CAPSule

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RETIREMENT SECURITY UNDER ATTACK--AGAIN

CAPS' most critical missions are negotiating competitive salaries and protecting health and retirement benefits. CAPS works hard to maintain a sustainable, secure retirement based on a defined benefit for state scientists and all public employees.

One reason the CalPERS retirement program remains relatively secure and sustainable over the long term is its investment performance. Critics like to contend that CalPERS' long-term obligations can't be met with its assumed return rate of 7.5%. (This is the overall return rate on investments that CalPERS assumes must be earned to meet future obligations.) Critics argue that the market won't generate returns at that rate over time. After all, the markets crashed with the 2008 recession, and the CalPERS unfunded liability ballooned as a result. (The unfunded liability is the difference between today's value of the CalPERS portfolio, and what it has actually promised to pay people for work already performed.)

One of CalPERS' most outspoken critics is long-time *Sacramento Bee* Columnist Dan Walters. On July 13, Walters wrote that during the Great Recession beginning in 2008 CalPERS lost nearly $100 billion in value. It fully recovered just three years ago. Since then returns have been rather flat. During its 2015–16 cycle, investment returns were just 2.6%, well below the expected return of 7.5%. As a result the Fund lost approximately $8 billion. According to Walters: *"…union members themselves have the most to lose if, in fact, CalPERS and other public pension systems are promising more than they can reasonably expect to pay without massive infusions of cash from taxpayers."* Walters' assessment echoes a new story about CalPERS investment returns in the *Orange County Register* on July 12. The OCR is another frequent critic of public employee pensions.

Here's what Walters didn't say:

- **Investment returns are volatile by nature.** Ringing the alarm bell after one down year is unwise. When returns are below expectations they are folded into the fund and smoothed over a funding period. When returns are above expectations the same process occurs. CalPERS returns are generally balanced out over time.
- **CalPERS' average return over time has been close to projections**. CalPERS has recently lowered these projections, so they are being more conservative with their investments.
- **In good times and bad, employers and employees continue to make their contributions to the Fund.** That's what makes it sustainable over the long haul.
- **"Joe Citizen" won't see the impact resulting from CalPERS investments. Just as they don't see any change when CalPERS earns double digits, they don't see any change when the returns are down.**
- **CalPERS performs far better than the average 401(k) plan.** History shows that 401(k) plans lose more in downturns and earn less in upticks.
- **The sky isn't falling.** We can always count on the high profile critics like Dan Walters to warn of the impending fiscal crisis caused by funding pensions that guarantee payments during the Golden Years. They were quiet when returns were double digits. Now they pile on when CalPERS investments are slightly below expectations for the year.

CAPS will encourage Governor Brown and state lawmakers to stay on course with a sustainable guaranteed pension system based on a defined benefit. Sound fiscal policy and a long-term commitment to career state professionals dictate that they should.

Pension fund offers cautionary tale

By Mark Sievers (Reprinted with permission)

The Central States Pension Fund appears to be the latest pending debacle in what could be a long list of such problems.

This plan is a multiple-employer plan in the Midwest covering companies and unions including the Teamsters and United Parcel Service. Simply put, the plan does not have enough money to pay the pensions for the retirees.

The troubles are not new, as the issue has been known for some time. Central States has said it would run out of money in about a decade, reflecting the deregulation of the trucking industry, loss of membership and jobs, and a group of employers that went out of business or filed for bankruptcy since 2008.

The fund, with assets of more than $16 billion, proposed a rescue plan last fall designed to save the fund from financial failure. "For every $3.46 that the fund currently pays out in pension benefits, only $1 is collected from contributing employers, which results in a $2 billion annual shortfall," Central States said in a statement.

Clearly the retirees are at risk.

The trustees of the fund have asked for help. So the problem has landed at the Treasury Department, which has appointed a "special master" to review the plan who was to decide by Saturday whether the Treasury accepts the proposed plan, asks for changes or rejects it outright.

Central to the strategy are large cuts in existing pension checks for retired Teamsters truck drivers and others. More than 13,000 Teamsters retirees could see their monthly checks cut by half as early as July. Nationwide, the proposed cuts by Central States trustees would affect about 270,000 people.

The decision falls under law that is highly complex. The proposed cuts could set the precedent for other cuts at big pension plans. Big name players, such as UPS, could have much at stake. UPS could be on the hook for billions of dollars in supplemental retiree benefits, if the Central States plan is approved. The law requires the Treasury Department to approve an application if a pension fund's potential claims would cost the Pension Benefit Guaranty Corp. $1 billion or more – and it will.

UPS is concerned about its retirees and fears their cuts would be more drastic than others. Indeed, UPS paid $6.1 billion to the Central States Fund in 2008 to withdraw and establish its own single-employer plan. However, a backstop agreement stated that in the event that Central States ever lawfully reduced benefits to those retiring in 2008 or after, UPS would provide a supplemental retiree benefit even though they are now a separate pension plan.

This could cost UPS more than $3 billion.

The special master appointed by Treasury is trying to be open by holding public meetings for comments. Not surprisingly, none of the retirees or current plan members want to suffer cuts to their pensions. None of the possible solutions are pleasant.

The responsibility for this mess covers a great many groups. The retirees depended on their unions and the plan trustees and perhaps did not check up on them enough. The unions did not provide enough oversight about the plan. The companies which employed the members wanted ways to pay the least amount into the plans and thereby probably relied on investment assumptions which were too optimistic. The plan trustees were too optimistic about investments and probably did not perform enough due diligence on the investments. The companies providing the investments perhaps overstated the results they would provide, and probably charged fees that were too high. Regulators did not look deeply enough or soon enough.

Now the retirees face an unpleasant financial future and actually all of society will suffer from their pain. We all need to be attentive to our finances, especially when someone else is making many of the important decisions. Pay attention. Ask questions. Demand accountability.

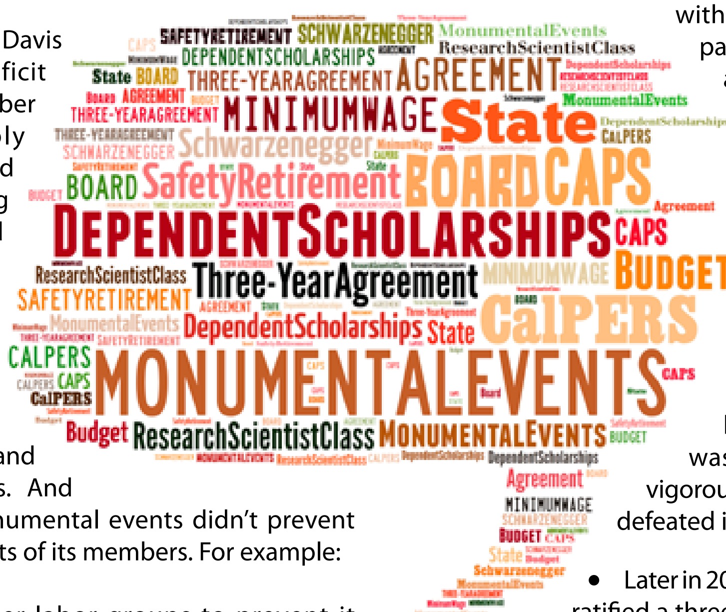
Mark Sievers, president of Epsilon Financial Group, is a certified financial planner with a master's in business administration from the University of California, Berkeley.

2002

By Patty Velez, President

The terror attacks of September 11, 2001 rocked what semblance of security Americans felt from the violent turbulence on distant continents. All eyes turned toward a national response to those terror attacks, which turned out to be a sustained drumbeat for war in the Middle East. The attacks had the intended effect of making virtually all Americans feel vulnerable, but it also upended financial markets virtually overnight. The dire national emergency was thus compounded by the resulting economic downturn. Investments and related financial transactions so essential to public funding dried up, resulting in substantial budget deficits for public agencies nationwide. California was no different.

During early 2002, Governor Gray Davis estimated California's budget deficit to be nearly $24 billion. This number was unprecedented and simply astonishing in its sheer volume, and it left virtually everyone wondering how state government could continue functioning without taking deep and permanent cuts to the workforce.



As one member of the CAPS volunteer board at the time, we all hunkered down with our members and staff and prepared for difficult days. And difficult they were, but these monumental events didn't prevent CAPS from looking after the interests of its members. For example:

- CAPS sued CalPERS with other labor groups to prevent it from loaning the Davis Administration over $1 billion from its retirement fund to help balance the state budget. Governor Davis later dropped the plan.
- A California Second Appellate District case, Jarvis v. O'Connell, concluded that state employees could be paid minimum wage in the event of a late state budget. This led to years of legislative and legal wrangling when Governor Schwarzenegger later threatened to pay minimum wage if the state Legislature didn't bow to his fiscal demands. CAPS was in court every step of the way backing the position of this State Controller, who opposed payment of minimum wage.
- At CAPS' behest, the Research Scientist classification series was approved by the State Personnel Board effective July 2002.
- Based on an appeal filed by CAPS, the CalPERS "safety" retirement was extended to 22 of 30 scientists working at the Department of Corrections.
- CAPS sued the Department of Health Services from releasing detailed personal records of state employees to the *Contra Costa Times* based on a Public Records Act request. The CAPS lawsuit succeeded in blocking release of these records.
- CAPS awarded four dependent scholarships in 2002 (this year we awarded 15).
- CAPS advocated offering a "Golden Handshake" as an alternative to layoff. For the first time in the modern era, state government offered a two-year early retirement incentive, but with strings. State departments could participate based on financial ability and a commitment to hold positions vacant for a lengthy period of time. Very few state departments were able to offer the incentive.
- In early 2003, Governor Gray Davis announced plans to establish a new lower-cost "second tier" in the CalPERS Miscellaneous CalPERS retirement plan in order to save money and help balance the state budget. CAPS was among many labor groups that vigorously opposed the plan and ultimately defeated it.
- Later in 2003, CAPS members overwhelmingly ratified a three-year agreement that provided for a combination of salary increases and benefit improvements.
- In spite of CAPS' vigorous opposition, Governor Gray Davis was recalled by the voters and replaced by Governor Arnold Schwarzenegger, whose early official acts included fulfilling an election promise to reduce vehicle license fees thus increasing California's budget deficit by approximately $4 billion, and by hinting at plans to advocate pay cuts and pension rollbacks for all state employees.

The public's trade of Arnold Schwarzenegger for Gray Davis proved to be disastrous for state scientists and all state employees. That's because Governor Schwarzenegger soon displayed a mean streak towards state employees only matched by his political mentor, former Governor Pete Wilson. Schwarzenegger willingly took a page from the Wilson playbook that made the public sector — and state employees in particular — the enemy and the target for sustained attack. I will address those tumultuous years in a future column.

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MORE CAPS Grants!

CAPS' Benefits Committee awards FOUR $300 professional development grants to CAPS members each quarter. Congratulations to these grant recipients for the *third* quarter of 2016:

Research Scientist III (Epidemiology and Biostatistics) Anura W.G. Ratnasiri of the Department of Health Care Services in Sacramento will use her grant to partially offset the costs of preparing and presenting a paper at the American College of Cardiology's 65th Annual Scientific Session in Chicago during April 2016.

Veterinary Supervisor Greg Ledbetter of CDFA in Tulare will use his grant to offset expenses in attending the United States Animal Health Association's meeting during May. The meeting was in Sun River, Oregon during May 2016.

Environmental Scientist Ruben Arias of the Department of Food and Agriculture in Palm Desert will use his grant to attend the annual meeting of the Western Chapter of the Horticultural Inspection Society in Albuquerque, New Mexico during October 2016, where he will receive training in essential field inspection and certification of nursery stock, and procedures for increased communication and harmonization between states in inspection and certification procedures.

Veterinarian Jennifer McDougle of the Department of Food and Agriculture in Tulare will use her grant to offset expenses in pursuing certification in the American College of Veterinary Preventative Medicine.

ANY CAPS members can apply for a CAPS grant via the CAPS webpage: www.capsscientists.org.