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EBMUDERS – The Bankers Robbed Our Pension System, not the Workers.

As with all pension funds and most investors throughout the country, our pension fund took a substantial hit during the recession, loosing $250 Million in 2008. Carried forward, that equaled a $390 M loss when we include the assumed return on investment of 8.0%. Since that time our fund has recovered significantly, though because of a financial accounting method of 'smoothing' gains and losses (by taking a rolling average over 3 years), we are only just this year beginning to realize the recovered losses – our fund just broke $1.0 Billion and is now worth over $1.1B; and is out performing other large pension plans (such as CalPERS). The next actuarial valuation will be out in July and it is expected to look even better.

When looking at a pension plan's funding it is important to understand the actuarial assumptions. For instance, in 2008 the rate of return (growth) was assumed to be 8.0%. Our Pension Board has since decided that was unrealistic and decreased that assumption to 7.75% with the caveat to revisit the assumption next year. This is important because these assumptions are used in calculating the "actuarially accrued liability", or the value of the fund in 30 years, after taking into account all of the fund contributions and withdrawals. A quarter of a percentage point can result in tens-of-millions of dollars difference ($46M, actually). When the resulting calculation is negative we have an 'unfunded liability', which the District pays as a guarantee to keep the plan funded; also,

in the past, the District has 'borrowed' money from the fund when the plan was over funded, or net positive.

The calculation is quite complex and only done annually; last year we stood at 66% funded (a $535M shortfall in 30 years), resulting in an unfunded liability of $60M annually for the District to pay to keep our plan funded. The next time it will be updated is next July, and I am quite confident the funding will be significantly higher – short of one fact: the hiring freeze.

– Management shorted our Pension Fund, not the Workers.

One factor that the actuary includes in growth is growth due to new hiring – 3.75%. This is new money that comes into the fund as current workers retire and begin to withdraw. As you know, hiring has stagnated at around zero since the District implemented the hiring freeze, and our total staffing has decreased by about 10%. This has saved an estimated $34 million for the District, but also decreased the funding of our pension by an estimated $2.3M – if we take 6.83% of $34M, our pension deduction, and assume a rate of return of 7.75% for 30 years, we would have an additional $21.6M in the plan, which would account for 4.0% of the $535M shortfall.[1] The loss will continue to accrue until assumptions are adjusted to account for the correct staffing levels, and the District is trying to place the burden on us – by asking us to increase our pension contributions to make up that difference.

Our plan has always been well run and conservatively administered. We have always paid into it – currently at 6.83% for employees hired before Jan. 1, 2013, and 7.75%, increasing to 8.75% for employees hired after, according to the new pension law CalPEPRA. We have not been able to spike our pensions by calculating unused sick-leave or vacation in our terminal compensation, or any other allowances or stipends. Our elected Retirement Board has done a good job in investment strategy, often keeping the fund better than 85% funded and at times in excess of 100% funded. We, the workers did

[1] These estimates are my own and do not reflect any actuarial valuation.

not cause our plan to have a shortfall. We did not contribute to the excesses of Wall Street, nor were we privy to the financial dealings of then Finance Director Gary Braux – financial dealings of which the Board of Directors approved involving derivatives trading for synthetic fixed-rate swaps (say Freeport) that may have cost the District tens or even hundreds of millions of dollars (they still wont tell us exactly how much). And they still expect us to take pay cuts and pay more in to our pension!!! We say NO!!!

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You may have heard the term "Quantitative Easing", or simply know that the Government is printing a lot of money, which is what Quantitative Easing (QE) refers to (actually, the Fed is buying bonds from the Treasury and mortgage backed securities from the banks – currently at a rate of over a billion dollars a day.) This monetary policy is well known in economics to be an inflationary policy – That is the only point I want to make here because the subject is both complex and controversial in terms of impacts on our economy and quality of life.[2]

The Fed has said they will stop QE when they see signs of inflation or unemployment reaches 6.5%. If they wait for inflation there will be so much inertia in the system it will be hard to prevent hyper-inflation, let alone stop it. And what's more the process, by way of keeping interest rates low, has had the effect of limiting growth of the Federal Debt by reducing the interest in it. The Fed will have little incentive to increase rates and the likely outcome will be greater inflation!

The CPI-W is the Consumer Price Index for Workers. On a regular basis, statisticians go out and check the prices on consumer goods, and then average the change and give use the result as CPI. We use the Core CPI-W, which excludes food and energy. People often lament this – the rising price of food and gas of course affects us all, but the CPI is intended to measure inflation that is a result of Federal monetary policy, so those volatile

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[2] see: http://en.wikipedia.org/wiki/Quantitative_easing for a primer on the subject because it is sure to affect us all well into the future.

factors that can be more a result of bad weather or war are kept out.[3] None-the-less, the CPI is our best measure of inflation, so a COLA must include CPI to accurately keep our wages at par with inflation.

So it seems that management is inclined to reduce our real wages by paying us less, potentially far less, than the rate of inflation, and to pin us with **their** cost to our pension plan – costs incurred from their decision not to hire. That is why IT IS SO IMPORTANT TO KEEP **CPI** IN OUR CONTRACT, **REFUSE** TO PAY MORE INTO OUR PENSION AND **DEMAND** REAL INCREASES IN OUR WAGES!!!

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Finally, a note on the rate increase, which the Board of Directors did approve against a small, but vocal opposition mostly from Oakland who knew that something was being missed; unspoken and troublesome. It was noted by one fellow that the rate increase far outstrips the increase in providing service. Another fellow made the observation that while EBMUD says they are going to pay for more projects with cash; EBMUD is still in the process of restructuring and refunding bonds.

The bonded debt was the elephant in the room. Unclear to the Oaklanders there and possibly to the Board as well, though I believe less so, was the fact that much of the rate increases have not to do with and increasing cost of service, but the debt incurred for Freeport and the financial dealings associated with it. I think our Director of Finance, Eric Sandler, is doing a good job of restructuring a nasty web of debt incurred under the previous GM, but lacking that debt, I cannot fathom that we would be requiring a near 20% rate increase over the next two years.

The cost we are paying for is restructuring the variable rate LIBOR bonds and the associated synthetic fixed-rate swaps. That sits heavily on top of all of us.

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[3] http://en.wikipedia.org/wiki/United_States_Consumer_Price_Index#Core_CPI