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Emeritus & Retired Faculty Association

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Inside this issue:

Health Benefits: LTC Options

By David Wagner, Health Benefits Director

Long-Term Care Insurance. Early in 2015 those who hold CalPERS lifetime coverage long-term care (LTC) insurance policies with built-in automatic inflation protection will be notified by CalPERS and given a final opportunity to avoid the 85% cumulative premium increase scheduled over the next two years. The options that avoid the premium increase reduce lifetime coverage to 10, 6 or 3 years. While the built-in inflation protection would be dropped, the current daily benefit amount would be retained. CalPERS staff have indicated that in the future policyholders may be offered the option to buy additional coverage to the daily benefit amount to account for inflation. However, details have yet to emerge.

In September 2014, CalPERS reported that 17% of the LTC participants subject to the 5% premium increase July 1, 2014 (and the future 85% increase) modified their coverage to avoid the premium increase. Of that 17%, over half converted to Option 5, the 10 year benefit period.

Average Time in LTC. Data on average time spent in long-term care may be helpful in making your decision. According to CalPERS, "in 2013 the average time in claim for a CalPERS LTC participant was 3.4 years." The Wall Street Journal on April 14, 2014 reported on the odds of needing long-term care if you are age 65 or older: 58% of males will need LTC for an

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Pension Obligation Bonds Near You

By John G. Kilgour, ERFA/CSUEB

My last effort addressed the underfunding of CalPERS and, by extension, other public pension plans in California (*CalPERS Unfunded Pension Liabilities: How Did We Get Into This Mess?*). This paper explores a side effect of public pension underfunding, the pension obligation bond (POB).

There is a principle in public finance called "intergenerational equity." It holds that the people who benefit from a government service should pay for it. Operating costs should not be passed on to our children and grandchildren. Capital costs, such as building schools, libraries, roads, etc. (and the cost of fighting wars) produce things (and hopefully conditions) that will also benefit the future generation(s). Such costs may be spread forward through the use of long-term bond financing. State and local government bonds are tax-exempt (the bond holder does not pay federal and usually state income tax on the interest earned). Such bonds are either general obligation bonds (GOBs) or special or revenue bonds. POBs are almost always GOBs.

In 1985, the city of Oakland, with the aid of its bond counsel, Orrick, Herrington & Sutcliffe, LLC (Orrick) issued the first tax-exempt POB. The idea was to issue bonds at a low rate of interest and then invest the proceeds in U.S. Treasury securities at

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From the President...

Dear Colleagues,

Happy Holidays! I send you best wishes and warm thoughts for the many special occasions that will occur during the remainder of the year.

CSU-ERFA continues to be busy, and a number of interesting activities can be reviewed here in the *Reporter*. I would like to call to your attention the fact that our very skilled and accomplished executive director, Don Cameron, will retire next year. As a result we are seeking qualified applicants for the position. The vacancy announcement can be found on page 3, and I encourage you to read it. Also, I ask you to strongly urge individuals whom you believe to be qualified to apply (maybe yourself?).

Applications are due in the CSU-ERFA Office by January 19.

As President, I chair the Search Committee that includes Bill Blischke, vice president, Mark Shapiro and Harold Goldwhite from the personnel committee, and Dave Elliott, at-large. The Committee is committed to CSU-ERFA and is most interested in encouraging qualified candidates to apply. I will try to keep you informed of our progress.

If you have any questions or suggestions about the search, please get in touch with me. Oh yes, perhaps it is needless to say, but I want to mention that Don has done a terrific and outstanding job as executive director. He will be greatly missed.

The recent state council meeting, held at California State University Dominguez Hills, included discussion of several informative items. In addition, the agenda allowed for an extensive overview and tour of the CSU and the CSU-ERFA Archives, thanks to the efforts of our very talented archivist, Judd Grenier, and also Greg Williams, the Head Archivist at CSUDH.

If you ever have the opportunity to visit the campus, you really should see this lovely space (which, by the way was dedicated to our very own Donald Gerth and his wife, Beverly (Don was a former president of CSUDH and CSU Sacramento and is an active CSU-ERFA member). We have been told several times that we are all welcome to visit the archives.

Thank you for maintaining your membership in our organization. We need you in order for CSU-ERFA to maintain positive outcomes for our retired faculty.

Do let me know if you have suggestions or questions. Again, Happy Holidays!

Best wishes,

Barbara
Barbara P. Sinclair,
President, CSU-ERFA

CSU-ERFA's State Council at work. At the head of the table, Bill Blischke (DH), Vice President; Barbara Sinclair (LA), President; and Don Cameron (NO), Executive Director. The council met October 18, 2014, at CSU Dominguez Hills.

2015-16 CSU-ERFA Research Grants

Applications close December 19, 2014.
See http://www.csuerfa.org for more information.

CSU-ERFA Seeks Executive Director

CSU-ERFA is seeking an executive director to replace Don Cameron (Northridge), who is retiring June 30, 2015. The position is paid and part-time. The position description follows:

The California State University Emeritus and Retired Faculty Association (CSU-ERFA) is a state-wide association devoted to addressing the concerns and protecting the rights and benefits of retired CSU faculty and staff. CSU-ERFA has a membership of approximately 2,500 retired faculty and staff from the 23 CSU campuses. For further information, visit www.csuerfa.org

Qualifications: Emeritus status as a retired faculty member from a California State University campus and membership in CSU-ERFA; three years or more of experience as a department chair or in a management position; skill in planning, organizing and implementing long-range projects; competence in oral and written communication; experience managing budgets; familiarity with issues affecting CSU retirees such as health insurance programs and benefits; ability to interact effectively with members and supervise staff in the CSU-ERFA office.

The Position of Executive Director of CSU-ERFA: The Executive Director implements the policy decisions of the State Council, the Executive Committee, and the Association's officers and is responsible for the day-to-day operation of the central office. The Executive Director serves as an ex-officio non-voting member of all committees and the State Council, makes arrangements for the Fall and Spring State Council meetings, the Executive Committee and other committee meetings, and prepares and distributes written materials related to such meetings. The Executive Director supervises and evaluates the office manager, an administrative assistant and other office staff.

The Executive Director is responsible for maintaining appropriate accounting procedures and, on a quarterly basis or more frequently if directed by the Executive Committee or the President, will work with the Treasurer to report the financial status of the association to the Executive Committee. The Executive Director maintains liaison with affiliated retiree groups on each CSU campus, responding to requests for information or materials and encouraging activities of interest to retirees at the campus level.

The Executive Director responds to inquiries from members, either by resolving their concerns or providing directions on how to address those concerns. The Executive Director is responsible for maintaining an accurate data base of CSU-ERFA members and provides a listing to campus affiliates when requested.

This is a twelve month position and normally the Executive Director is expected to be in the office at least twice per month.

Salary: The current CSU-ERFA budget includes a monthly salary of $1,500 plus a $2,000 annual travel allowance. Additional benefits such as health insurance or pensions are not provided.

Effective Date of Appointment is July 1, 2015: Initial appointment is for a two year term, subject to renewal for an additional two years, based on satisfactory performance. (Note that CSU-ERFA Policy requires that this position has to be advertised every four years. The incumbent Executive Director may be considered for reappointment as part of this process.)

Applications: Candidates should submit a cover letter, a current resume and the names and contact information of three professional references. Review of applications will begin on January 19, 2015. Applications received by this date will receive full consideration. Submit application to:

Barbara Sinclair, CSU-ERFA President
c/o CSU-ERFA Office
The Retiree Center MD8339
California State University, Northridge
18111 Nordhoff St., Northridge, CA 91330-8339

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Legislative Report: Post-Election Bright Spots

By Alan Wade, CSU-ERFA Legislative Director

Mercifully, the mid-term elections are over, with no big surprises regionally or nationally. Democrats generally went into hiding, backing away from the President for various reasons, most of them hard to understand. The Republicans and big money are now in total control of Congress. Does anyone really know what this means for the country? In a best case situation, it could mean that the voices of the extremists on the right will be muted and that at least a few bottom line things good for the American people could be achieved—e.g., passage of a budget without shutting down the federal government.

Things turned out pretty much as expected at the state level. State offices up and down the ticket went to the Democrats, and Jerry Brown returns to the governor's office for a fourth term in spite of himself. Probably this is not good news for a vigorous and responsive public higher education system.

There were a couple of bright spots in a generally ho-hum legislative session. SB 1253 provides small steps toward reform of the ballot initiative system by offering more time for public review and generally more openness. AB 1523 requires that all residential care facilities for the elderly provide liability insurance—who knew that it wasn't required all along!? AB 2623 requires certain peace officers to receive training in elder abuse. Still, a large number of elder-protection bills never made it out of committee—lots of work needed on this front.

On the pension front—some temporary good news comes from the municipal bankruptcy front. The judge in the Stockton case, facing local concerns about

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Pre/Post-Retirement Report: "Turning One's Back on the Game?" By Tom Donahue, Chair, Pre/Post-Retirement

Q. What do you make of CalPERS closing out its investments in hedge funds?

A. You refer to the news early in October of CalPERS new policy about withdrawing money from its own carefully selected group of hedge funds. The story was given prominent play in the *New York Times*, the *Los Angeles Times*, *Businessweek*, and *Bloomberg News*, among others. The critical consensus view of this matter is as follows: after the 2008 market disaster, a wide array of investors turned to hedge funds to help them out of a skidding and plunging market. CalPERS, then under the guidance of the late Joseph Dear, attempted in a variety of ways to gain as quick a recovery as possible. Part of the early strategy in the months after the crash was to position sums in hedge funds in order to provide accelerated returns—although CalPERS did not place large sums under risk at any time in these instruments.

Two Problems. As time passed, the policy makers at CalPERS saw two problems: there was a high cost in hedge fund investments and an insufficient return. Second, there was a problem of scale: in order to try for large returns, CalPERS would have to invest such large sums that it would overwhelm any investment schemes in which it took part. At the same time CalPERS had success in other investment methods. Since 2009, investments in stocks, private equity, emerging markets, and commercial properties have allowed CalPERS to build toward a value that approaches $300 billion.

At present, CalPERS has invested only $4 billion in hedge funds. It is quite a shock to realize that for institutional investors the hedge fund industry at present has over 2.3 trillion dollars under management, with assorted high-risk bets constrained only by the utilitarian outcome of bottom line results. We might say "under management" advisedly when we can recall the manipulation of Goldman Sachs, which at the height of the recent crash committed what some described as a fraud against its own clients. The Securities and Exchange Commission alleged that Goldman Sachs "wrongly permitted a client that was betting against the mortgage market [Paulson and Co.] to heavily influence which mortgage securities to include in an investment portfolio, while telling other investors that the securities were selected by an independent, objective third party." Those other investors were kept in the dark about the influence of Paulson and Co. and were thus defrauded.

Directly to the point, one can hardly rest easy when, according to the discussion of moral approaches to investing in the Wikipedia article on hedge funds (which is worth a long look), a basic and enduring regulatory principle in contriving investment positions in hedge funds is to "minimize client fraud," not to avoid client fraud, mind you.

In any event, hedge fund practices are not for the faint of heart. Those with long memories who might be amused by all this may recall a scene in the screenplay by Jo Swerling, Abe Burrows, Joseph L. Mankiewicz, and Ben Hecht in *Guys and Dolls* (1955). Sky Masterson's betting habits are under discussion:

"Once, with my own eyes, I saw him bet 5,000 bucks that one raindrop'd beat another raindrop down the window." And then: "Once he was sick and would not take penicillin. He bet his fever would go to 104."

"Always makes crazy bets like that."

"Did he win?"

"He got lucky. It went to 106."

All joking aside, I for one am glad that CalPERS walked away from this game.

Please send questions for this column to Tom Donahue at: donahue_thomas@ymail.com.

Legislative Report

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maintaining basic public order, ultimately relented in the prospect of holding hostage retiree and worker pensions. Despite this decision, really big money nationwide will continue to fund the incessant war drum beat against public employees and pensions.

A small but symbolic legislative proposal (SB 1234, de Leon) has been floating around the state capitol for sessions. It would use the good offices of CalPERS to help fund pensions for certain private sector employees. It deserves the attention and support of public employee retirees and their union friends as a step toward alleviating "pension envy."

Archivist Greg Williams (DH) describing the CSU Archives to CSU-ERFA members at the October state council meeting.

Health Benefits Report: Long-Term Care Options

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average of 2.2 years; 79% of females will need LTC for an average of 3.7 years.

LTC Costs. The costs for various categories of LTC will also increase in the future. The US Department of Health and Human Services projected the median annual costs of various care options in California for 2037. The cost for home health aides are projected to double to $104,475; a private one bedroom in an assisted living facility will increase from $44,520 in 2012 to $128,773 in 2037; a semi-private nursing home room is projected to rise from $83,950 to $285,641. CalPERS has a cost of care calculator available at https://www.calperslongtermcare.com/Home/CostofCare.

The final decision on LTC options is yours to make. You should assess your tolerance for risk, likely available financial resources, anticipated longevity, risks for debilitating medical conditions, availability of family caregivers and multiple other economic, medical and family factors.

CVS Caremark Generic Drug Program. As first discussed in the May 2014 *Reporter*, CalPERS staff examined two options to promote increased use of generic drugs by those who receive outpatient prescription drug benefits managed by CVS Caremark. The CalPERS board adopted the CVS Caremark High Performance Generic-Step Therapy program (HPGST). The program covers nine targeted drug classes and, it is important to note, does not apply to those receiving drug benefits under Medicare's supplemental health plan. It is anticipated therefore that the impact on most CSU retirees is likely to be minimal. These changes become effective January 1, 2015; policyholders affected are being notified this fall.

Communication and Stakeholder Feedback. The ebb and flow of discussions on the CVS Caremark HPGST plan demonstrates the importance of early intervention in the CalPERS decision making process. The initial set of generic drug options was presented in April 2014 at the monthly stakeholder engagement meeting and were noted in the May 2014 CSU-ERFA Reporter. At subsequent stakeholders' meeting and at the June CalPERS pension and health benefits committee meeting significant reservations were voiced to the HPGST proposal primarily by those representing retired state employees. When ultimately approved by the board, there were significant modifications to the original proposal. Among the more significant were increased communication to those affected by the changes, a 30 day transition prescription while awaiting prior authorization decisions and the grandfathering of six of the proposed fifteen drug classes. The later will significantly reduce the estimated savings from initiating the HPGST plan.

Both CalPERS staff and members of the committee were receptive to the feedback offered by constituent groups. While the approved plan does not meet all the objections raised, it is more acceptable than the original proposal. The process illustrates the value of early discussion of proposed changes to health benefits regulations and the commitment of all parties involved to respectfully consider the input of those impacted by proposed changes.

Health Enrollment Reminders. Modifications to your health benefits usually are effective January 1st. Sue Kane, Acting Division Chief for Customer Account Services at CalPERS, offers this advice:

• Check your health plan premium deduction when you change health plans, enroll for the first time, or add/delete dependents.

• Carefully review your pay warrant to ensure the correct premium deduction was made.

• If you change plans during Open Enrollment and your January warrant doesn't show the new premium payment, please wait; you should see the correct payment in your February warrant.

• If you don't see the correct premium in your February warrant, contact CalPERS if you are a retiree.

• Do not continue using your previous health plan.

• If you review your warrants and you have a question about your premium deduction amount, contact CalPERS by calling 1-888-CalPERS (225-7377). Press or say "one" to take you to the retiree main menu, then press or say "three" which will take you to the health menu which provides you with a variety of health menu options.

You may also wish to refer to recent CalPERS publications for further information: Winter **PERSpective,** page 5, http://www.calpers.ca.gov/eip-docs/member/perspective/2014-winter-full.pdf.

Open Enrollment Newsletter – page 1, Important Health Reminders: http://www.calpers.ca.gov/eip-docs/about/pubs/member/open-enrollment-news.pdf.

At CSU-ERFA's state council meeting October 24, 2014, are Vice President Bill Blischke, President Barbara Sinclair, and Executive Director Don Cameron.

State Council Meets, Approves Search for New Director

CSU-ERFA's state council met on October 24, 2014 at CSU Dominguez Hills to hear reports on retirement and CSU-related issues and to approve the vacancy announcement to search for a new executive director. Don Cameron, who has been executive director for the last seven years, will leave the association next June 30th on a sound financial and administrative footing. Members were asked to urge candidates to apply for the part-time position.

The 32 delegates and others attending the meeting represented 16 of the 23 campuses. They approved the search for a new executive director (see page 3) as well as a new method for recruiting prospective members. A member of the state council from each campus will be designated to contact retirees as they retire to explain the benefits of membership.

Currently almost 100 members join each year, and membership development continues as a high priority for the organization. All retired and emeritus faculty members, including professional librarians, and those designated academic administrators or serving in closely related positions, are eligible to join CSU-ERFA. Retired staff who belong to a campus retiree organization affiliated with CSU-ERFA and surviving spouses of members are also eligible for membership.

Webmaster Mark Shapiro noted that the number of daily visits during 2014 varied between 40 and 65, with the news and views page the most frequented, followed by the links page, the long-term care page, and issues of the Reporter.

Alan Wade, chair of the CSU-ERFA committee on legislation, noted that

• Legislative reform of the initiative process was signed by the governor.

• We should expect renewed anti-public pension activity in 2016.

• The public employee unions are a major bulwark against more Draconian efforts on the state and national scene to cut public pensions.

• The Retired Public Employees Association of California is considering an effort to improve CalPERS' death benefits. Wade asked for suggestions for the CSU-ERFA legislative agenda for the coming legislative session.

David Wagner, chair of the CSU-ERFA health benefits committee, offered several comments on current issues. His comments are amplified in the health benefits column in this issue, on page 1.

George Diehr commented on the 86 days remaining in his 12-years on the CalPERS board. The board is dealing with current issues regarding tobacco divestment and the fund's investments in real estate and commodities, among others. Diehr will continue his involvement as CFA's liaison to CSU-ERFA, with Harold Goldwhite having been recently named as CSU-ERFA's liaison to CFA (see his report on page 7).

The meeting concluded with a tour of the CSU archives in the CSU Dominguez Hills library, with archivist Greg Williams explaining the features of the new archives facility (see picture, page 4).

Mathur, Taylor Elected to CalPERS Board in Low Turnout Election

CalPERS announced that Theresa L. Taylor and Priya Mathur are the winners of the September election for the state and public agency seats on the CalPERS board. The unofficial election results indicate Taylor received 12,888 votes, 55 percent of the valid votes cast. Mather received 9,299 votes, some 56 percent of the valid votes cast. They will both serve four year terms that begin in January 2015. Neither election would have involved CSU-ERFA members (almost all of whom are retired members of CalPERS).

Turnouts were, as is true for almost every CalPERS election, abysmally low. The state election involved some 24,000 ballots, but over 300,000 CalPERS members are active and inactive members in the state category. For the public agency seat, some 17,000 votes were cast, but the category includes over 300,000 active and inactive members.

The state member seat is the one being vacated by George Diehr, professor of management science at CSU San Marcos, who has served since 2003. Taylor will be serving her first term and is currently a principal compliance representative for the Franchise Tax Board.

Mathur has served on the board since 2003 and is currently board vice president. She serves as a principal financial analyst for Bay Area Rapid Transit District. In August, she was cited by the Fair Political Practices Commission for failing to file required reports for the fourth time in the 12 years she has been on the board, this time for failing to file four semiannual campaign contribution reports.

The FPPC in late August declined to endorse the recommended $1,000 fine, with several commission members saying it was too low. She has previously paid $13,000 in fines for filing lapses since her first election to the board in 2002. Because of the violation, the CalPERS' Board removed Ms. Mathur from her two leadership positions: Vice President of the Board and Chair of the Pension and Health Benefits Committee. Diehr will serve as the interim Chair of PHBC through December.

In Memoriam

Dominguez Hills – Edith Buchanan

Fresno - Birger L. Johnson

Fullerton – Harvey Blend,
Ruth Nycum,
Glyndon Riley,
James D. Young

Los Angeles – William Manning Cole,
Patricia Bates Simun,
Beverly Warner

Northridge – Charlotte Oyer,
Thomas E. Wright

San Diego – Wulbern, Julian H.

CFA Report: Delegate Assembly Meeting, New Contract

Harold Goldwhite, CSU-ERFA Liaison to CFA

The governance body of the California Faculty Association (CFA), its delegate assembly, meets twice a year, in spring and fall. Unfortunately its fall meeting of 2014 coincided with CSU-ERFA's fall state council meeting, and so your liaison attended only the joint meeting held the evening before the assembly of the CFA retired faculty committee and the CFA health and retirement benefits committee.

Also present at this meeting was Professor George Diehr, of CSU San Marcos, a current member of the CalPERS board, and newly appointed CFA liaison to CSU-ERFA.

Agenda. The joint committee meeting agenda included mostly information items about retirement and health benefit issues. The only action item was a minor amendment to CFA by-laws to clarify the membership of the CFA retired faculty committee. The group also discussed the possibility of CFA and CSU-ERFA coordinating recruitment efforts to convince retiring CSU faculty to join both organizations.

A New CFA-CSU Contract. The major news on the CFA front was the announcement of a tentative contract agreement for the period 2014 to 2017, and an agreement on salaries for 2014 -15. These agreements must be ratified by CFA members and the CSU board of trustees.

They provide a 3% increase to the base salary pool for the year, including a 1.6% general salary increase for all CFA-represented employees; an added 3% increase for some groups of faculty with salaries below the service salary increase (SSI) maximum, who will thus receive a 4.6% increase; some salary adjustments for lecturers; and an equity pool of $2 million for some tenure-track faculty.

Workload issues are addressed to some degree with a $1.3 million pool for additional assigned time, and a $2.7 million pool for new probationary faculty. There will be re-openers on salaries for 2015-16 and 2016-17. The FERP program remains unchanged for the duration of this agreement.

Highlights of the New CFA Tentative Agreement

By Andy Merrifield, CFA

Andy Merrifield of CFA presented the following information to the statewide Academic Senate (ASCSU) at its November meeting. Here are more specifics on the new tentative agreement (TA) that CFA members will vote on until November 9, 2014.

"While the overall agreement is for three years, the salary is for the first year only. Either side can re-open on salary for years two and three on May 1, 2015 and May 1, 2016. If no agreement is reached on salary in either of the out years, the statutory process remains in place. This could then lead to declaration of impasse, mediation and possibly fact finding and then imposition of management's "last best and final offer," and the union could exercise the economic weapon at that time of going on strike. In addition to re-opening on salary, the two sides can also re-open on benefits for faculty employed in extended education on May 1, 2015.

The specific details of the salary in the first year are in Article 31 of the TA. There are four parts of the salary agreement:

--Money for progression through the ranks for unit members at the lower end of their rank for tenure and tenure track faculty and for members in the lower end of their range among adjunct faculty with three year contracts;

--Classification adjustments for a significant number of adjunct faculty who were misclassified in their range considering their terminal degree in their teaching discipline and the complete elimination of the Lecturer L category;

--An equity adjustment that partially alleviates the inversion problems faced by some faculty hired in the last fifteen years; and

--A general salary increase for all members of the unit.

Though CFA has not put together any formal proposals for years two and three, the union has made it clear that issues of continued progression through the ranks, compression faced by more senior faculty, ongoing inversion problems and additional general service increases all continue to be vital to repairing the dysfunctional salary system, chronic underfunding by the state and poor administrative choices at both the campus and system level.

According to surveys of our members in advance of every round of bargaining for successor CBAs, the second most important issue after salaries is workload. In the new agreement there are three areas where workload problems are addressed. First, all new tenure track hires beginning in fall 2015 will be guaranteed an average of one course reassigned time each term for the first two years of their appointment to help with their scholarly activity. On any campus that already has more reassignment time than this new minimum, the larger amount of time will stay in effect.

Second, for faculty who do exceptional service to the students, especially for traditionally underrepresented students or for faculty representing smaller departments, a pool of money will be established to provide reassignment time. This pool will also provide reassignment time for faculty with excessive student contact from sources such as excessively large classes, large numbers of thesis students, internships etc. The distribution of this money will be done by faculty committees established by campus governance. This type of system already exists in distributing resources for scholarly activity through RSCA programs and other campus

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CFA Tentative Agreement

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based programs. The appellate process for this pool will also be controlled by faculty and their decisions will be final. The pool will be $1.3 m annually for service and course load distributed to the campuses based on FTES. This is the first recognition of specific workload issues with dollar amounts attached.

Other areas of change in the CBA include some steps toward making a greener university, enlarged protections on intellectual property, clarification and better protections of evaluations for online course work, improved parental leave, explicit prohibitions against unpaid work for coaches, payment of lecturers who teach over a 1.0 (full time) load as part of their entitlement, and improved guarantees for sabbaticals for otherwise qualified applicants turned down because of being "irreplaceable.

There will also be no changes in parking for the first year."

CSU-ERFA New Members

Chico – Joel A. Zimbelman

Dominguez Hills – Sally M. Moite

Fresno – Robin T. Chiero

Humboldt – Barbara A. Goldberg

Pomona – John E. Simpson

Sacramento – Alice W. Carney

San Jose – Panfilo S. Belo

Sonoma – Francisco H. Vazquez, Debora R. Hammond

Stanislaus – Katherine I. Norman

Pension Obligation Bonds

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a higher rate of interest. That's classic arbitrage. No risk. The city and the bond buyers benefited at the expense of the U.S. Treasury. The IRS was not amused. It promoted legislation that became part of the Tax Reform Act of 1986 that prohibited the use of tax-exempt bonds if the proceeds are for investment. That ended tax-exempt POBs.

Taxable POBs emerged in 1993, also with the aid of Orrick. The idea was to sell bonds at 5 or 6% and put the money into the pension trust fund where it was assumed by the actuaries that it would earn 7.5 to 8.5% based on long-term historical averages. Bad idea! Pension liabilities are inherently long-term. Financial markets fluctuate in the short- and intermediate term. This was not risk-free classic arbitrage.

There are many risks associated with taxable POBs. They include (1) financial risk (rate of return on assets may be less than the POB rate), (2) timing risk (issuing POBs at or near the top of the business cycle), (3) flexibility risk (transferring "soft" unfunded pension obligations into hard bond liabilities) and (4) political risk (the POB makes the pension fund balance sheet look better and the government's look worse, prompting public employee unions to demand benefit enhancements and beholding elected officials to acquiesce). Governments and their pension funds are separate entities with separate reporting and disclosure responsibilities.

In 2003, Governor Arnold Schwarzenegger attempted to issue a $949 million POB (inherited from the Gray Davis Administration). The Pacific Legal Foundation (a Howard Jarvis taxpayer group) claimed that voter approval was required, and the courts agreed. That was the end of State of California POBs. Good.

Numerous California county, municipal and other local-governments have issued POBs. There were 191 new POBs issued in California from 2000 to 2013. As of 2013, almost all of them were "under water." The city of Oakland stands as a classic example of how not to do it. After its initial experience with a tax-exempt POB in 1985, Oakland issued taxable POBs of $417 million 1997, $196 million in 2001, and $212 million in 2012. In 2010, the city auditor reported that Oakland still owed $250 million more on its 1997 POB than it would have had it not been issued and the city had continued to make its payments to the pension plan instead. No one knows how the 2001 and the 2012 POBs will fare. Scary, isn't it?

Government bond issues are usually insured by one or more of a handful of Wall Street municipal bond insurers. That lowers the interest rate. In the Stockton bankruptcy, the city abandoned $195.5 million in pension bonds insured by Assured Guaranty while continuing to honor $41.6 million of other pension debt backed by sources of revenue such as leases, buildings and other collateral. Its reasoning was that, since the unsecured bonds were insured, the bond holders would not suffer a loss. Litigation followed. One of the issues is whether CalPERS should be involved in the bankruptcy negotiations as a creditor. On October 1, 2014 the bankruptcy judge ruled that Stockton's pensions could be cut (as were Detroit's). Many of us live in jurisdictions with serious fiscal problems exacerbated by large pension debt complicated by POBs that may some day be involved in Chapter 9 bankruptcy proceedings. Stay tuned in.

Not all POBs are bad. In 2003, CalPERS established a risk pool for about 1,500 public pension plans with fewer than 100 active members. To allow them an equal start, the plans were given a loan from CalPERS in the amount of their unfunded liability at 7.5% interest rate. In early 2014, the voters of Piedmont (an affluent city of 10,400 completely surrounded by Oakland) approved an $8 million POB to pay off the CalPERS debt and thereby save over $600,000 over nine years. Not too shabby.

Most POBs in California have been issued at the wrong time for the wrong reason by the wrong governments. If you are ever asked to vote for or otherwise approve a POB, be careful.

Source: Derived from *Understanding Pension Obligation Bonds,* Compensation and Benefits Review, March/April 2014, pp. 123 - 129.

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ASCSU: Academic Freedom, Shared Governance, More...

By Bill Blischke, CSU-ERFA Liaison to the ASCSU

The highlight of the November meeting was the reception at Chancellor White's beautiful home on Thursday evening. The food, wine and comingling was memorable! I had a chance to talk to the chancellor about our organization and to let him know that we are in the process of setting up a meeting with him. He encouraged us to do so. I also had an opportunity to meet the vice chancellor for human resources, Lori Lamb, to bend her ear about the problems CSU-ERFA has on some campuses with getting the word out to retirees regarding their eligibility for joining our group. She said she would set up a meeting with her, her staff, CSU-ERFA President Sinclair and me.

Chancellor's Report. As always, in contrast to his predecessor, earlier that day the chancellor met with ASCSU, made a few general comments, and then fielded a host of tough questions. He informed us that the board of trustees (BOT) is requesting more for the 2014-15 budget than the governor included in his proposed budget. The chancellor also mentioned that there is a task force on an Academic Sustainability Plan for the CSU. ASCSU is an important constituent on this critical group.

Faculty Trustee Report. Steven Stepanek, faculty trustee, in his report mentioned that the BOT is considering a policy requiring the future student success fees (a synonym for another form of that four-letter word, "tuition") will only be improved by a majority student vote which must be reconfirmed by the students every five years and will be subject to certain specified purposes. He also mentioned that the CO is anticipating an increase in retirements in the next decade. This offers a great opportunity for CSU-ERFA to expand its membership.

After many lengthy reports, similar to our state council meetings, ASCSU acted on a number of very important committee recommendations. Partly at my urging and also as a result of ASCSU's increasing awareness of the supportive role we could play, their committees have included CSU-ERFA on their distribution lists. The most important items included the following, which can be read in their entirety at their website:

• **Improving Campus Response to Sexual Assault and Sexual Violence (AS-3192).** This is a serious national, state, CSU, and campus issue that must be addressed ASAP. It is estimated to affect one in five women as well as an undetermined number of men. The resolution cites the crucial role that faculty play in fostering awareness of sexual violence, encourages training of faculty and staff in this complex and sensitive area, recommends a review of current campus policies, and the periodic conducting of campus climate studies.

• **Protecting the Academic Freedom of CSU Faculty (AS3193)**. There have been attacks on academic freedom by outside groups at the Fresno, San Luis Obispo, Northridge, San Diego, San Jose and San Francisco campuses in recent years. This resolution reaffirms the faculty's commitment to advance the principles of academic freedom and freedom of inquiry and strongly deplores and opposes attempts by outside groups to limit it. In addition, it urges the chancellor and campus presidents to publicly denounce actions by such groups.

• **Response to AB 94: Goal Setting for Academic Performance Measures for Academic Sustainability Plan (AS-3194)**. This resolution focuses on degree production, not quality. The legislature is looking for "accountability" with narrow, quantitative criteria. The ASCSU recommends the creation of a task force.

• **CSU Board of Trustees Proposed 2015-16 Support Budget (AS-3196).** Commends the BOT for asking for funding beyond that which the Governor has proposed. However, ASCSU urges requesting additional funds to cover additional tenure-track faculty positions as well as an increase in employee compensation and monies to address the CSU'S horrendous deferred maintenance problem.

The first reading items for the January Plenary include two very important items. The first calls for the development of a current, comprehensive CSU policy on academic freedom. The need is apparent from the exclusive use of the pronoun "his" to describe faculty. The "current" policy was approved in 1971. Using AAUP standards and recent model policies from other universities will bring us into the 21st century. A second resolution recommends including non-tenure track faculty in the shared governance process.

The last very important topic of discussion was the CSU Academic Conference to be held at the Chancellor's Office on Nov. 13th and 14th. This meeting will include members of the BOT, the CO, ASCSU, CSSA, CFA, staff representatives, etc. This type of conference composed of all CSU constituent groups has not been held for a number of years. I remember attending the Academic Retreats, as we used to label them, in the 1970s at Asilimar. President Sinclair and I will represent CSU-ERFA and report back to you on our impressions.

Highlights of the September ASCSU Meeting

Barry Pasternack, emeriti senator, reported that at the first meeting of the statewide Academic Senate (ASCSU) September 4-5, most of the meeting was spent on reports and first reading items. The action items included electing the faculty trustee screening committee (the actual recommendation of two possible candidates to the governor is done by the full senate).

The fiscal and governmental affairs committee heard a report on students eligible for the CSU but denied admission. In fall 2008 there were 6,134 such students, but the number grew to 26,430 in fall 2013. In the latter year, 175,000 frosh and 108,000 transfer students applied for admission to the CSU. For fall 2015, 17 campuses will have supplemental admission criteria, and five campuses are impacted for all majors, including Fullerton, Long Beach, San Jose, San Luis Obispo, and San Diego.

Chancellor White indicated that the search for a new executive vice chancellor for academic and student affairs is under way. The board of trustees has created a task force to analyze the supplemental fees called "student success" fees. Executive Vice Chancellor Ephraim Smith reported on the graduation initiative (to increase graduation rates) and the early start program.

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CSU ERFA

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November 2014 Turnout One of the Lowest Ever

As of press time, approximately eight million people voted in California in the November 2014 election. The Field Poll estimated that 8.2 million would vote; the Secretary of State's office as of November 9, about a week after the election, estimates that about 6.3 million ballots have been counted and about 1.65 million are left to be counted, for a total of 7.95 million. The high number left to be counted is because so many voters are voting by mail, over 60% in this election, the highest percentage ever in a California statewide election.

A Low Turnout Election. The approximately eight million voters is the lowest total for an off-year election since 1978, save for 2002, when 7.7 million voters voted. Compared with the number of eligible and registered citizens, about 46% of the 17.8 million registered voters cast a ballot in this election, the lowest total since before 1960, according to data provided by the Field Poll.

CSU-ERFA Calendar of Events

December 19, 2014 - CSU-ERFA research grant applications due.

February 14, 2014 - CSU-ERFA Executive Committee meeting in Torrance.

April 25, 2015 - State Council meets at CSU Long Beach.

October 17, 2015 - State Council meets at CSU Fullerton.

Only 33% of Eligible Adults. Compared with the eligible adult citizens, a number that reduces the voting age population by the number of non-citizens and those ineligible to vote because of a felony conviction or being in jail, the 33% of adult citizens who voted in this election is also the lowest since before 1960.

Lack of Interest? It is a truism among political scientists that citizens in the United States don't vote at the most fundamental level because they are not interested in politics and the particular election. The depth of this disinterest can be seen from the fact that two of the propositions had between $55 and $60 million spent on the negative side (Props. 45 and 46, both of which lost). However, both were one-sided spending campaigns, with the positive side outspent by about five to one in one case and more like nine to one in the other.

In fact, all of the propositions on the ballot had one-sided spending campaigns, ranging from Prop. 2, where the pro-side spent $15 million and the opposition zero, to the most "even," Prop. 46, where the pro-side spent $12 million and the opposition spent almost $58 million.