POSTSCRIPTS

News of the CSU East Bay Hayward Emeritus and Retired Faculty Association
Fall 2012

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President's Message:

What a difference a change of presidents makes. I walked into the Administration/Student Services Building to ask for directions and the clerk smiled and was pleasant--something I had not experienced in the olden days.

Then I was greeted warmly in President Morishita's office (Colleen Heller is always awe-inspiring) and met with Dr. Dianne Rush Woods, the new chief-of-staff, who was interesting and engaging. She asked that we invite her and the president to all of our luncheons.

I had been skeptical about the administration's interest in the emeriti since when I talked to the provost a year ago he seemed disinterested. Several months later he told me that there was a committee working on this and in April he asked me if I had gotten a call and when I said I had not, he said that I would be receiving one in a few days. Six months later I am still waiting by the phone. Dr. Rush Woods suggested distributing a questionnaire and I will work on this with David Stronck.

The investiture is October 12 and I will represent ERFA in the academic procession. This is being combined with al Fresco and Faculty Honors Convocation.

We received our payment from Statewide ERFA and the Board voted to donate $500 to the ERFA Library Endowment. We now have $19,000 and need just six thousand more to make it an official endowment.

I hope you will attend the luncheon on Halloween, October 31 when the speaker will be David Baggins who will discuss "Some Provocative Thoughts About This Big Election." Also you will learn who is the honoree of the ERFA Outstanding Leadership Award, news about future luncheons, other surprises, and Halloween treats.

Best wishes, Bea Pressley

Fall Luncheon

Guest Speaker: *Professor of Political Science David Baggins* on
"Some Provocative Thoughts about This Big Election"

Date: October 31, 2012 Wednesday Halloween but before the "een")
Time: Gather starting at **11:30, social hour of 45 minutes, sit down 12:15**
Place: Dino's at 3600 Castro Valley Blvd., Castro Valley

All lunches are $25, in cash or by check, paid when you arrive at Dino's. Checks made **payable to Helen Sowers**, our treasurer. Lunches include food, gratuity, tax, coffee, tea, soda, tossed green salad with Italian dressing, vegetables, rolls, iced tea, red wine, white wine, and even chocolate mints.

Menu	• Vegetarian Eggplant Parmigiana
	• Broiled Salmon with dill cream sauce and rice
	• Bay Shrimp Louie with Louie dressing
	• Veal Scallopini with pasta

Please make reservations and menu selections by Friday, October 26, with
- **Jack Kilgour,** (510) 582-8760, john.kilgour@csueastbay.edu
- **Bea Pressley**, (925) 946-9786, beapressley@mac.com

Your timely RSVP is appreciated; we have to tell the restaurant how many meals to prepare.

Academic Emeriti Senator's Message

President Morishita has appointed Diane Woods as his new Chief-of-staff, replacing the retiring Don Sawyer. Her resignation from state-wide Senate requires an election to replace her.

If Proposition 30 is not approved in the November election, the budget at CSUEB will be reduced by $7,271,000. Some loss can be offset with more fee increases. For cuts, the administration is reviewing departments. The Layoff Committee, an ad hoc subcommittee of the Faculty Affairs Committee, is studying possible faculty layoffs. The Committee on Budget and Resource Allocation will try to find cuts in departments. The Committee on Academic Program Review will try to assess departmental quality of services.

President Morishita did not approve two documents from the 2011-2012 Senate. He reserved administrative responsibility over safety issues for controlling protesters, sit-in demonstrations, etc., with no required consultation with the Senate. He changed some words for evaluation of lecturers, such as replacing the word "exemplary" to "consistently effective" throughout the policy.

The Academic Senate recommends that the faculty approve proposed new bylaws to make the Faculty Diversity and Equity Committee, which started in 1998, into a Standing Committee. The Committee will include the Director of Equity and Diversity, a Diversity and Equity Liaison Officer to be elected by the Senate, a faculty member appointed by the Chair of the Department of Ethnic Studies, a faculty member appointed by the Chair of the Department of Women's Studies, a presidential appointee, and six others.

-- David R. Stronck, Academic Senator for Emeriti, david.stronck@csueastbay.edu

Obituaries

Ruthy Stephan and Gina Traversa maintain http://www20.csueastbay.edu/oaa/memorial/, honoring deceased tenured and tenure-track faculty.

John Hammerback, Communications,
http://www20.csueastbay.edu/oaa/files/memorial_files/MemorialHammerback.pdf

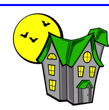
Fred F. Harcleroad. President,
http://www20.csueastbay.edu/oaa/files/memorial_files/MemorialHarcleroad.pdf

James William Gotcher Jr., Management,
http://www20.csueastbay.edu/oaa/files/memorial_files/MemorialGotcher.pdf

Wendell Brooks, Lecturer, Ethnic Studies,
http://www.legacy.com/obituaries/sfgate/obituary.aspx?n=wendell-brooks&pid=159256708#fbLoggedOut]

Tim Tierney, Coach,
http://www20.csueastbay.edu/oaa/files/memorial_files/MemorialTierney.pdf

Yole Correa-Zoli, Modern Languages,
http://www20.csueastbay.edu/oaa/files/memorial_files/MemorialZoli.pdf



PUBLIC PENSION WARS and DISCOUNT RATES *John G. Kilgour*

The funding of state and local government pension plans received little attention before about 2000. Then, with the recessions of 2001, and even more so with the Great Recession of 2008, pension funded ratios (assets ÷ liabilities) declined markedly as reported in the following table. The funded ratio is often referred to as “percent funded” meaning the extent to which “projected benefit obligations” (PBO) are covered by current assets. The funded ratio also drives the employer’s annual required contribution.

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All Plans	101.9	94.4	89.4	87.3	86.0	85.8	87.1	83.8	79.7	76.1	74.8
CalPERS	111.9	95.2	87.7	87.3	87.3	87.2	87.2	86.9	83.3	86.9	86.9
CalSTRS	98.0	NA	89.0	87.0	86.0	85.0	85.0	87.0	78.0	78.0	73.1

[All data in this note are derived from Munnell, et. al., www.crr.bc.edu May 2012].

The most important element in calculating the funded ratio is the discount rate used to convert the PBO to present value (current dollars). The lower the discount rate, the higher the liability and vice versa. Two other factors affect funded-ratio calculations. One is the period over which unfunded liabilities are amortized. The other is whether asset values are based on “actuarial value of assets” (AVA) or “market value of assets” (MVA). AVA involves some smoothing (averaging) of asset values over five to 10 years. MVA is as of the valuation date. Due to space limitations, this discussion will focus on the discount rate.

Currently, public pension plans and their sponsors (employers) use their expected long-run rate of return on invested assets as the discount rate, typically 8%. Beginning about 2004, a number of “financial economists” proclaimed that this was wrong. Rather, they held that since the pension benefits were guaranteed to the participants, they should be backed by risk-free assets (U.S. Treasuries) and that PBO should be discounted at a riskless rate of 4% or less. They derived this position from the seminal work of Modigliani and Miller (1958) and the large body of literature on corporate finance that followed. By one measure, the lower discount rate increased aggregate unfunded liability from $885 billion to $4.6 trillion. (Biggs, 2012). The critics of public pension plans and the media accepted these numbers at face value and reported the much higher levels of underfunding as revealed truth.

On June 25, 2012, after six years of vetting, the Governmental Accounting Standards Board (GASB) approved Statements 67 and 68 to replace Statements 25 and 27. The accountants and actuaries who control the GASB did not buy the reasoning of the economists. Rather, GASB 67/68 (effective June 15, 2013 and 2014 respectively) adopted a single "blended" discount rate. Plans and employers may continue to discount their PBO at the higher rate based on expected earnings on assets, as long as those plan's assets covered the plan's liabilities. Beyond that "run-out date" they must use a lower rate based on the cost of their other borrowing (derived from an index of high quality municipal bonds). As indicated in the following table, the new rules (blended discount rates, curtailed amortization periods and using market valuation of assets) will impact plans and employers differentially.

Plans	**FUNDED RATIOS**			**Blended Discount Rate**	**Run-Out Date**
	Current/AVA	Current/MVA	Blended/MVA		
All Plans	76.9%	67.1%	52.8%	6.1%	2042
CalPERS	80.8%	62.6%	56.3%	7.0%	2053
CalSTRS	71.5%	66.1%	38.9%	4.9%	2034

One of the concerns about the size of unfunded pension liabilities is their impact on state and local government credit ratings. The three main credit rating bureaus have traditionally accepted the figures reported by the plans and employers. How they incorporated them into their credit ratings is a different matter. In July 2012, Moody's Investor Services proposed changing its methodology for the 50 state and 3,500 local governments it rates. The proposal includes a discount rate based on the Citibank's Pension Discount Curve. For 2010 and 2011, the discount rate will be 5.5% and the aggregate unfunded liabilities would increase from $766 billion to $2.2 trillion.

The pension wars will continue. The financial economists are not happy and are busily trashing the GASB and its new blended discount rate. Much of the debate will focus on the size of the unfunded liabilities generated by the now three discount- rate approaches: GASB, economists, and Moody's.

I confess that I am a shameless proponent of traditional employment-based, defined-benefit pension plans. Their virtual disappearance in the private sector is a tragedy that portends a massive increase in elder poverty in the not-to-distant future. When listening to or participating in the ongoing public sector pension wars, please be aware of the discount rate used to calculate funded ratio and, hence the extent of unfunded liabilities.

I do not mean to imply that all is well with the funding of government pension plans. There are big problems and improvements are needed. In fairness, many changes have already been made and more are in the pipeline (including in California). However, we should not over respond due to exaggerated claims of underfunding based on questionable theories about discount rates and other things.

Postscripts editor Sherman Lewis
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