights doctrine.

NASRA/NCTR response to New York Times story on actuaries

NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS
NATIONAL COUNCIL ON TEACHER RETIREMENT

May 22, 2008

Editor
The New York Times
229 W 43rd Street
New York, NY 10036

The article “Actuaries scrutinized on pensions,” (May 21, 2008) presents opinion as fact and distorts the truth of state and local government pensions.

Space does not permit correction of all the errors and misrepresentations in the article. For example, the contention that the City of Ft. Worth’s pension “went bust” is completely false. In fact, on a market basis, the Ft. Worth pension plan is currently 92 percent funded.

The assertions that public pension numbers “make little economic sense,” and are “off-base,” are simply not supported in fact. Measurements of plan liabilities are developed pursuant to standards approved by the Governmental Accounting Standards Board (GASB). Based on these numbers, public pension plans have accumulated almost $3 trillion in real assets, not IOUs, ensuring the retirement security of more than 20 million working and retired state and local government workers and their beneficiaries.

As a result, the findings of multiple recent studies of public pensions by such independent sources as the U.S. Government Accountability Office and the Center for Retirement Research at Boston College have shown state and local pensions to be reasonably sound and on track to meet their future obligations.

Not only is the article based on incomplete and selective information, but it ignores the fact that public pensions are regulated primarily by state and local governments, and comply with rigorous industry accounting and reporting standards. These plans also are subject to annual audits and actuarial valuations, and are overseen by executive agencies, legislative bodies and boards of trustees. While the number of corporate pensions, solely regulated at the federal level, is seriously on the decline, public pensions have continued to flourish – solid evidence that their existing regulatory structure is working. This is a model that should be emulated, not dismissed as “off-base.”

Finally, the article makes no attempt to consult experts in public finance, but relies solely on the arguable theory that pension investment policy should be irrelevant to the funding of the plan. Suggesting the application of corporate finance measures that contributed to the demise of private pensions, and are completely inappropriate for pensions backed by government sponsors, is not only one-sided but irresponsible.

To unfairly imply, based on a few misrepresentative examples of abuse and incompetence, the common practice of the actuarial profession is to violate its own professional standards, is reckless and unconscionable. Further, using these examples to inaccurately tar an entire industry only contributes to the continued erosion of retirement security in this country.

Sincerely,

M. Steve Yoakum
President
National Association of State

Melva Vogler
President
National Council on Teacher Retirement Administrators

Retirement

NIRS response to New York Times story on actuaries

May 22, 2008

Editor
The New York Times
229 W 43rd Street
New York, NY 10036

To the Editor,

The article "Actuaries Scrutinized on Pensions" misses the real story by overlooking three salient facts about pension accounting.

First, private sector accounting standards are unnecessarily destroying retirement security for workers. New accounting methods are the primary culprit behind the disappearance of healthy corporate pension plans. The methods require spot valuations of assets and liabilities resulting in extremely volatile measurements that swing wildly with small movements in interest rates and asset returns. This gives a distorted view of the underlying health of a plan forcing companies to abandon plans rather than live with the volatility forced onto their balance sheets.

Second, private-sector pension accounting standards are wholly inappropriate for the public sector. Unlike companies, governments cannot go out of business. Thus, the accounting is and should be different. Pension accounting standards set by the Government Accounting Standards Board use a valid method to assess the long-run viability of a pension plan.

Third, most public pension plans project a reasonable, long-run rate of return in the range of 7.5% to 8.0%. This inference that there is a widespread problem of actuaries violating professional standards by using unrealistic assumptions is off the mark. A call to force healthy public plans to adopt standards that undermined pensions in the private sector is an over reaction to an exceptional case. Ultimately, it would lead only to the further deterioration of retirement security for ordinary Americans.

Sincerely,

Beth Almeida, Executive Director

News Release: NIRS Releases First Research Brief, Launches Web Site with Exclusive Excerpt of New Pension Book

The National Institute on Retirement Security has released its first research Issue Brief and launched its new web site.

Please visit www.nirsonline.org to sign up for regular updates and to read "*Retirement Readiness: What Difference Does A Pension Make?*" This brief reviews the role defined benefit pensions play in ensuring that Americans can be self-sufficient in retirement. It also examines trends in pension coverage, the impact of these trends on retirement readiness, and areas worthy of exploration for policymakers.

The site also offers exclusive access to Teresa Ghilarducci's new book, *"When I'm Sixty-Four: The Plot Against Pensions and the Plan to Save Them."* Also worth a click:

- Today's press releases
- The Book Corner with a review of a new book by Roger Lowenstein
- Report Fact Check with analysis and reviews of recent pension reports
- A Commentary section that provides a forum for NIRS staff and guests to post short blogs and longer commentary on key issues

Visit the site often, as NIRS will release a steady stream of research reports and briefs, commentary, and news. NIRS also will continually add important pension data and educational materials, as well as increase site features and functionality.

You'll recall that NIRS was established by the Council, NASRA and NCTR to conduct research and education programs regarding the traditional defined benefit pension system.

If you have questions or comments, please contact Beth Almeida, NIRS executive director, at balmeida@nirsonline.org or 202.457.8190.

Media coverage of NIRS research brief

NIRS brief cautions on pension shifts

May 22, 2008 (PLANSPONSOR.com) – A new research paper highlights the societal risks attendant with a decline in pension coverage – and suggests areas for policymakers to consider in addressing that concern.

The Issue Brief, "Retirement Readiness: What Difference Does A Pension Make?" finds that the recent shift away from traditional pensions has coincided with a decline in retirement wealth for the typical household, reducing retirement readiness and increasing the risk of hardship in old age. As a result, fewer working families will have a good chance of maintaining a middle-class living standard in retirement, according to the paper - the first retirement research Issue Brief for The National Institute on Retirement Security (see Pension Research Group Taps Board, Leaders).

"Just a decade ago, there wasn't a need for an organization like NIRS," said Beth Almeida, NIRS executive director. "After a lifetime of work, most middle class Americans could expect to retire at a reasonable age with a modest income that would last until death. But times have changed, and it is getting tougher to retire - and impossible for some," Almeida added.

The premier Issue Brief examines a broad range of key retirement reports and data to conclude:

- The shift from traditional pensions to defined contribution plans in the private sector has reduced the amount of money set aside for retirement, leading to a reduction in retirement wealth for the typical worker.
- Large numbers of Americans will fall short in retirement, leaving older Americans with inadequate income to be self-sufficient or in poverty.
- Middle class workers with pensions are less likely to be at risk in retirement.
- Pensions tend to be better at ensuring employees are able to accumulate adequate resources for retirement.
- Key features distinctive to pensions seem to make a significant impact on retirement readiness.

New Web Site

The group also launched a new web site, http://www.nirsonline.org, that offers access to an excerpt of retirement economics expert Teresa Ghilarducci's new book, *"When I'm Sixty-Four: The Plot Against Pensions and the Plan to Save Them."* Additionally, according to an announcement, the site encourages ordinary Americans to communicate their retirement challenges, which will help to shape NIRS' research and education initiatives.

The Issue Brief suggests that policymakers focus on shoring up existing pension plans by revisiting the rules governing the funding of private sector pensions and examining existing defined benefit pensions that insulate employer contributions from shocks, reduce large swings in contributions, and secure employee benefits. Over the long term, the paper's authors assert that it will be necessary for policymakers to identify channels to establish new plans and expand existing plans by pooling of funds across employers, industries and occupations, as well as exploring the role of the government in serving as an incubator for new, well-functioning, secure pensions.

The Web site also provides

- A venue for Americans to submit information on their retirement challenges.
- A Book Corner with reviews of notable books focused on retirement security.
- A Report Fact Check, with analysis and review of various retirement research reports.
- A Commentary section that provides a forum for NIRS staff and guests to post short blogs and longer columns on key issues.
- A sign up function so that interested parties can receive regular updates.

NIRS will distribute a regular stream of reports and data, while continually adding resources, educational materials, and functionality to the web site.

The National Institute on Retirement Security is a not-for-profit organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy through national research and education programs.

List of six-figure New York state pensioners includes George Philip

Pension creates 6-figure winners

Almost 900 people, ranging from former Gov. Pataki to state officials convicted of crimes to retired cops, earn more than $100,000 a year from system

Albany Times-Union May 18, 2008

ALBANY -- George M. Philip is a notable man in many ways, including the fact that his state pension is 16 times that of the public servant's.

Philip tops a list of 899 people making at least $100,000 annually from New York retirement payouts -- a list obtained by the Times Union.

The 60-year-old Burnt Hills resident receives $261,030 annually from the State and Local Retirement System run by Comptroller Thomas DiNapoli.

He also receives another $280,000 a year in salary for his new job in academia. In November, after ending his career at the separate State Teachers Retirement System, Philip immediately received a waiver to allow him to become interim president of the University at Albany.

Although Philip's compensation is extraordinary, he is not alone in the six-figure club. Nor is he the only guy double-dipping.

The list of 899 pensioners receiving at least $100,000 from DiNapoli's accounts is top-heavy with former cops from Nassau and Suffolk counties, the Power Authority and the Port Authority of New York and New Jersey. Many of the police officers retired before their 50th birthday after piling up overtime pay that amplifies the top three earning years that drive a formula used to calculate an employee's final pension.

It also includes people who were dismissed from their jobs for dishonorable behavior, including at least three people who were found guilty of crimes committed in their public posts and another person booted from his job because of improprieties.

For instance, former Comptroller Alan Hevesi, who oversaw the $154 billion pension fund, pleaded guilty to a felony of defrauding the state government. He's still drawing his pension of $104,123 after about 30 years of public service.

Former Power Authority lawyer Carmine J. Clemente, of Albany, who was fired last year after the attorney general and inspector general found he misused his health care benefits, is No. 25 on the list with a pension of $163,040. He pleaded guilty to a misdemeanor charge. Before retiring, he misused more than $21,000 by claiming his ex-wife on his health policy, investigators said.

His brother, Michael Clemente, was fired from his post as general manager of the State University of New York Construction Fund in 2002 after state investigators found he violated contract rules to help a distant relative of Gov. George Pataki's. After his dismissal, he was hired by Senate Republicans as a budget officer and built more years of credits. His pension: $111,473.

At least four former heads of Off Track Betting Corp. are on the list, including one who's public career ended in dishonor and a criminal conviction -- Capital District OTB founder Davis Etkin of Schenectady is No. 296, getting $116,217 a year.

Etkin's guilty plea in 2000 to treating himself to OTB assets and attempting to bribe a witness who was to testify against him followed an investigation into his lavish spending and questionable use of $4 million while at the helm of the Schenectady-based betting operation.

Other former OTB heads on the list include Donald Groth, of Catskill OTB, at $115,442; Joseph Mondello, the state GOP leader, from Nassau OTB, at $111,697; and his successor at the post, another Republican politician from the county, Gregory Peterson, at $116,188.

Groth just recently retired at age 65. He remains as the head of the OTB making $219,000 annually because, he says, he's got a lot of unfinished business to accomplish in Albany, lobbying for changes to betting laws, before exiting.

"I've been very good to OTB, but it was a two-way street," Groth said. "When you've invested 40 years in something, there should be some return."

No. 241 on the list is Albany attorney James W. Roemer Jr. The 63-year-old lawyer retired in 2001 with a $119,874 pension. His package came together from credits for part-time employment with municipalities, including Utica and Schenectady, despite being a private attorney. Roemer filed a class-action lawsuit last week aimed at blocking Attorney General Andrew Cuomo and DiNapoli from stripping pension credits from lawyers.

At No. 812, George Pataki is the only ex-governor on the list, at $101,200 a year. Some of his lieutenants and aides, such as former director of operations James Natoli, No. 181 with $124,002, and Maryanne Gridley, No. 107 with $133,054, also made the list. Pataki beefed up pay for commissioners, directors and himself during his 12-year tenure, helping all to build their pension nests.

No. 546 is John L. Buono, who served as Hudson Valley Community College's $170,000 per-year president until retiring from the post at the end of 2003 at age 60.

HVCC kept him on another year as a consultant. That made him able to collect a pension at the same time as his post-retirement consulting fee of $170,000. After three decades of paid public service -- including stints as Rensselaer County executive and head of the state Dormitory Authority -- he remains as the Pataki-appointed chairman of the Thruway Authority and last month voted to increase tolls. Although the post doesn't include a salary, his pension of $107,315 provides income.

A top former Senate aide, Kenneth Riddett, Senate Majority Leader Joseph L. Bruno's top lawyer for years, was also high on the list, receiving $136,748. He had a long public career and Bruno bumped his pay up shortly before he retired two years ago to become a lobbyist.

Cuomo said it may be worth considering penalizing criminals who stole from the state with forfeiture of pensions, but said that would require a constitutional amendment.

Stephen Madarasz, a spokesman for the Civil Service Employees Association, said CSEA wouldn't mind seeing criminals stripped of pensions. He said he believes that change could be made by statute.

Others note that police officers and firefighters are enjoying substantial pensions thanks to the overtime they get and that should be changed.

Keith Brainard, research director of National Association of State Retirement Administrators, said New York's pension formula isn't out of whack. It offers 2 percent of pay for each year, 1.66 percent for those who don't make it to 20 years. The average multiplier for public pensions nationwide is 1.85, Brainard said.

"I suspect a large proportion of those officers getting a six-figure pension worked a lot of overtime," he said. "If the (Legislature) in its infinite wisdom chose to change that, it could."

Assembly Government Employees Committee Chairman Peter Abbate, D-Brooklyn, said he doesn't like taking away benefits. People enter public service jobs counting on overtime and constitutionally protected pensions as part of their compensation, he said.

Cops in many agencies can retire with full benefits after 20 years. Some work 80 hours a week for long periods during their last few years to build up pensions, according to employers such as the Port Authority.

"The mayors and county executives complain that pensions cost so much," Abbate said. "They should direct their chiefs of police or police commissioners not to offer them overtime. The Port Authority thinks they're going to save money by not hiring people, so what happens? They force overtime taken by their more senior members."

Nassau County Executive Thomas Suozzi, a Democrat who has tried to cut police expenses, said he isn't happy seeing so many of his former officers on the list of the highest paid pensioners, several in the $150,000-a-year club. "It's an outrageous abuse," he said. "It's unconscionable how much they make in salaries in the first place, but then it's the cost of pension payments."

There are 350,000 people receiving retirement checks from the public pension system. The average benefit is $16,202 for most state workers, $35,877 for police and fire retirees.

At $261,037, Philip, whose pension tops the list, said he worked 38 years to put together his nest egg. The sum was calculated based on the average of the highest three years of salary times the number of years in the system and the multiplier.

"Not too many of my colleagues worked in public service so many years," he said, adding that he held the jobs of CEO and chief investment officer. He suggested he was underpaid at $379,600 while overseeing a $105 billion pension fund.

The state Legislature helped him. In 2000, it sweetened the pensions for public workers by setting up automatic cost-of-living increases, the discontinuation of 3 percent co-pays for any worker with 10 years of service and two extra years of service credit for the older members of the system who never had to contribute to their pensions, such as Philip. Bottom line, he got 79 percent of his final average salary.

He said he hopes his interim gig at UAlbany ends soon, so he can actually be retired. But if the school needs him, he said he'll apply for another waiver that allows him to keep working, and collecting a paycheck.

Jack Ehnes: Criticism of public pension system misses benefits

By Jack Ehnes - Sacramento Bee May 16, 2008

Recently it feels like open season on public pensions in the opinion pages of The Bee. I've seen editorials and commentaries by representatives of special interest groups with a lack of understanding about public servants who provide vital community services and the value public pensions bring to our nation's economy.

As the head of one of the oldest public pensions in the country, let me introduce a dose of realism.

The traditional defined-benefit pension system has worked for more than 100 years. States have experimented with 401(k)-style private accounts and have found that a traditional pension plan is the better option. They prove more cost effective and efficient, create economic value and help workers attain an adequate, predictable retirement. Destroying a pension system that works isn't the answer.

The California State Teachers' Retirement System has spent 95 years serving public school educators, who, as they do not qualify for Social Security for their teaching, must rely on their CalSTRS pension and their own personal savings for their retirement security.

A California teacher retiring today, at age 61 after 28 years of classroom service, would receive a monthly pension that replaces only 67 percent of her salary. This pension is well below our most recent adequacy study, which recommended a range of 80 percent to 90 percent of preretirement income to maintain the same standard of living as before retirement.

Additionally, teachers' health care benefits are provided by the school districts, resulting in the majority of the state's retired teachers paying their own Medicare gap health insurance after age 65.

Public policy challenge

Let me acknowledge there are real fiscal and societal challenges ahead as more Americans live longer. The Employee Benefit Research Institute reports the percentage of workers very confident about having enough money for a comfortable retirement plunged from 27 percent in 2007 to 18 percent in 2008, the biggest one-year drop in the survey's 18-year history.

Serious efforts by our leaders will be necessary to provide a national solution to what is a national problem. The challenge for policymakers is how to provide a livable retirement income for all workers.

Public pensions provide a modest, stable retirement income for workers who provide vital services. That income comes at a low cost to taxpayers thanks to the professionally managed investment portfolios of the pension funds. For instance, at CalSTRS, for every dollar paid in benefits to retired teachers, 75 percent comes from our investment earnings.

Radically restructuring America's public pension system would threaten the retirement safety net, leaving the 813,000 CalSTRS members and millions of other public servants at risk.

Rare retirement success story

In this nation's otherwise troubled retirement picture, public pensions succeed because they:

- Operate under stringent legal safeguards to ensure the ethical and responsible administration of funds and investment decisions.
- Fulfill the fair and equitable agreements that exist between public employees and employers for career service.
- Help fuel the global marketplace through prudent, thoughtful investment of their members' contributions.
- Make a significant and positive impact on economic development. (For instance, for every CalSTRS benefit dollar paid, more than $6 is returned in economic activities such as job creation and tax revenues.)

The Government Accountability Office gave public pensions a strong bill of health, noting they are nearly 90 percent funded to meet future liabilities. It's time to set our sights on addressing the larger issue of a safe financial future for all American workers.

News Release: PERS of Idaho director Alan Winkle announces resignation

BOISE, Idaho- (May 15, 2008) - The Public Employee Retirement System of Idaho (PERSI) today announced that Executive Director Alan Winkle will be retiring effective December 31, 2008. His public service career spans

36 years; 22 of those years have been with PERSI. He became the Executive Director in 1988.

In a letter to the Retirement Board, Mr. Winkle expressed his pride in what PERSI has accomplished in the past two decades. Under his leadership, PERSI has grown from a $1 billion system with $2 billion in liabilities and 65,000 members in 1986, to one with more than $1 1 billion in assets, $10.5 billion in liabilities, and 1 18,000 members today. PERSI currently boasts a funded ratio of more than 100 percent, and serves over 700 employers.

Mr. Winkle specifically acknowledged the quality and dedication of the staff and the ongoing support he's received from the Board over the years as contributing factors to PERSI's growth and many achievements.

The PERSI Retirement Board has retained executive search firm EFL Associates to conduct a search for Mr. Winkle's replacement. This process is expected to take approximately six months.

PERSI was created in 1963 by the Idaho Legislature for the purpose of providing secure, long-term pension benefits for public employees. For fiscal year ending June 30, 2007, PERSI reported a 20.3 percent return, bringing the total value of the fund to $1 1.5 billion. PERSI members and beneficiaries receive direct benefits through retirement, disability, and death benefit programs.

New Jersey governor reveals plan to reduce state workforce by 3,000 through early retirement

Corzine's early retirement plan unveiled

It aims to shrink the state workforce by 3,000 workers and save an estimated $130 million the first year.

Philadelphia Inquirer May 22, 2008

The Corzine administration yesterday unveiled details of a proposal for an early retirement program that aims to shrink the state workforce by 3,000 employees.

Under the plan, incentives would be offered to certain state employees aged 50 or older with at least 25 years in a state pension program, 60 or older with at least 20 but fewer than 25 years in a pension program and 60 or older with at least 10 but fewer than 20 years. Incentives range from additional service credit toward pensions to free health benefits.

Employees in some departments would not be eligible.

"New Jersey cannot fix the larger structural problems with the state budget without first shrinking the size, scope and cost of the state bureaucracy," said state Treasurer David Rousseau. "This initiative will achieve the goal of a smaller government and create permanent budget savings. At the same time, we will maintain the ability of a smaller workforce to focus on core missions and public priorities," he said.

The early retirement program would save the state an estimated $130 million in the fiscal year that begins July 1, Rousseau's office said. That amount should grow to $165 million per year after five years.

But because of additional pension liabilities and other expenses, the program would take about four years to pay for itself, the treasurer's office said.

The announcement of program details signals Gov. Corzine's intent to move forward with the proposal, despite early opposition from lawmakers. The early retirement plan has emerged as a key point of contention between the legislature and the governor.

Critics worry that it could cost the state more in the long run, as has been the case with similar incentives adopted by previous administrations. Treasury spokesman Tom Vincz said an estimated 6,700 state employees would be eligible for the program as proposed.

The Corzine administration argues that a strict cap on the number of employees who could be hired to replace the retirees would ensure that the program does save the state money.

Assembly Speaker Joseph J. Roberts Jr. (D., Camden) believes the proposal is "too broad," said his spokesman, Derek Roseman. But he "is optimistic the legislature and administration can reach agreement on a plan that will meet the state's fiscal needs without overburdening the pension system," Roseman said.

Rousseau has said that it would take 8,500 layoffs to achieve the same level of savings as the early retirements. Such a large-scale reduction in the workforce would cause significant disruption to the state's operations, he said.

Sen. Shirley Turner (D., Mercer) supports the retirement proposal as "far preferable" to laying people off. "It's never a good time for people to lose their jobs," she said. "But particularly now, when we know that we're in a recession and unemployment is going up in the state and people are out there now looking for job opportunities, to lay off state employees would just exacerbate the situation."

Corzine has proposed a state budget of $32.8 billion, which would represent one of the largest year-to-year budget cuts ever. The plan includes eliminating the departments of commerce and personnel and scaling back

state aid to municipalities, charity care and the property-tax rebate program.
According to the state constitution, the governor and the legislature must agree on a budget by July 1.

Federal official seeks relaxed return-to-work rules

OPM calls for end to pension penalty for rehired retirees

www.govexec.com May 21, 2008

Allowing federal retirees to return to work without an offset to their pensions could help address many of the government's future workforce challenges, the Office of Personnel Management told a House subcommittee on Tuesday.

Nancy Kichak, associate director of strategic human resources policy at OPM, told the House Oversight and Government Reform Subcommittee on the Federal Workforce that the government loses a lot of critical skills and knowledge because of a law that discourages federal annuitants from coming back to work part time for the government.

Salaries for re-employed retirees are reduced by the amount of their pensions. OPM can waive the offset for agencies on a case-by-case basis for positions that are difficult to fill or for emergencies. But with such a penalty in place, many retirees opt to work for contractors, where they can earn a full annuity and salary.

Legislation (H.R. 3579) introduced by Rep. Tom Davis, R-Va., would enable the head of an agency to hire a federal annuitant on a temporary basis without OPM approval and without the annuity offset. The law would be restrictive, however, allowing retirees to work no more than 1,040 hours in any 12-month period and no more than 6,240 hours in a lifetime.

Patrick Purcell, a specialist in income security at the Congressional Research Service, said annuitants made up only 0.3 percent of the federal workforce in 2007, a one-tenth of a percent increase since 2000.

Kichak told lawmakers that offering the flexibility to all agencies is imperative, especially as the government faces a massive loss of critical skills and knowledge during the next decade due to retirements. The legislation would allow agencies to rehire retirees to help train and mentor new employees and to complete short-term projects, she said.

Subcommittee members and witnesses raised concerns about the legislation, noting that re-employed annuitants would not be eligible for most benefits that other employees receive, including contributions toward health premiums, retirement benefits or the Thrift Savings Plan. Subcommittee Chairman Danny K. Davis, D-Ill., questioned whether this could sway agencies to bring back annuitants rather than hire or promote full-time permanent employees.

Purcell also noted that the proposed legislation could encourage workers to retire and then seek re-employment in a federal job in which they could receive both a salary and an annuity. "This would present federal agencies with disruptions in staffing, and it could result in increased total compensation costs to the federal government," he said.

Maureen Gilman, legislative director for the National Treasury Employees Union, said at the hearing that OPM's authority to waive the offset rule was sufficient, noting that approval takes only a few weeks.

"NTEU is not aware of any serious problems with the current rules that allow for re-employment of annuitants. And for the most part we agree with the notion that if it's not broke, don't fix it," she said.

Gilman pointed to a recent report by the Government Accountability Office that found part-time work, flexible schedules and telework have a strong impact on recruitment and retention, specifically among older workers. She recommended encouraging agencies to use these flexibilities to retain those nearing retirement, rather than making the rehiring flexibility easily subject to abuse.

Del. Eleanor Holmes Norton, D-D.C., suggested launching a pilot program to determine the need for more flexibility in hiring retirees as well as the risk of abuse. "This may be the only answer that's available now," she said. "But I suggest we would want to document experience before moving forward. ... I would think OPM would have done that before coming forward with this bill."

Girard Miller
Bankruptcy by California city offers lessons for all public officials

Avoiding Benefits Bankruptcy

May 2008 By GIRARD MILLER
The financial mess in Vallejo, California, provides lessons for all public officials.

After months of posturing, brinksmanship and negotiating with employee unions, city officials in Vallejo, California, are preparing to abdicate their authority to a federal judge by filing for bankruptcy. The city and its labor unions are like two spendthrift spouses now approaching the divorce judge to ask her to divvy up their debts and see who gets to keep the best car and the pet dog, and who will pay for credit cards and the mortgage.

A rarity. Historically, municipal bankruptcies are quite rare. We've only had a handful in the history of some 87,000 state and local government entities. States, counties, cities and school districts are fundamentally different from private companies and individuals because they have the coercive monopoly power of the state to tax, and thus enjoy a near-certain claim on future revenues. On the other hand, the capital assets of public agencies include hard-to-sell infrastructure, such as streets and roads and special-purpose public buildings. This means that despite their financial powers, municipalities can become illiquid or insolvent in a financial crisis. For example, in the case of Orange County, California, its 1994 bankruptcy was the product of leveraged investment losses.

The federal bankruptcy law works in a different way for public agencies, in recognition of the sovereign authority of state and local governments. Essentially, the federal bankruptcy judge first oversees a short-term plan to restore the municipality to solvency in order to pay wages and overdue bills, and then works out a longer-term plan for repayment of overhanging debts and bills. This seldom involves the liquidation of capital assets.

What bankruptcy does accomplish is the re-opening of contracts. This includes labor agreements and benefit promises, as well as the possible suspension of interest payments on debt if necessary. This is why Vallejo has teetered for months on the brink of declaring bankruptcy, as city officials now find themselves unable to pay rising employee salary and benefits costs that they accepted in previous labor agreements.

Two views of the Vallejo mess. One camp blames everything on public-employee labor unions, which extracted generous contract terms for public-safety workers. They point to six-figure police and firefighter compensation that represents something like three-fourths of the general fund budget, a far higher percentage than the average municipality. The union retorts that the city has shifted other expenses to special revenue funds and thus comparisons are not realistic.

As with any typical family fight, there are two sides to this story. From afar, it looks like the city has indeed gone overboard with its public-safety compensation plans in light of its fragile economic base. Blaming it all on the unions, however, is not going to solve the issues in the long run. Unions will be unions. At the bargaining table, they are entitled to seek the best the possible salary and benefits package they can obtain for their members — within reason, of course. But like a spendthrift spouse who failed to take personal responsibility until the divorce trial, they need to now be accountable for their actions and join with the city to forge viable long-term solutions.

Where the public sector has a huge problem, unfortunately, is that public-safety contract negotiations don't start and stop at the bargaining table. Because of their political popularity, high visibility and organizing skills, police and fire unions have gained special clout in elections and sometimes enjoy undue influence with elected officials who are prone to promise them anything today and leave the bills to the next guy's term in office. On this score, this century's self-serving "public-sector union & benefits" complex is hauntingly akin to President Eisenhower's 1961 farewell forewarning of the "military-industrial complex" which still plagues the federal taxpayer.

At the end of the day, the only answer to Vallejo's problems will be better management, shared sacrifices and a new mutual watchword: sustainability. Employee contracts and city services must be sustainable. Just as we can't overtax our planet environmentally, we can't overtax our local governments' economic bases with promises that politicians can't keep. If it takes a bankruptcy to put the house in order, then so be it, although it's a sad commentary on government in America that some local officials can't run their communities like a sound business.

As to the rest of the country, elected officials must invoke stronger discipline in their finances, or else Vallejo will be just the tip of the iceberg. It is no small wonder that a California taxpayers' group has abandoned hope and written a referendum proposal to prevent public agencies from granting unsustainable retirement benefits. If self-discipline is lacking, then we can't fault the voters from stepping in with measures that remind us all of the fiscal straightjackets they created with 1978's Proposition 13.

Personally, I'd prefer to see elected leaders do the job we've elected them to perform. They should adopt responsible financial policies and take the actions necessary to implement them. As you'll see below, it doesn't require rocket science.

An ounce of prevention. With the Vallejo fiasco in mind, here are some suggestions excerpted from my forthcoming book, "An Elected Officials' Guide to Government Finance" (2008 edition), to be published in June by the Government Finance Officers Association. (For more information about this book, click here [available after June 20].) I wrote the original edition in 1984, and it was time for an update, so I volunteered my time pro bono to work with GFOA's 150 committee members to lay out a 60-page booklet that I can now say will keep America's municipalities out of bankruptcy if our elected officials would simply read it and put its precepts into practice. These excerpts represent a few germane thoughts taken from just four of those 60 pages of guidance for elected officials:

Adopt sound long-term financial policies:

• Long-term financial sustainability and accountability should take precedence over short-term expedience.

• Deficit finance, in any form, should be openly and widely debated, as it often leads to fiscal demise.

• Taxpayer interests, special interests and employee interests must be carefully balanced.

• Budgets should be based on realistic revenue estimates, and current operating expenses should be fully budgeted — not deferred to future years.

• Every government should adopt fund-balance policies to set parameters for the financial reserves it needs to maintain.

• Rainy-day or fiscal-stabilization funds should be incorporated into the long-term financial plan.

• Retirement benefits should be pre-funded or currently funded, and not left to future taxpayers.

Review and assure the sustainability of current employee benefits plans and any proposed benefits increases:

• Avoid burdening future taxpayers with nearsighted, cost-deferred funding of benefits.

• Obtain complete actuarial analyses of all long-term benefits and post-retirement benefits plans.

• Fully cost-analyze and make public all proposed unfunded long-term benefits increases before they are approved. (In a collective bargaining environment, this means that the negotiators must take accountability for this part of their deal in public before it arrives at the governing body's table as a fait accompli.)

• Establish cost controls to trim growth rates of benefits expenses in line with revenue capacity.

• Employees' shares of benefits costs often must increase to achieve sustainability, especially when those costs rise faster than governmental revenues.

• Retirement eligibility ages may require upward adjustment to be realistic, in light of increasing longevity.

• The amortization period for unfunded benefits should not exceed the service lives of the employees and certainly not the lives of retirees (otherwise unborn taxpayers will be paying for benefits of then-deceased retirees, for services provided to their grandparents).

I would add one more point this month, as readers will note in this month's companion column.

• Avoid retroactive pension benefits increases, and the financial windfalls they create without benefit to taxpayers.

In a perfect world, elected officials would figure out how to implement these principles without having the state impose detailed and arbitrary rules to invoke them. However, if Vallejo is joined by other municipalities that cannot themselves avoid fiscal purgatory, then it may be necessary for the state legislatures to step in and impose principles through rules to prevent abusive practices and financial foolishness.

California city's retroactive pension increase is a bad idea

Rialto's Pension Give-Away
May 2008 By GIRARD MILLER Governing Magazine
Retroactive pension increases waste taxpayers' money.

Pity the taxpayers in Rialto, California. Their city council just approved a 50 percent pension increase for police officers in a dubious attempt to keep up with the Joneses. Their officials reportedly say it's necessary "to attract and retain" officers.

Nice try, folks, but only half-true. I won't argue about future service credits, but I sure have a bone to pick about making this whopping 50 percent benefit increase retroactive. If this decision stands, taxpayers will pay a huge bill to fund a windfall to incumbent employees and get nothing of real value in return.

As I've written in previous columns, retroactive pension benefit increases are usually a sneaky move by public officials to win a union contract while they punt the costs to future taxpayers.

Here's what's wrong with Rialto's picture:

1. Granting a pension increase retroactively does nothing to "attract" new recruits, nor to "retain" existing employees: New recruits only care about the future crediting rate that applies to their prospective years of service. They have no interest in what incumbent employees are paid for past service. In fact, they haven't even met the incumbents. As to retaining employees: If incumbents get a retroactive benefit, the perverse financial result is that they can then retire earlier and receive the same benefits they had previously expected to earn after a lifelong career, which completely backfires on the employer and especially taxpayers. How does that promote retention?

2. Under prevailing pension financial practices, the resulting unfunded liability will be amortized in the future and thus paid by the community's children, for work done years ago in service to the prior generation. This defies all logic, to say nothing of fairness in taxation and financial policy.

3. To retain employees, the city could easily make additional contributions to their 457 deferred compensation plan accounts (or a supplemental defined contribution plan) with a future-vesting requirement so that the "retained" employees actually have to stick around in order to enjoy their costly new benefits. This arrangement would also ensure that the cost of the sweetener is paid for by current taxpayers who, presumably, are getting the benefit of this "retention."

4. Alternatively, the sweetened retroactive benefits could become effective only after the incumbent employees work another five to 10 years and/or reach age 62, with a graded vesting schedule that pays them to stay on the job long enough for the city to pay for this new benefit. If they leave earlier, they should take an actuarial reduction.

5. To properly finance all this, the city could demand something in return, such as reform of its retiree medical benefits program so that future hires are put into a less costly program that could still offer far better benefits than most Rialto taxpayers are likely to receive. City negotiators and city councils need to demand a quid pro quo when they give away this kind of money and burden future taxpayers.

6. There is nothing wrong with a benefits policy that limits a new, sweeter pension formula to the years worked after the new benefit is put into place. That avoids creating a new unfunded liability, which is a new debt that will be payable entirely by taxpayers. Think of it this way: The city council would never think of floating a bond issue and obligating future taxpayers without first holding a full public hearing and perhaps even holding a referendum.

I'm not here to bash police officers or the firefighters who are waiting in the wings to win similar benefits when their contract expires (the public safety buzzword is "parity"). In fact, I deeply appreciate the valued service these professionals provide in times of emergency. (Last fall, I wrote a special column after the public safety teams saved my neighborhood in the Malibu fires.) These first responders deserve fair and competitive pay and benefits. And I fully appreciate that Rialto officials face huge pressure from their public-safety employees to have benefits comparable to other neighboring jurisdictions. But as my dad used to say, "Two wrongs don't make a right."

Eventually these retroactive pension increases could lead to taxpayer backlash, as in the case of the California taxpayer group that is promoting the idea of a "Pension Prop 13" to outlaw all retroactive pension increases and put curbs on the payout formulas. A little common sense by municipal management personnel and elected officials would help avert that kind of a statewide effort. Otherwise, Rialto and others will become the poster children for a political debate they will wish they had never entered.

A final thought: If the city wants to pay future employees 90 percent of their salaries at retirement — and hopes to have the financial wherewithal to afford that — it would be far wiser to require age 62 for normal retirement at such generous levels so that the workers are actually employed longer than they are retired at taxpayer expense.

Perhaps it's not too late to fix these oversights before they become irreversibly costly. And hopefully, other public employers and elected officials will begin to pay closer attention to the nasty, unintended consequences of retroactive pension benefits.

Girard Miller, an analyst of benefits and investments with 30 years of experience in the public, private and nonprofit sectors, can be reached at Girardinmalibu@charter.net. His general market observations and institutional investment strategies are his own and should not be construed as investment advice or recommendations concerning specific securities.

Pennsylvania takes commendable steps toward reducing OPEB liability

Controlling OPEB Costs
May 2008 By GIRARD MILLER Governing Magazine
Pennsylvania takes some small but commendable steps.

Pennsylvania state officials say they have successfully whittled the state's $14 billion liability for retirement medical benefits down to a more manageable $8 billion level. Partisan critics may challenge the calculation methodologies used for that comparison — such as the magical immediate actuarial impact of a higher discount rate that results from simply funding a long-term investment portfolio to support the benefit — but the state's leaders deserve kudos for taking important steps in the right direction. They have provided an example that other public leaders may want to study if not follow.

There's an old saying that "if you're stuck in a hole, and want out, the first step is to stop digging." The Pennsylvania state management team has not completely stopped digging, as I will explain later, but they are at least using a smaller shovel.

The focus here is the state's newly recognized "other post-employment benefits" (OPEB) liability, which must now be displayed on the state's financial books under the Government Accounting Standards Board's principles of full disclosure.

To their credit, the management team has squarely addressed some of the key drivers of OPEB costs, and thus have reduced the state's huge unfunded liability.

Some of the measures they have invoked include:

• Requiring recent retirees to contribute 1 percent of their final salary for medical costs.

• Requiring future retirees to contribute 3 percent of final salary.

• Requiring longer service periods to qualify for retiree medical benefits.

• Requiring higher co-payments.

• Pre-funding the plan to achieve higher long-term investment returns and an improved actuarial assumption, thus an immediately lower liability.

The state has made major progress, with big scores in the first inning of what will likely be a double-header. There is more work to do. They haven't really stopped digging the hole they're in if they don't also consider using total cost caps, CPI cost caps, and a defined contribution or hybrid plan structure for new and younger workers to reduce employer liabilities for potentially runaway future medical cost inflation.

Likewise, the state should take a closer look at the amortization policies used in its actuarial assumptions, to make sure that the actuaries are not using a longer period to repay these obligations than the natural career lives of the employees and the expected lives of the retirees. Otherwise, the reported cost savings could be illusory.

Even so, Pennsylvania is one of the first large, traditionally labor-friendly states to take responsible measures to own up to its legacy promises and begin the painful process of bringing benefits in line with the ability of taxpayers to absorb them. For that, Pennsylvania officials deserve some praise from their peers and citizens. Keep up the good work, and try to stop digging as soon as possible.

Girard Miller, an analyst of benefits and investments with 30 years of experience in the public, private and nonprofit sectors, can be reached at Girardinmalibu@charter.net. His general market observations and institutional investment strategies are his own and should not be construed as investment advice or recommendations concerning specific securities.

CalPERS board takes neutral position on bill permitting access by private sector workers

CalPERS Not Ready to Take Position on AB 2940

May 16, 2008 (PLANSPONSOR.com) – The board of the nation's largest public pension plan has decided to keep its powder dry – for now, anyway – on legislation that would open up the program to some in the private sector.

Yesterday the board of the California Public Employees' Retirement System (CalPERS) decided to take a neutral stand on AB 2940, a bill authored by Assemblyman Kevin de Leon, D-Los Angeles, that would make California the first state in the nation to open its public retirement plan to workers in the private sector. The bill is aimed at the 6 million employees
in California who aren't offered a pension or retirement savings plan at work.

A recommendation to the Benefits and Program Administration Committee noted that AB 2940 would allow CalPERS to administer the Program through various structures that "… could limit its direct involvement in the management and fiduciary decisions that employers and qualified retirement plan providers generally make." Further that "most of the bill's requirements can be met through contracts with private-sector service providers, with management and oversight provided by CalPERS' professional staff." The analysis presented said that, "In effect, AB 2940 would allow the Board to determine CalPERS' level of involvement in the operations of the Program, from developing and administering the Program completely in-house, to contracting-out all these functions to a third party, or a combination of the two approaches."

Cost Considerations
The report to the board said that CalPERS' costs for developing, administering, and marketing the program contemplated under AB 2940 could be divided into two phases: (1) initial development and start-up costs; and (2) ongoing administration or operating costs. According to the report, "The estimated start-up costs would be approximately $1.74 million for 13.2 PYs over an implementation period of approximately 18 to 30 months," including approximately $500,000 in one-time costs associated with securing the services of outside tax and securities counsel to, among other things, assist CalPERS in obtaining the necessary federal regulatory approvals.

Once the program was operational, CalPERS' ongoing administrative costs would range from $806,000 to $1.46 million annually, for 7.7 to 15.4 PYs, according to the report. The report also noted that continuing annual appropriations may be required for an indefinite period pending the build-up of assets sufficient to generate fee revenues off-setting CalPERS' annual operational costs.

The full analysis is online here.

http://www.calpers.ca.gov/eip-docs/about/board-cal-agenda/agendas/bpac/200805/item03d.pdf

Other State Initiatives
The presentation to CalPERS' Benefits and Program Administration Committee contained the following analysis of various other retirement savings proposals similar to AB 2940 that have recently been introduced or considered in a number of other states:

Maryland - The Legislature recently considered and rejected Senate Bill 728, which would have established the Maryland Voluntary Employee Accounts Program (MVEAP) administered by the Maryland Teachers and State Employees Supplemental Retirement Plans. Authorized plan structures under the MVEAP would have included 401(a) plans, including 401(k) plans, as well as trusts or savings incentive match plans under 408(p) of the Code. Instead, and at the Legislature's instruction, the Maryland Supplemental Retirement Plans recently conducted a study of Voluntary Employee Accounts to examine cost efficiencies, potential for state liability, and organization and administration requirement with regard to a state-sponsored program.

The study concluded that each participating businesses would have to routinely and regularly sign and return documents to a central administrator, provide annual reconciliation of contribution history, and follow instructions on distribution and collection of miscellaneous employee communication materials. It estimated that the MVEAP would require a subsidy of between $300,000 and $500,000 a year for at least five to seven years. Estimated costs included: design and drafting of special plan documents that describe the structure of the accounts, specific control mechanisms, and specific employer responsibilities; draft, submit and obtain rulings from the IRS and Department of Labor that approve plan documents with an estimated duration of 12 to 18 months.

Washington – The Legislature has considered five universal retirement savings proposals since 2003. Last year, it appropriated money for the Washington Department of Retirement Systems (DRS) to produce a report scheduled for release this December, which studies the various legal issues and obstacles that must be addressed in order to implement such a plan. The current legislative vehicle is House Bill 2044, which would create the Washington
Voluntary Accounts Program (WVAP) to offer employees a vehicle for saving and private employers a method for offering benefits. The bill designates the State Treasurer as the custodian of the WVAP account, and allows the DRS to implement and operate the WVAP either in-house or through an external third party contract. It also makes implementation and operation contingent on funding and allows the DRS to freeze or reduce enrollments and establish a waiting list if continued enrollment would cause expenditures to exceed revenues.

Vermont – HB 70 expands participation in 457 and 403(b) deferred compensation plans the State offers to its own employees to nonprofit corporations or other employers authorized by the IRC to participate in such DC programs.

Michigan – SB 24 would allow small business employees to participate in a newly established 401(a) pension plan administered by the Michigan State Department of Management and Budget.

Connecticut – SB 652 is a one paragraph measure that requires the State Controller to establish a tax-qualified defined contribution retirement program to provide retirement investment plans to self-employed individuals, small employers with no more than 100 employees, and non-profit organizations. The Controller is authorized to contract with a third party administrator to manage the plans, and recover implementation and operating costs from plan assets.

Opinion: West Virginia experience reveals shortcomings and distrust of DC plans

Take this 401(k) and shove it

Last week, West Virginia teachers got to vote on whether to remain in 401(k)-style retirement plans or return to generous state pensions. But you won't be so lucky.

By Janice Revell, Money Magazine May 20, 2008

NEW YORK (Money) -- Last week's West Virginia election should frighten you.

No, I'm not talking about Hillary Rodham Clinton's steamrolling of Barack Obama in that state's Democratic presidential primary contest.

I'm referring to a far more obscure contest, one that virtually no one outside that state noticed - but one that illustrates perfectly why so many Americans are headed for a retirement crisis.

Here's the lowdown: The election in question involves nearly 20,000 West Virginia school teachers who are currently attempting to gain coverage under the state-run traditional pension plan.

These so-called "defined-benefit" pension plans give workers a guaranteed annual payment upon retirement - $2,500 a month, say, for an employee with 30 years of service and an average salary of $50,000. The employer puts up all or most of the money and workers gain real retirement security.

But for employers, these plans are an expensive proposition. That's because by law, retirees must receive their predetermined pension benefit each and every month, even if the pension plan's investments perform poorly.

For that reason, corporate America has taken an ax to these pensions in recent years: The proportion of private sector workers who participate in a traditional pension plan has dwindled almost 40% at the beginning of 1980 to only about 17% now. Scores of big companies, including IBM (IBM, Fortune 500), Sears (SHLD, Fortune 500), and Verizon (VZ, Fortune 500), have closed off the plans to workers.

The story is very different in the public sector, though, where traditional pension plans have continued to flourish. About 90% of all state and local government workers are currently covered by a defined-benefit plan. The main reason is that a much larger proportion of teachers and other public sector workers are unionized, and elected officials are often loath to take on those powerful unions, whose members can both vote and strike. Moreover, funding for public-sector pensions is backed by the full faith and credit of the taxpayer.

And that brings us back to West Virginia. For many years, West Virginia did, in fact, have a defined-benefit plan for its teachers. But by the early 1990's, the plan had run into massive financial difficulties. A combination of underfunding by the state legislature and poor investment returns made the West Virginia teachers' pension plan the worst-funded of its kind in the nation. It had just 14% of the money needed to meet its projected pension obligations to teachers; large injections from the state budget were required so the plan could continue to pay out those guaranteed pensions.

So in 1991, West Virginia took a page out of corporate America's playbook. In order to stem the financial bleeding, the state closed the defined-benefit plan to new teachers and created a 401(k)-style plan for them. These types of plans are cheaper - an employer's financial commitment to a 401(k) plan is pretty much limited to offering a matching contribution to the employee's account (and even that's optional.) And in this case, it limited the future outlays required by West Virginia taxpayers.

Do-over

Fast forward to today. It turns out that for a very large segment of West Virginia teachers, the 401(k)-type plan hasn't panned out too well. According to a study done by West Virginia's Consolidated Public Retirement Board, the average account balance is just $33,944 and only a handful of teachers age 60 or older have amassed more than $100,000 in their accounts - a fraction of what the pension plan would've paid.

What happened? Despite receiving an annual matching contribution equal to 7.5% of their pay, many teachers are claiming that they were improperly steered into low-yielding annuities, even though the plan offered more appropriate investment choices. Others say they received no guidance or education on such important topics as asset allocation and rebalancing.

So the West Virginia teachers now want a do-over. Essentially, they want to treat the past 17 years under the 401 (k)-style system as though it never happened. They are asking to be put back - retroactively - into the traditional defined-benefit pension plan. Like a bad dream, their paltry 401(k) balances will disappear, to be replaced by the more generous pensions they would have racked up had they been in the traditional plan all along.

Of course, millions of private-sector workers would also like a second chance. According to an analysis of 20 million 401(k) participants conducted by the Employee Benefit Research Institute and the Investment Company Institute, the median account balance of a worker in his or her 60's, making between $40,000 and $60,000 a year (in the same ballpark as a retiring West Virginia teacher) was $97,588 at the end of 2006. To put that amount in perspective, it would generate only about $8,000 a year in retirement income if it were invested in an immediate annuity.

But back to West Virginia. Incredibly, the state legislature has already agreed to go along with this retroactive pension switchover - as long as 65 percent of teachers formally elect to make the voluntary changeover. Teachers who are happy with the performance of their 401(k)-style plans don't have to make the switchover. (The deadline for voting was last Monday, the same day as the Democratic primary.)

The teachers who choose to go back into the traditional pension plan will have to take a modest reduction in the benefits they would have otherwise earned over the past 17 years. But even factoring that reduction in, the switch will represent a quantum improvement in the retirement lifestyles of many teachers.

John Q. Taxpayer footing the bill

That's good news for them, to be sure. But it's nonetheless a stunning development. That's because the West Virginia teachers' pension plan today remains one of the worst-funded pension plans in America. The value of the assets on hand is only enough to cover 51% of the projected pension benefits payable to plan participants - a $3.6 billion shortfall still exists.

The state legislature has already been diverting hundreds of millions of taxpayer dollars into shoring up the pension plan. If future investment returns fall short, West Virginia taxpayers will be on the hook for even more. And that's before those who were put into the 401(k)-style plan move back into the system.

The teachers, for their part, contend the move won't cost the state any additional money. Maybe, maybe not. It all depends on the pension plan's future investment earnings and the life expectancies of the teachers, neither of which are knowable at this point. What is certain, however, is that the taxpayers of West Virginia will once again be called upon to pick up the slack if the plan's assets fall short.

So if you don't live in West Virginia, why should you care?

The case is a cautionary tale offered up by the investing experience of the West Virginia teachers over the past 17 years. This was a predominantly college-educated workforce, and yet for the majority, their returns fell well short of what was needed to secure a decent income in retirement.

You can look at what's happened in West Virginia as a scary microcosm of a 401(k) system that has now become the only retirement plan for millions of American (mostly private-sector) workers. And for most, it's not coming close to generating enough money to fund a decent retirement lifestyle.

Public sector employees like the West Virginia teachers are quickly becoming the only Americans left with decent pensions. But the problem is that private-sector taxpayers have to foot the bill, while at the same time, their own retirements are going to pot.

I am reminded of a comment that Dallas Salisbury, the president of the Employee Benefit Research Institute, made to me a few years back: "The public employee, no matter who you compare him to, has become the dominant sector of the labor force that is well pensioned and well benefited," he said. "And the real question is, At what point, vis-a-vis tax burden, does the nonpensioned public start to pay attention to that as voters?"

There's no better time than right now.

Opinion: San Diego mayor stubbornly pursued new hybrid plan

For Mayor, There Were Other Pension Options

Voice of San Diego May 22, 2008

Thursday, May 22, 2008 | During his months-long labor negotiations with city unions, San Diego Mayor Jerry Sanders focused squarely on one proposal for a new pension system despite a number of equally effective proposals floating around City Hall.

Implementing a less expensive, hybrid pension plan for new city employees, with the exception of police and firefighters, has been central to Sanders' platform since his 2005 campaign, and has been the dominant issue in five months of negotiations between the administration and unions representing the city's three non-public safety unions.

After more than 100 bargaining sessions with the unions, Sanders refused to budge from a proposal that purports to save the city more than $22 million in annual pension costs some time in the future. Meanwhile, at least a half dozen other options were developed by groups in and around City Hall, three of which feature savings to taxpayers equal to or better than Sanders' proposals.

Talks with the unions failed to produce a contract and Sanders declared an impasse, asking the City Council to impose his pension proposal on the unions. A seven-hour City Council hearing last week failed to resolve the issue, even after the mayor at the last minute embraced an alternative plan offered by the Municipal Employees Association. Council rejected the move on a 4-to-4 vote.

The city's independent budget analyst, Andrea Tevlin, and others have criticized the mayor, saying his intractability and lack of communication with the City Council has made a mess that could have, and should have, been avoided.

"This has been the whole issue that has gone on here in San Diego," Tevlin said. "We have to keep plugging away to make the process more open and more thought out, and we don't think it was."

With the dust still clearing, any number of things could happen; from a continuation of the May 13 meeting to another impasse hearing to a ballot measure in the fall.

Since the beginning, Sanders has pushed to replace the city's traditional "defined benefit" government pension plan with one that incorporates retirement benefits that are not guaranteed at a set amount, similar to the 401(k) savings plans of the corporate world. He presented a proposal to the unions in March, and briefed the City Council on it in closed session.

The proposal calls for 46 percent of retirement benefits for an employee retiring at 65 to be paid through a traditional defined benefit pension plan, and 24 percent through a 401(k)-like plan known as a "defined contribution" plan. The retirees' total compensation equals 70 percent of his or her working life income.

Under the current plan, this retiree receives 84 percent of his or her income from the defined benefit plan, and 30 percent from the defined contribution plan. In total, the retiree receives 114 percent of his or her working life income.

Sanders' proposal promises an annual savings to taxpayers of $1.2 million during its first year of implementation, and an estimated annual savings of $22.3 million in 30 years, when the current crop of new employees reaches retirement age.

The three non-public safety unions say they offered counter proposals that increasingly moved toward the savings in Sanders' proposal, but could not get the mayor to budge from his original offer. The unions are the MEA; Local 127 of the American Federation of State County Municipal Employees, which represents City Hall's blue-collar workers; and the Deputy City Attorney's Association.

And there were other ideas on the table. On April 11, Andrea Tevlin, the city's independent budget analyst, issued a report that detailed several alternatives to the mayor's plan.

Under one option, 60 percent of a 65-year-old retiree's income from the city would come from a defined benefit plan, and 27 percent from a defined contribution plan, and receive 87 percent of his or her pre-retirement income. Another would produce 52.5 percent of retiree benefits through the defined benefit, and 29.5 through the defined contribution plan for a total of 82 percent income replacement.

The long-term annual savings to taxpayers for the plans are estimated at $22.7 million and $21 million respectively.

In her report, Tevlin criticized Sanders for not considering the other options. Tevlin wrote: "While we support pension reform efforts, we feel that this significant policy decision warrants a thoughtful discussion of objectives for a new City of San Diego retirement package and alternative plans that could meet those objectives."

Councilwoman Donna Frye chalked the mayor's movements up to election-year politics. "In my opinion the mayor has engaged in politics to keep a campaign promise rather than looking at the issue in a reasonable and thoughtful way," she said.

Sanders spokesman Fred Sainz said such criticism is unfair and inaccurate. It's the mayor's job -- not that of the City Council or the budget analyst -- to negotiate with unions, he said.

"Some people would call it intransigent, I would call it leadership," Sainz said. "Remember, this is the mayor's pension proposal, and it achieves the objectives he sought."

Sanders stuck to his guns until 9 p.m. the night of the impasse hearing, when he shocked the room with an announcement that he would adopt a pension plan proposal by the MEA.

Particularly surprising was that the MEA's proposal keeps the pension as primarily a traditional defined benefit plan, which Sanders has been saying for years that he wants to reform. The proposal's estimated annual savings after 30 years is between $25 million and $29 million.

Sainz said the mayor's announcement showed that he was willing to consider options other than his own. "We did shift based on all that listening," Sainz said. "If we didn't I could see the argument. But since we did, it neuters the argument."

City Council voted down the proposal with a 4-to-4 vote, with Council President Scott Peters saying that voting for Sanders' last-minute change of heart may have violated council procedure.

Thus an issue that was at impasse two weeks ago is now in limbo and possibly headed for the November ballot.

The Mayor's Office is crafting ballot language that is expected to be out this week. Meanwhile, Peters is holding out hope that the mayor and the unions can get back to the negotiating table, while City Attorney Mike Aguirre, who supports the MEA proposal, is of the opinion that Peters can schedule a council revote on that option.

Sainz said yesterday that the mayor's ballot proposal, which will go to City Council this week, "will be somewhere between his original proposal and the MEA's proposal."

Frye says all this shows that politics is trumping policy. "I suspect that this wouldn't be so difficult if it would have happened last year," she said.

Opinion: McCain's health care proposals may be more far-reaching than people realize

The Health Care Divide

MCCAIN MAY BE PUSHING FOR GREATER CHANGES THAN THE DEMOCRATS IN THE WAY AMERICANS PAY FOR INSURANCE AND HOW THEY BUY IT.

by Ronald Brownstein National Journal. May 17, 2008

Countless details separate John McCain's health care proposal from those of the Democratic presidential contenders. But the most significant difference is fundamental and philosophical. The two sides are offering divergent visions about the basic role of health insurance in the nation's social safety net. The fork in the road could not be starker.

The plans unveiled by Barack Obama and Hillary Rodham Clinton encourage the sharing of risk between the healthy and the sick, even at the cost of requiring the former to subsidize the latter. McCain's proposal would maximize individual choice in obtaining coverage, even at the cost of reducing risk-sharing. This contrast, which reflects the broader divide between the Democratic emphasis on community and the Republican focus on personal freedom, is the wellspring from which all of the major differences in the candidates' plans flow.

Confused press coverage and McCain's shift to other issues have obscured the magnitude of his proposal. But he may be pushing for greater changes than the Democrats in both the way Americans pay for health insurance and how they buy it--changes that have potentially profound implications for the pooling of risk.

Today, if a company provides its workers with health coverage, it can write off the cost of those premiums as a business expense, just like salaries. But Washington doesn't tax the employee on the value of that benefit. That "exclusion" makes employer-provided coverage tax-free for workers and is a major reason that employers insure 60 percent of Americans. Just 9 percent of Americans purchase insurance as individuals. (The rest rely on government programs or are uninsured.)

America subsidizes employer-provided coverage this way partly because it is administratively efficient, but mostly because it promotes the pooling of risk. By putting young, healthy workers into the same risk pool as colleagues who are older or sicker, employer-based coverage supports cost-sharing: All workers typically pay the same premiums because payments from workers who use less care balance those from workers who require more. There's a life-cycle effect, too: We pay relatively more in premiums for what we get when we're young but relatively less when we're old.

McCain's plan could threaten these arrangements, although how much is uncertain. He would eliminate the tax "exclusion," so that health premiums paid by employers would count as taxable income for workers. But he would replace the current exclusion with a refundable tax credit of $2,500 for individuals and $5,000 for families. For most workers whose employers continued to provide coverage, the initial effect would be a wash: The credit would (at least) offset their tax obligation from counting the employer premium contribution as income. The only change visible to workers whose employers still subsidize coverage might be "accounting on their pay stub," says McCain domestic policy adviser Douglas Holtz-Eakin.

But almost all analysts think that without the economic incentive that the exclusion provides, some employers would drop coverage. The great unknown is how many. Even employers who want to maintain coverage might find it increasingly difficult to do so. Some experts fear that younger workers would take McCain's tax credit and buy inexpensive policies outside work. That could leave employers covering only the oldest and sickest, a change that might drive up premiums to unsustainable levels.

These dynamics could prompt a modest shift from group coverage to individually based insurance--or a massive exodus. The greater the shift, the greater the erosion of risk-sharing, because in the individual market, the old or sick often have trouble obtaining any insurance--and pay much more than young, healthier people when they do get it. Fearing such consequences, Obama and Clinton would bolster group coverage by preserving the employer tax exclusion and adding new subsidies for companies to insure their workers.

But some experts, including centrists such as prominent health economist Jonathan Gruber, would take the gamble of McCain's tax credit plan. They consider it fairer than the exclusion, which reduces taxes most for affluent workers and penalizes people who buy insurance as individuals rather than through their employers. The catch is that many credit supporters (Gruber included) say it can work only if it is joined with reforms that ensure more risk-sharing and equity in the individual marketplace.

Obama and Clinton are proposing such reforms, but McCain would move in the opposite direction by vastly deregulating all insurance markets to promote competition. Next week we'll explore that component of his agenda.

Opinion: Americans are losing their sense of entitlement

The End of Entitlement

By Robert Samuelson May 21, 2008

WASHINGTON -- We middle-class Americans are in a funk. "The overarching economic narrative of the 2008 campaign is the idea that life for the middle class has grown more difficult," writes Paul Taylor of the Pew Research Center, which recently published a massive report on middle-class anxieties. By its survey, more than half of Americans believe they either have not moved ahead in the past five years (25 percent) or have fallen behind (31 percent). Pew pronounces this "the most downbeat short-term assessment of personal progress in nearly half a century."

It's not that Americans have lost their optimism. About two-thirds say they have higher living standards than their parents did at the same age, and by a 2-1 margin they expect their children to live better than they do. But there's an underlying disenchantment that seems to predate today's higher oil prices, falling home values and declining employment.

"When my college-educated, gainfully employed thirty-something friends and I get together, we talk about money," writes Nan Mooney in her new book, "(Not) Keeping Up With Our Parents." "We talk about our inadequate health insurance and whether we can afford it, about how to juggle credit card payments and crushing student loans. ... This wasn't the life I'd expected."

Part of the deceptive sense of falling behind reflects the elastic nature of being middle class. According to Pew, 70 percent of households now have two or more cars, and a similar share has satellite or cable TV; 66 percent have high-speed Internet; 42 percent already have flat-panel TVs. Thirty years ago, no one's parents had this inventory. More students go to college and graduate school, so more have debt. Health care is expensive in part because modern medicine can do so much. Someone has to pay. One in 10 households now has a vacation home.

"Progress" keeps draining our pocketbooks. Pew finds that four-fifths of Americans find it hard to maintain middle-class lifestyles; in 1986, two-thirds did. But today's middle-class anxieties transcend the well-advertised "squeeze" on incomes. The deeper source of disquiet, I think, lies elsewhere. Middle-class families value predictability, order and security, and these reassuring qualities have eroded. People worry about rising living expenses; but what really upsets them is the possibility that their incomes or fringe benefits -- pensions, health and disability insurance -- might vanish.

Paradoxically, "the lives of individual Americans have grown simultaneously more prosperous and more precarious," writes Peter Gosselin in his new book, "High Wire." Gosselin, a Los Angeles Times reporter, has provided the most thorough account of this phenomenon to date. As he shows, the chances of being hit by a life-altering event (a long spell of unemployment, divorce, a big decline in work hours for one spouse) have declined slightly since the inflation-plagued 1970s and early 1980s.

But the consequences of setbacks have grown, he finds. The share of families suffering a 50 percent loss of income with a spell of unemployment rose from 17 percent to almost 26 percent. Fear of these setbacks has also climbed up the social ladder: not just factory workers and low-paid service employees but also managers and engineers. Companies downsize. Older workers exit in buyouts. Companies raise health-insurance premiums. The reliable "defined benefit" pension (which paid a fixed monthly amount) has given way to the riskier 401(k) -- vulnerable to bad investment decisions and sinking stocks. Corporate protections have weakened, as Gosselin notes.

One result is that bad economic news packs greater psychological punch than it once did, because more people identify with the victims. Change isn't just something that happens to *them*; it could happen to *us*. People worry even if they hold well-paying jobs.

We are losing our sense of entitlement. Under the implied social contract, people who "played by the rules" (to use a phrase popularized by Bill Clinton) deserved modest middle-class guarantees: a steady job, rising income and protection against random misfortune (sickness, disability, job loss, accidents). There was a belief that diligence and responsibility were their own rewards.

It's worth noting that this imagined entitlement never universally existed. From 1975 to 1984, unemployment averaged 7.7 percent (today's: 5 percent). The now venerated defined-benefit pensions sometimes weren't fully funded (so that promised benefits weren't always paid) or were funded at the expense of the next generation. Today's retired and well-pensioned autoworkers have condemned those who followed to lower-paid jobs or no jobs at all.

Almost all Americans consider themselves middle class. In the Pew survey, 53 percent put themselves in the "middle class" and 19 percent each in the "upper middle" and "lower middle" classes. But the prevalence of middle-class ambitions and values creates a vexing contradiction: The advances in living standards that Americans expect require a flexible and competitive economy that weakens the security and stability that Americans also expect.

Research contends that pension funds and other institutional investors are driving commodity prices higher

Financial speculators on congressional hot seat

Lawmakers to query role of investment money in commodity spikes

May 19, 2008

NEW YORK (MarketWatch) -- Pension funds and other institutional investors are driving commodity prices to the moon by allocating massive amounts of money to energy and agricultural investments and sidestepping regulatory limits on big speculative bets, according to research expected to be presented to Congress on

Tuesday.

The research is the result of an investigation by Mark Lapolla, founding partner of investment-strategy firm Sixth Man Research; and by Mike Masters, portfolio manager of Atlanta hedge fund Masters Capital Management, who will be questioned by a Senate panel.

Lapolla said that he and Masters collaborated on research showing that the decision by pension funds to put a certain amount of money into commodities -- often carried out by what's known as passive-index trades -- has correlated with the spike in commodities prices, and also has circumvented regulatory limits on large speculative bets.

Indexed trading refers to investments linked to a benchmark commodities index such as the Dow Jones-AIG Commodity Index.

"The result [passive indexing] is having on the market is enormous because of its size, because its unidirectional and because it's indiscriminate on price," Lapolla said Monday. "The argument that they're having no effect is ridiculous."

Equally ridiculous, according to Lapolla, is the idea that lawmakers or regulators can figure out exactly how much of an impact these index traders are having on prices.

But that's exactly what the Senate Committee on Homeland Security and Governmental Affairs will try to do when it questions Masters, along with the chief economist of the Commodities Futures Trading Commission and the president of the National Farmers Union. The panel is asking whether institutional investors and hedge funds are contributing to food- and energy-price inflation.

A fund that wants to buy a huge position in a commodity can enter into a so-called swaps contract with an investment bank, which can then buy futures. These swap arrangements skirt the limits that the fund, as a speculative or noncommercial trader, would typically face on buying futures. The investment bank can use an exemption from such limits because it's hedging these swaps.

The swaps loophole has allowed funds to allocate billions of dollars to a particular commodity, regardless of weekly or monthly fluctuations in price, according to Lapolla.

Tuesday's testimony could lend support to congressional efforts to curb such speculation.

The hearing in Washington follows a 30% gain in crude prices this year and surging grains prices, which have contributed to a more than 50% gain in global food prices in the past 12 months.

Responding to domestic disgruntlement over rising grocery and gasoline prices, as well as anger from some key U.S. allies over the country's role in global food inflation, some lawmakers have proposed increasing the margin requirements for hedge funds and other financial speculators. Such a requirement, which is favored by commercial traders of commodities, would increase the amount of cash funds need to ante up to trade in the futures markets.

Lehman Brothers just completed a study and found that the level of investment demand in commodities has soared to $215 billion from $70 billion a mere two years ago.

But there's far from a consensus on whether financial speculators are driving the rally or just exacerbating a boom triggered by tight supply and demand fundamentals.

The Commodities Futures Trading Commission, the chief U.S. regulator of futures trading, said at a public hearing in April that its analysis of indexed trading and agricultural-commodities prices showed no correlation between increased index trading and price spikes.

Press Release: Colorado Fire and Police Pension Association Launches New Pension Administration Solution

The Fire and Police Pension Association of Colorado partners with Sagitec Solutions to implement Sagitec's Neospin™ Framework.

Denver, CO (PRWEB) May 17, 2008 -- Sagitec Solutions LLC, a global technology services company, announced that it has completed the first implementation phase of their Neospin™ pension administration framework at the Fire and Police Pension Association (FPPA) of Colorado. FPPA administers 236 pension plans for 8,000 retirees over 17,500 active members.

In less than eighteen months, FPPA and Sagitec replaced the existing retiree payroll, employer reporting, member account, and general ledger functions. All of FPPA's existing data was migrated to the new solution's database. New development, testing and production environments were installed to sunset FPPA's existing HP 3000 platform. A web portal was rolled out for over 275 police and paid fire departments in Colorado for reporting contributions and communicating with FPPA.

The new system utilizes Sagitec's Neospin™ framework. This browser-based solution is built on a Microsoft.NET platform. It provides a highly secure environment and integration with office automation and report writing tools and the existing general ledger application.

"We are excited to be using our new system and our productivity with the application grows daily. This has truly been a joint effort involving Sagitec, Provaliant (FPPA's project oversight consultant) and FPPA staff. We look forward to achieving our ultimate goal of creating a high quality system that will best allow FPPA to meet the future needs of our members and employers," said Kim Collins, FPPA Chief Operations Officer.

"We are excited about our progress to date with FPPA and the impact our software is having on their business," said Rick Deshler, Sagitec Senior Partner. "This has been a great partnership and our shared commitment to the success of the project has led to the replacement of their existing application in an extraordinarily short development cycle. We expect this success to continue as we complete the project and transition operational responsibility for the system to FPPA in early 2009."

About Sagitec
Founded in 2004, Sagitec is a global technology solutions company that partners with public sector agencies to solve business problems created by complex and frequently changing business rules. Neospin™, Sagitec's flagship solution framework, helps state and local agencies implement business solutions that are agile, evolutionary, and interoperable. For more information, visit www.sagitec.com.

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Regular Meeting
Board of Administration
Tacoma Employes' Retirement System
1:00 p.m., Friday, June 13, 2008

Agenda Item: 8. Good of the Order

New Board Member Orientation

New Board members are provided an orientation by the Retirement Office and the Legal Department.

It was suggested that the Board may wish to orient the new Board members as well at the June Retirement Board meeting.

The suggested questions have been provided to assist in engaging good dialogue.

Suggested questions:

-What do you like about being a Board member for Tacoma Employes' Retirement System?

-What is the most important role of a Board member?

-What do you know about being a Board member for Tacoma Employes' Retirement System that would be helpful for new Board members?

-What recommendations would you like to make to new Board members?

-What is your preferred method of communication?

-As a Board member, what thing(s) do you spend most of your time focusing on?

-What would you say is your overarching objective as a Board member?

-What is your level of interaction with those you represent; with other Board members?

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Agenda Item: 9. Debriefing

Background: In order to continue to strive towards a Retirement Board driven agenda, we appreciate the Retirement Board's assistance in providing the Retirement Office feedback as well as recommending any additional questions to be raised to obtain feedback.

- How did the meeting go?
- What policy items are placed on the next month's agenda?
- What issues (topics, questions, requests for status reports etc.) would you have liked to discuss that you did not have time for? Would you like these issues placed on next month's agenda?
- In reviewing the meeting, as a Retirement Board, where did we spend most of our time and do we believe that the issues we spent our time on were Retirement Board issues?

Retirement Director's Comments/Recommendations: Retirement Board discussion.

Action Requested: Retirement Board discussion.

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Agenda Item: 10. Adjourn