Pension 102

Intro to the Wall-Street Backed Movement to End Secure Retirement

Key Points

01

The financial industry views pensions as a threat.

02

They pay a lot of money to attack pensions, but working people fight back.

03

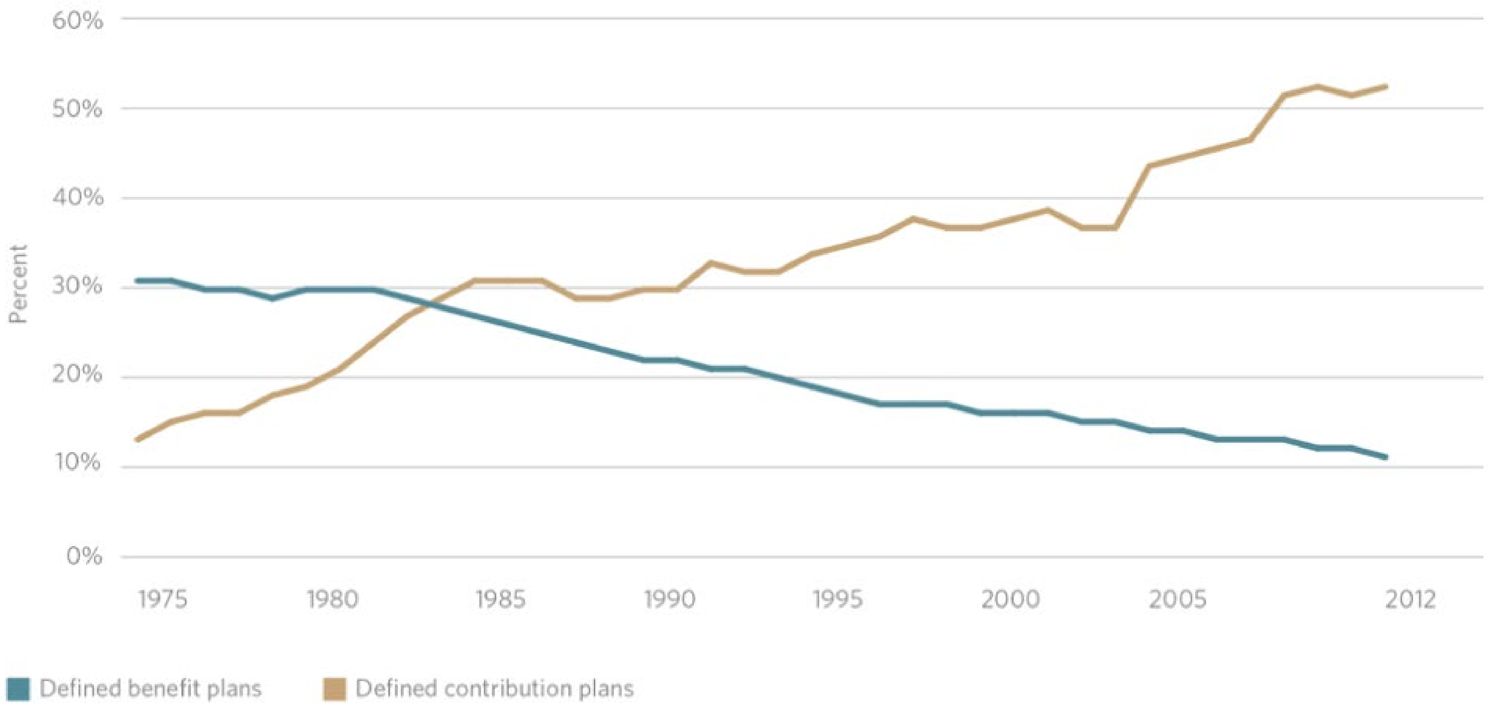
The public sector is the last line of defense in the attack on pensions.

The World without Pensions

Figure 2

Defined Contribution Plans Now Much More Common Than Pensions

More than half of private sector workforce is in these types of plans



Source: U.S. Department of Labor Employee Benefits Security Administration, December 2014, Form 5500 data

Figure 4: **Young Households with Workplace Retirement Benefits Are Half as Likely as Near-Retirement Households to Have a DB Pension**

DB and DC plan coverage among households covered by an employer-sponsored retirement plan, by age of head of household, 2013

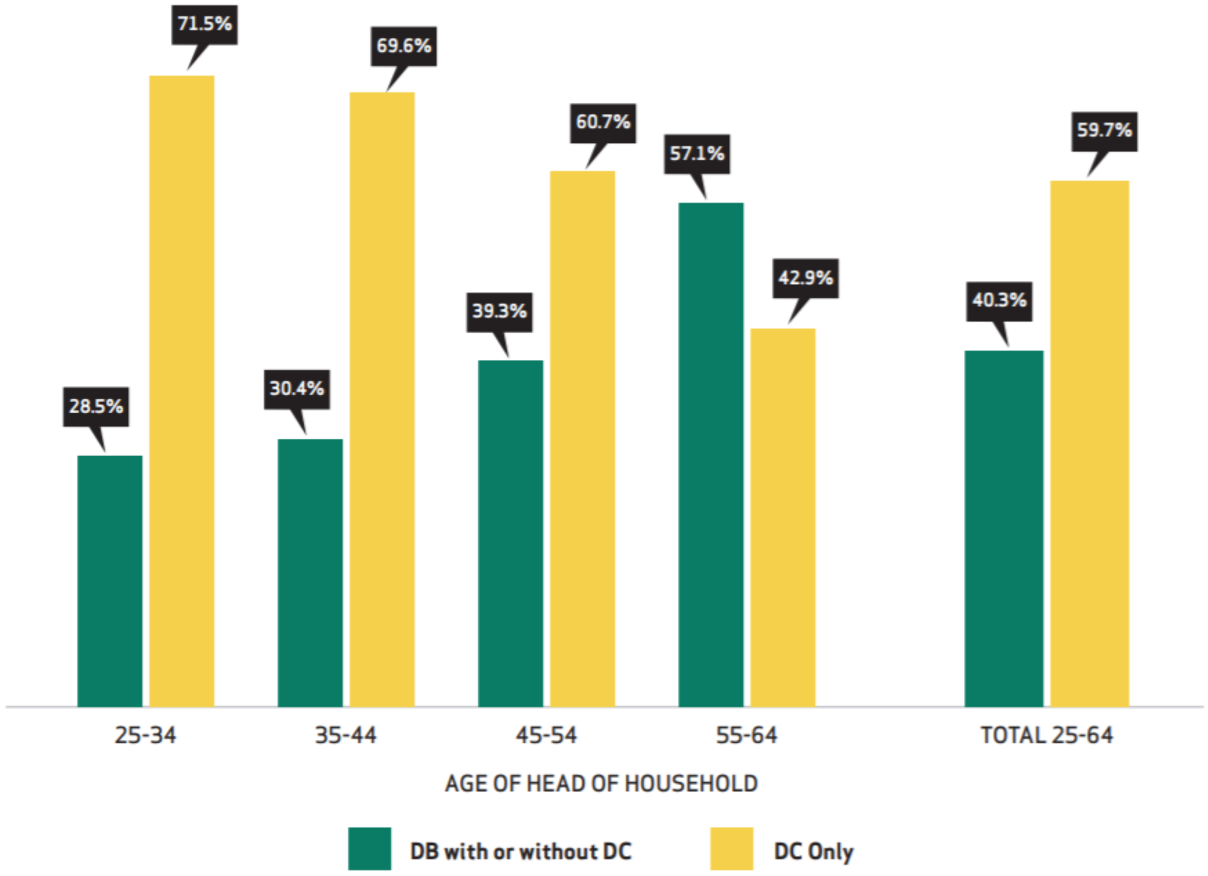
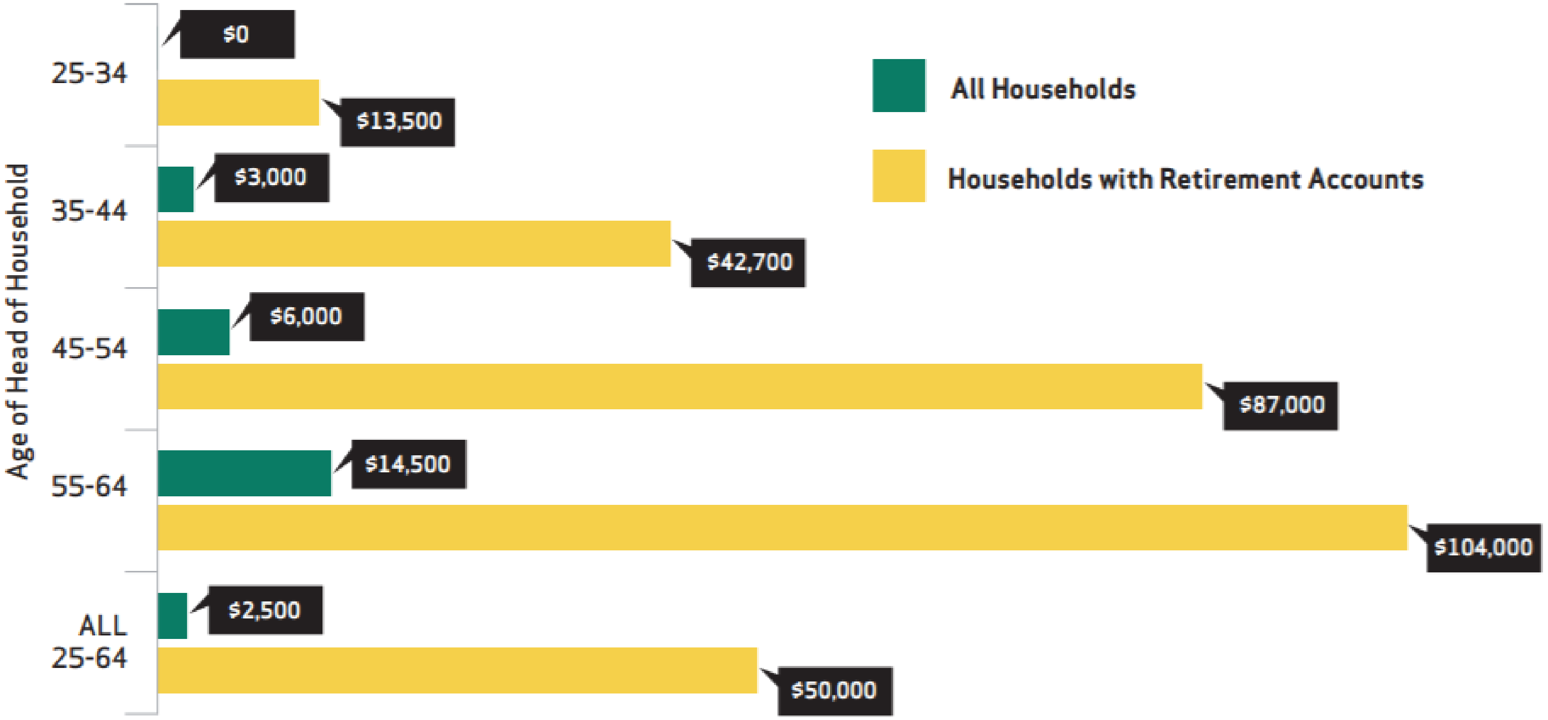


Figure 8: **Typical Working-Age Household Has Only $2,500 in Retirement Account Assets; Typical Near-Retirement Household Has Only $14,500**

Median retirement account balances, households with retirement accounts vs. contingent median account balance for all households, 2013



Source: Authors' analysis of 2013 SCF.

Why does Wall Street Hate your Pension?

Key Points

Wall Street wants to manage your money on an individual basis where you pay high fees and have no collective voice.

Investors see pensions as crowding out their ability to get paid high returns on bonds.

- Credit Ratings
  - Like a City's Credit Score
  - Has become a stand-in metric for assessing fiscal health
  - Good bond rating = access to $$$

Why do Elected Officials Care what Investors Think?

The Dangers of Bad Ratings

Chicago Public Schools – B+ Rating (Fifteen steps below Aaa)

- Last debt default – 1943
- State has unlimited authority to raise property taxes if needed
- Chicago's business elite admitted to pressuring ratings agencies to downgrade over pension obligations
- **Annual losses: $290 Million Annually**

State of New Jersey – Aa3 Rating (six steps below Aaa)

Stated reason: pension obligations

State *cannot* go bankrupt

Has never defaulted

Annual losses: $222 Million Annually

Lehman Brothers

- Remained above A1 credit rating until July 2008.
- Filed for bankruptcy in September 2008

Washington Mutual

- Remained above A2 credit rating until fall of 2007
- Collapsed in September 2008

MOODY'S
INVESTORS SERVICE

CREDIT OPINION

21 May 2018

Credit challenges

» High pension and OPEB burdens

Rating outlook

The outlook is stable and reflects the city's large and diverse tax base that we expect will continue to grow at a moderate rate and management's demonstrated ability to preserve its financial position through challenging economic and financial cycles.

Factors that could lead to an upgrade

» Significant and sustained improvement in the city's fiscal position

» Material decrease in the city's unfunded pension and OPEB liabilities

Factors that could lead to a downgrade

» Significant deterioration of the city's financial position

» Inability to effectively manage retirement costs

» Outer year deficits are larger than current projections

Why do investors see pensions as bad?

Case Study: Stockton

Why are Unfunded Liabilities a Credit Issue?

Required increase in employer contributions may "crowd out" other priorities, reducing financial flexibility

- From the City's perspective, once a UAAL has been incurred there are only four ways out:
  - Contribute more
  - Cut benefits (unlikely)
  - Earn more (unlikely)
  - Increase mortality (not recommended!)

- From a rating agency perspective, unfunded liabilities are considered tantamount to debt

- Funding ratios below 80% are a potential credit negative
  - Miscellaneous Plan is 87.9% funded, however Safety Plan is 79.5% funded

- Rating agencies generally view POBs as an acceptable tool for reducing the cost of an already existing liability

"As part of Standard & Poor's rating analysis, the status of an employer's pension plans is an important factor. Any competing obligations that could weaken the ability of the employer to meet bond debt service requirements may be a negative credit issue . . . Thus, pension liabilities, which include ongoing, annual servicing requirements in the form of contributions from employers, must be managed so as to not adversely affect the employer's credit profile. **To the extent that pension funding problems act to decrease an [issuer's] financial position or flexibility, and these issues are not addressed, they could exert downward pressure on creditworthiness at least over the intermediate term.**"

- Standard & Poor's
February 22, 2006

U.S. MARCH 19, 2012 / 5:15 AM / 7 YEARS AGO

Stockton: The town the housing boom broke

Michelle Conlin, Jim Christie

9 MIN READ

NEW YORK/STOCKTON, California (Reuters) - Fo
California suffered a civic inferiority complex. Los A
sunny beaches. San Francisco was awash in tech futu
billionaires. Stockton was the polyester, buy-generic
hub for Central Valley farms that was just far enough
Bay area to be an irrelevance for the state's coastal el

O N

2-1997

On June 28, 2012, the Ci
United States Bankruptcy
essential services, such a
obligations it cannot pay.
features and protections a
safety services for the citi

U.S. JULY 3, 2012 / 3:51 PM / 6 YEARS AGO

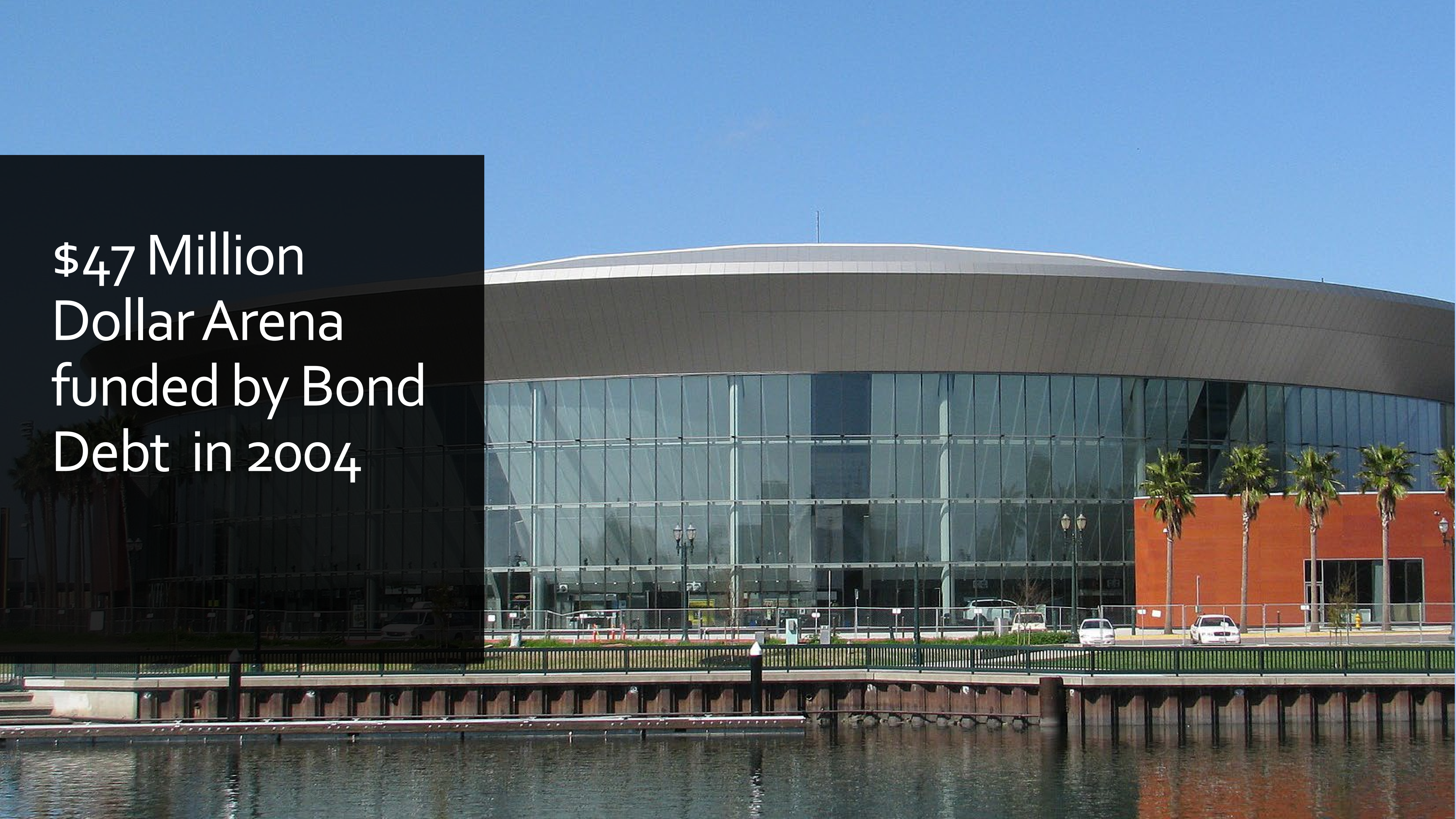
How Stockton went broke: A 15-year spending binge

Jim Christie

9 MIN READ

SAN FRANCISCO (Reuters) - The man in charge of the biggest U.S. city ever to file for bankruptcy is clear about the root of the crisis.

$47 Million Dollar Arena funded by Bond Debt in 2004

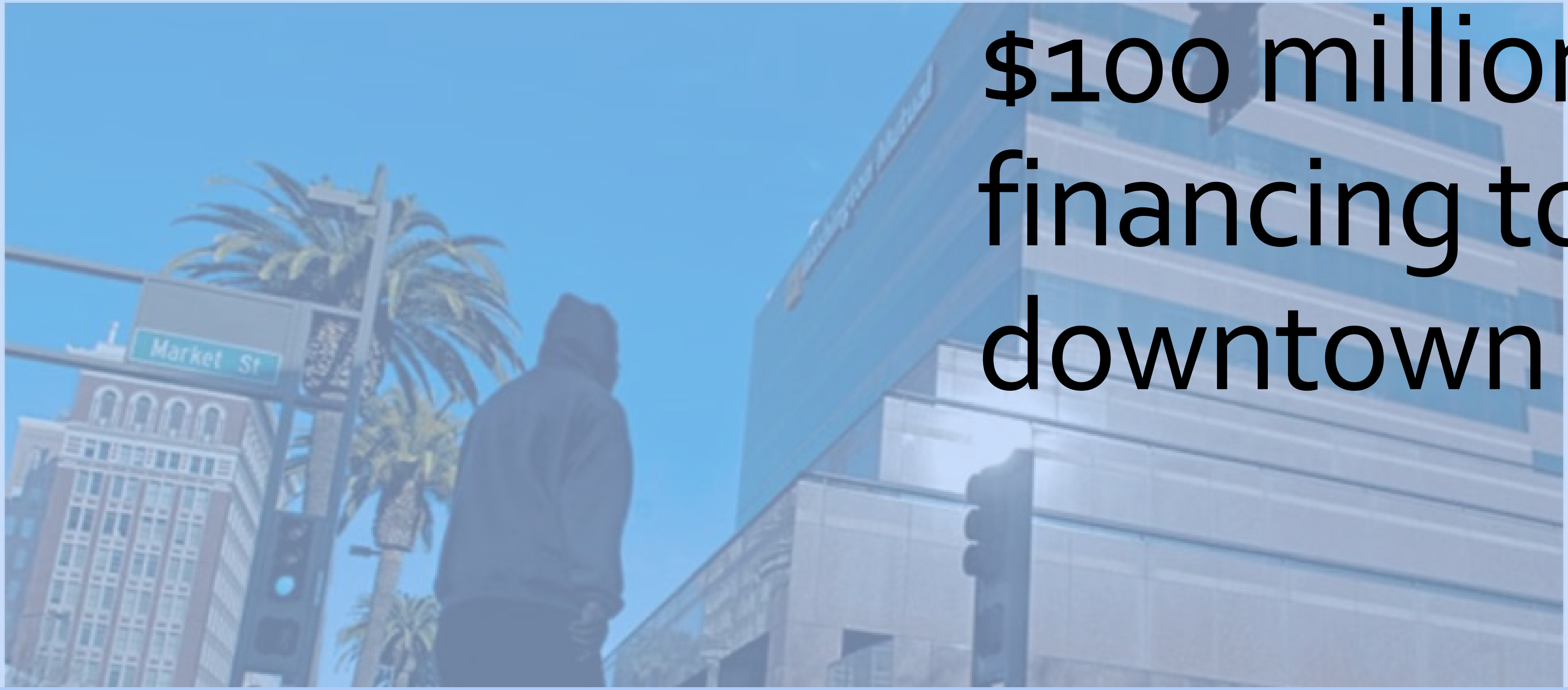


Business

The Building Boom That's Sinking Stockton

The California city borrowed heavily to renovate downtown

By Alison Vekshin
April 12, 2012, 5:10 PM PDT



$100 million in debt financing to revitalize downtown

$152 Million in Pension Obligation Bonds

Image from Susie Cagle writing for Next City, October 6, 2014

WSJ.com

OPINION | September 27, 2012, 7:24 p.m. ET

A Message From the City That Went Bankrupt

Creditors seem not to realize that in Stockton, Calif., we can't simply dissolve ourselves and sell off assets.

By BOB DEIS

Stockton, Calif.

How did the city of Stockton, Calif. (pop. 300,000) go bankrupt in June? It's not the simplistic story that so many pundits claim. And I'd know: I'm Stockton's city manager—effectively a CEO

Although, as will be seen, it is doubtful that CalPERS even has standing to defend the City pensions from modification, CalPERS has bullied its way about in this case with an iron fist insisting that it and the municipal pensions it services are inviolable. The bully may have an iron fist, but it also turns out to have a glass jaw.

Wall Street vs. CalPERS

The Pension Fund Bully

The Real Reason the Investor Class Hates Pensions

By David Webber

March 5, 2018

606

Ulrich Baumgarten, via Getty Images

At bottom, the problem is structural. We are to our investees and investment managers what nonunionized, “right to work” workers are to their employers: alone and devoid of leverage to negotiate. That stands in sharp contrast to traditional pensions, which, like unions, are collective and centrally managed.

How does Wall Street Shape the Conversation?

John Arnold

Founder, Centaurus Advisors

REAL TIME NET WORTH — as of 3/14/18

$3.3 B

Michael Moritz

Chairman, Sequoia Capital

REAL TIME NET WORTH — as of 3/14/18

$4.4 B ↑

By Patrick Wolff on March 25, 2018 1:00 am

Genuine solutions for San Francisco's pension crisis

Connecting it Back to San Jose

IMPLEMENTATION GUIDE

Guide to Implementation of
GASB Statement 68 on
Accounting and Financial
Reporting for Pensions

Questions and Answers

GOVERNMENTAL
ACCOUNTING
STANDARDS BOARD

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Guide to Implementation of
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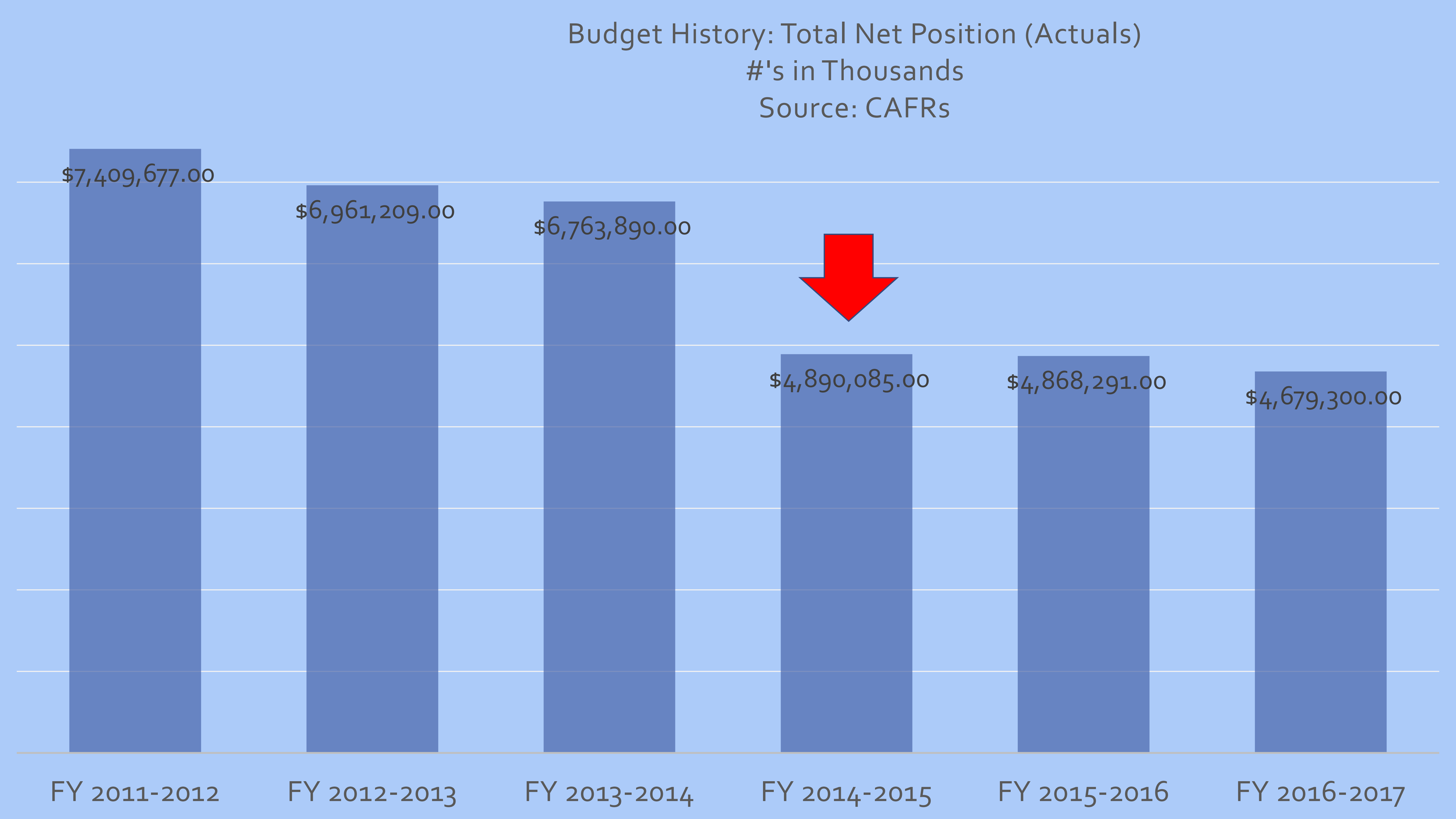

Budget History: Total Net Position (Actuals)
#'s in Thousands
Source: CAFRs
$7,409,677.00
$6,961,209.00
$6,763,890.00
$4,890,085.00
$4,868,291.00
$4,679,300.00
FY 2011-2012
FY 2012-2013
FY 2013-2014
FY 2014-2015
FY 2015-2016
FY 2016-2017

FULL TEXT OF MEASURE B

ARTICLE XV-A
RETIREMENT

PUBLIC EMPLOYEE PENSION PLAN AMENDMENTS - TO ENSURE FAIR AND SUSTAINABLE RETIREMENT BENEFITS WHILE PRESERVING ESSENTIAL CITY SERVICES

The Citizens of the City of San Jose do hereby enact the following amendments to the City Charter which may be referred to as: *"The Sustainable Retirement Benefits and Compensation Act."*

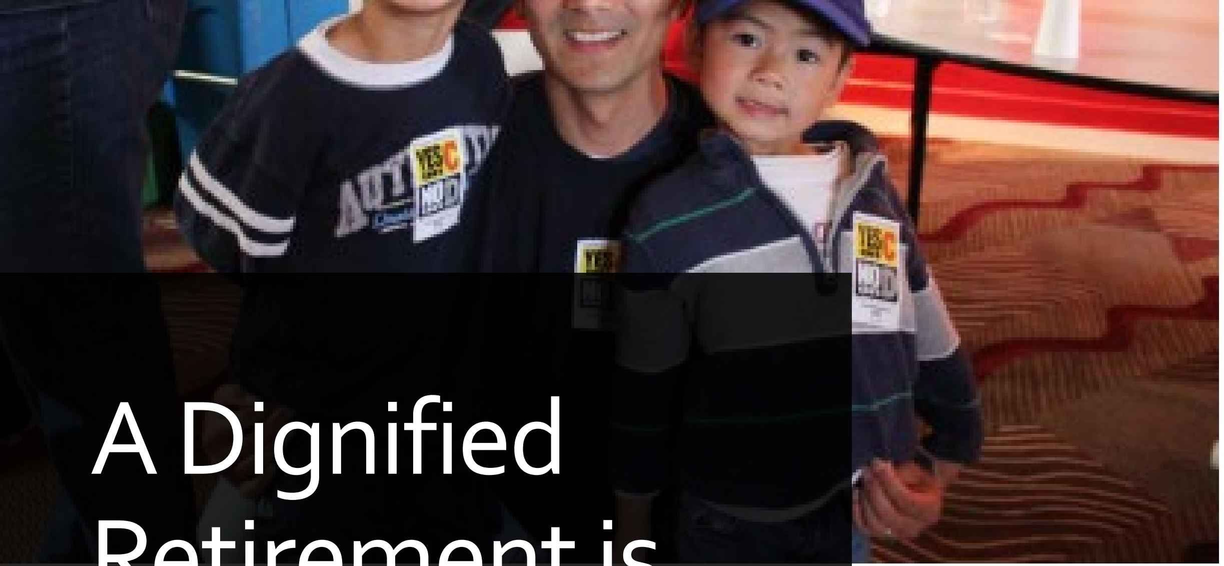
THE PRICE OF PENSION REFORM

PUBLIC DOLLARS AND THE PENSION REFORM CONSULTING INDUSTRY

MAIN FINDINGS

- SINCE 2010, THE CITY OF SAN JOSE HAS SPENT AT LEAST **$7.2 MILLION** IN TAXPAYER DOLLARS ON OUTSIDE CONTRACTORS TO SECURE CONCESSIONS FROM EMPLOYEE GROUPS AND TO DESIGN PENSION BENEFIT CUTS.
- SAN JOSE HAS ALSO PARTICPATED IN EMPLOYER GROUPS THAT CONTRACT WITH FOR-PROFIT FIRMS THAT MARKET PENSION REFORM AND CONCESSIONARY BARGAINING PACKAGES TO LOCAL GOVERNMENTS.

A Dignified Retirement is not just for the 1%



Questions?