

POSTSCRIPTS

News of the CSU East Bay Hayward Emeritus and Retired Faculty Association
Almost Spring 2011

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President's Message:

It was winter and then spring and now winter again (written in February) and the trees are flowering and the hills are green and I am happy because I can still wear my sweats.

Do you get the Communique? I don't and another retiree forwards hers to me or I would not ever have seen one. I have been asking for access for four years. Maybe my contribution to the Library Endowment will be contingent upon receiving it. If you don't get it on email then you might want to complain--though that has not helped me.

We are gaining a few new members even though not many people are retiring. I will write the new emeriti and ask them to attend the luncheon.

We are fortunate to have one of our own, Nan Maxwell, as our speaker for the upcoming luncheon. Nan was chair of the Economics Department for 14 years; so you know she is smart, tough and has a sense of humor. She also founded and led the HIRE Center and is an accomplished and widely published scholar. Nan recently retired from CSUEB and is now with Mathematica, a think tank/research group. Her current research interests involve the effectiveness of the American Recovery and Reinvestment Act of 2009, President Obama's stimulus package, with particular attention to the subsidization of the continuation of health care benefits (COBRA) for the unemployed.

My personal note, not to be confused with ERFA's view: I hope that CSU will spend as much money on the needs of qualified and highly qualified students as with unqualified students.

—Bea Pressley

Secretary's Message:



A number of ERFA members have elected to receive the newsletter by email. Please send an email to Ned Lyke, Secretary, eblyke@comcast.net, if you would rather receive the ERFA newsletter in your computer rather than the mailbox.

—Ned Lyke

Spring Luncheon

Guest Speaker: Nan Maxwell, Professor Emerita of Economics

Date: **Tuesday, March 29, 2011**

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 \$20, in cash or by check, paid when you arrive at Dino's. Checks are **payable to Helen Sowers**, our treasurer. Lunches include food, gratuity, tax, coffee, tea, tossed green salad with Italian dressing, vegetables, rolls, iced tea, red wine and white wine.

Menu	1. Vegetarian Lasagna
	2. Broiled Salmon with Dill Cream Sauce and Rice
	3. Bay Shrimp Louie with Louie Dressing
	4. Broiled Half Spring Chicken with Mashed Potato

PLEASE MAKE RESERVATIONS AND MENU SELECTIONS **by Monday March 21 with**

- **Jack Kilgour:** john.kilgour@csueastbay.edu or
- **Bea Pressley:** (925) 946-9786, beapressley@mac.com

Your timely RSVP is appreciated; Jack has to get a head count to the restaurant so they know how many meals to prepare.



Emeriti Academic Senator's Message

The Academic Senate adopted two additions to the Standing Rules of that govern procedures for running the Senate. First, the addition of a "Consent Calendar" allows routine action items, such as Discontinued Courses, GE Course Additions and the like to be placed on the agenda by the Executive Committee (EXCOM) via a consent calendar. Items placed on this calendar will remain for two consecutive meetings. If there is no objection during this time the items are considered approved.

The second addition provides for a "First" and "Second" reading of a probable debated item. An action item is presented to the senate and any senator can provide "input for consideration" to improve the item. No amendments are made. The Action Item is put on the next senate meeting for approval and any amendments can be made at that time.

This is the model used by the Statewide Senate. It is hoped that these changes will help to speedup the senate consideration process. WE WILL SEE.

—Cal Caplan



CalPERS Funding and Benefits in Perspective by Jack Kilgour, Exclusive for *Postscripts*

Public sector pension plans are under attack in California and throughout the United States. Critics cite pension plan under-funding, overly-generous benefits and examples of fraud and abuse. This note is an attempt to set the record straight.

California has three large statewide public pension plans: CalPERS, CalSTRS and UCRP (UC system). There are another 56 local government plans. CalPERS (our plan) gets most of the attention. It is the largest and most visible pension plan in the U.S.

CalPERS consists of three roughly equal parts covering: state employees, classified school employees, and employees of contracting local government agencies. It has 1.6 million participants: 1.1 million actives and 514 thousand annuitants.

CalPERS is funded by a combination of mandatory employee contributions, earnings on accumulated assets, and employer contributions. State miscellaneous employees (that's us) contribute a fixed 5% of earnings above \$513 per month. Earnings on invested assets rise and fall with the equity and other financial markets. Employer **Annual Required Contributions (ARC)** fluctuate with the funded status of the plan.

Funded status is measured by the "funded ratio" (liabilities ÷ assets). Liabilities are based on various economic and demographic assumptions; the most important and controversial of which is the assumed interest rate. Assets are measured as **Actuarial Value of Assets (AVA)** or **Market Value of Assets (MVA)**. AVA involves "smoothing" or averaging asset values over a number of years to ameliorate fluctuations in ARC. In 2005, CalPERS moved from 3 year to 15 year smoothing (in response to the 2001 recession).

In 2009, the AVA funded ratio was 83.8 and its MVA funded ratio was 60.8. The recent recession began in the fourth quarter of 2008 and bottomed in March 2009 when the Dow Jones Industrial Average stock value dropped to 6,547. This devastated CalPERS asset values, about 63% of which are invested in equity. MVA fell from \$251.2 billion in 2007 to \$178.9 billion in 2009. During the same period, the AVA funded ratio fell from 87.2 to 83.4 and the MVA funded ratio from 102.2 to 60.8. It is the last number that is cited by critics of the system, even though AVA drives ARC. The Dow is now over 12,200 and assets are \$218.8 billion. Asset values and the MVA funded ratio will improve dramatically in 2010 and 2011.

CalPERS, and by extension most other public pension funds in California, will soon be in pretty good shape. This cannot be said for "**Other Post-employment Benefits**" (**OPEB**), mainly retiree health benefits. Critics of public pensions regularly combine pension unfunded liabilities with the much larger OPEB liabilities. They are different. Pensions are prefunded. Their assets (and required employer contributions) rise and fall with the financial markets. OPEBs operate on a pay-as-you-go basis and, consequently, have no automatic corrective mechanism in place. Policy makers would be well advised to focus on OPEBs. They are the larger problem and they do not enjoy the constitutional and statutory protection of public pension benefits.

This is not to imply that there are no pension problems or that nothing has been done. There *are* problems and a number of improvements have already been adopted.

An **Alternate Retirement Plan (ARP)** was implemented in 2004 under which new state employees are ineligible for CalPERS membership for the first two years. They contribute the required employee contribution to a defined contribution plan. At the end of the period, they may take those funds as a lump-sum, roll them into a 401(k) plan or purchase retirement service credit. The CSU is exempt from the ARP.

In 2010, the State enacted legislation to rescind the *ill-advised* benefit formula improvements adopted in 1999 including a return to calculating "final average salary" on the highest consecutive 3 years, rather than 12 months (for new employees). CalPERS also reduced its interest rate assumption from 8% to 7.75%. This will *increase* ARC.

A corollary funding issue involves the assumed interest rate. Public pension plans assume 7.5% to 8.5% return on assets based on the long-run return on equity. Private sector plans must

use a much lower rate in order to protect the **Pension Benefit Guaranty Corporation (PBGC)** from plan failures. Some economists hold that public plans should use a risk-free rate of about 4%. That would greatly increase ARC. Companies go out of business. Governments do not.

The second complaint often heard is the relative generosity of public pension benefits, compared to the private sector. Traditional employer-provided defined-benefit pension plans in the private sector are all but gone. They have been replaced by 401(k) and cash-balance plans that shift much of the cost and all of the risk to the employee. The result will be a massive increase in elder poverty.

In 2010, the average CalPERS service retirement benefit for state employees was \$2,500 per month (with 21.3 years of service). That hardly seems overly generous given that member contributions account for a considerable portion of CalPERS revenue and accumulated assets. Of course, many (of us) receive more and many receive less.

Between 2000 and 2010, members contributed \$30.4 billion (21.3%), employers \$46.9 billion (32.8%) while earnings on invested assets generated \$67.7 billion (45.7%). Members have contributed almost 40% of total new contributions over the 11 year period.

The third often-voiced criticism of CalPERS involves abuse of the system, especially "spiking." This is a legitimate complaint. There are many examples, especially among public safety employees, in which the pension benefit is significantly enhanced by converting overtime, unused vacation and sick leave into participation and/or promoting an employee to a higher paying job shortly before retirement. These are matters of responsible plan design and administration. When discovered, such problems should be corrected and, where appropriate, punished.

Excerpted from Kilgour, J. "California Public Sector Pensions in Perspective. *Compensation and Benefits Review*. Forthcoming May/June 2011.



Fairness and Accuracy in Reporting, **Why Does USA Today Hate Public Workers?...**, 3/1/11, <http://www.fair.org/index.php?page=4254>

Excerpts: "But this failure to distinguish between different types of work renders the comparison entirely meaningless--unless you think that teachers and fast-food clerks ought to get exactly the same pay."

"The Economic Policy Institute research on this (2/10/11) found "that Wisconsin public employees earn 4.8 percent less in total compensation per hour than comparable full-time employees in Wisconsin's private sector." Other research on private/public compensation reaches similar conclusions (Center for Economic and Policy Research, 5/10/10). Other newspapers, like the New York Times (2/26/11), offer a range of studies, many of which support the conclusion that public workers earn less than their private-sector counterparts."

Abstract from **Little Hoover Commission** recommendations of Feb. 2011 to freeze current plan and create a more sustainable alternative which would

- cap top salary to calculate benefits at \$90,000
- discourage early retirement; make age actuarially neutral
- make employee share consistent with comparable private jobs
- cap defined benefit at \$90,000, have defined contribution above that.

Editor: I'd like to see more convergence among disparate systems, some of which are niggardly for modest income workers, others very generous to well-paid workers who retire early, e.g., in public safety systems.



Let's Be Honest about the CSU Budget: Cuts Started Before Brown's Budget

by Henry Reichman, Professor Emeritus of History, The Pioneer Online, January 20th, 2011

Those in the CSU East Bay community, like myself, who supported Jerry Brown for Governor were disappointed when his proposed budget included a cut of up to \$500 million to the CSU budget. It surely would have been worse under Meg Whitman, but that is not much comfort.

On the other hand, the state's fiscal crisis is genuine and massive. Brown is to be applauded for his effort to address forthrightly the daunting problem that he inherited without resort to the kinds of "smoke and mirrors" solutions adopted in recent years, which have only rendered long-term solutions even more painful. And CSU students, staff, and faculty should recognize that the cuts we may face—remember, this is only an initial proposal—pale before the suffering such fiscal austerity will mean for MediCal recipients and others among the most vulnerable in our state.

Nevertheless, the CSU system is a major part of the solution to the state's economic problems and we must continue to demand and fight for the state support necessary to fulfill our mission. Unfortunately, it doesn't help when the CSU administration spreads misinformation about the budget.

According to CSU Chancellor Charles Reed, Brown's budget proposal would amount to an 18 percent cut. In fact, the \$500 million cut proposed by the governor is accompanied by several positive adjustments to the state's allocation so that the net decline in state funding is more like 12 percent. More important, even before Brown took office the CSU trustees voted to increase student fees by 15 percent. Taking this increase into account, the total cut to the funding available to the CSU in 2011-12 amounts to \$216.3 million, a reduction of 4.5 percent, a significant hit given the university's already parlous state, but not 18 percent.

In fact, even with this painful cut, the governor's proposed budget for the CSU is still \$317.4 million, or 7.4 percent, higher than our budget in 2009-10. With the number of faculty in the CSU decreasing by more than 2,700 since then, a decline of 11 percent, and a comparable or greater reduction in the number of support staff, the proposed cuts should be manageable without further reductions in or salary cuts to faculty and staff.

Yet Robert Turnage, CSU's Assistant Vice-Chancellor for Budget, told the media that with benefits and payroll making up 85 percent of CSU's expenditures "we have to reduce the amount we're spending on salaries and benefits."

But Turnage is apparently misinformed, despite his lofty title. According to the CSU's own audited financial statements, posted on the Web, salaries and benefits account for only 68 percent, not 85 percent, of CSU operating expenses. And, according to the same statements, salaries and benefits devoted to "Instruction" account for just 35 percent of total expenses. Indeed, Instruction as a whole accounts for just 38 percent of the CSU's total spending! (Research, by the way, accounts for less than 1 percent.)

This is why it is heartening that the Governor's budget proposal contains the following language: "The Administration will work with the Office of the Chancellor and the Trustees, as well

as stakeholders (including representatives of students and employees), to determine the specific mix of measures that can best accomplish these objectives.”

This means that the CSU administration will not be able to cut the budget as they please, using the excuse of fiscal constraint to implement rash program cuts, ill-conceived “efficiency” schemes, and vague “restructuring proposals” that have little to do with working within the budget and everything to do with an administrative power grab.

Chancellor Reed has promised to “work with the administration and the legislature” and “to look at every option and develop a comprehensive plan” to address the budget. In doing so, let me suggest, the Chancellor might consider explaining:

- Why the CSU spent \$400,000 on an outside lobbyist when the University has its own Government Relations Office in Sacramento with a full-time staff of nine employees.
- Why the CSU has spent \$7 million on a no-bid contract for an outside consultant to “improve labor relations” (which the consultant has demonstrably not accomplished) when the Chancellor’s Office and all 23 CSU campuses already have a small army of full-time labor relations staff, including a Vice Chancellor paid more than \$300,000/year. Ironically, \$7 million is exactly the amount that the Chancellor told an independent fact-finder the system could not afford to pay to implement the final stage of an equity pay program for faculty that was part of the 2007 CFA/CSU contract.
- Why highly-paid CSU Presidents receive expensive “car allowances” of more than \$5,000 annually when nearly all other Californians maintain, purchase, or lease automobiles at their own expense.
- And, most importantly, why between 2000 and 2008, as the number of students in the CSU grew by 27 percent, the number of administrators increased by 23 percent while the number of instructional faculty rose by just 11 percent.
- And why in just one year, between 2007 and 2008, as the economic crisis set in, the CSU increased the number of full-time equivalent administrators by 3 percent, but slashed the number of full-time equivalent faculty by 1 percent, as student enrollment grew by 2 percent.

Perhaps answers to questions like these might better help address the challenge posed to the CSU budget than public threats to reduce student enrollment and cut employee salaries and benefits.

🗉 For a detailed report from CFA see <http://www.calfac.org/CautiousTale>



Obituaries for Jim Perrizo Jean Dugger, and Dan Cerutti will be in the next *Postscripts*.

Postscripts editor Sherman Lewis

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