State & Local Governments & Pensions Email from John Sopranuk 12/28/2010

From: Sopranuk, John
Sent: Tuesday, December 28, 2010 7:49 AM
Subject: FW: State & Local governments & Pensions

Hello,

Several people asked to be included in the original email and to update the list.

These emails were provided as a quick snapshot of the issue concerning the alleged "guarantee" being claimed in the DB schemes.

Again, the New Hire Money Purchase Plan Board is meeting Jan 3rd to determine which is the best way to provide information to our members. We have been asked to place these emails on the MPPP website. Sounds like a great suggestion.

Since the first email last week, there has been an overwhelming positive response in the review of the information I have provided in the concept of a "*guarantee*" of pension benefits, in the Defined Benefit scheme.

Today I learned of the Alabama DB plan that has failed (*Ala. Defined Benefit Pension System Fails*) – this is not new, but more of the same. A link is provided at the end of the article to the Wall Street Journal page on the ***failure*** of the plan.

One would ask – how are the retiree's going to live, now that the checks have ***stopped*** (not just the reduction of pension benefits) – and there is no recourse for them or their dependents.

The premise we should transfer our locally administered retirement funds to a governmental agency for a "guaranteed benefit" - is incomplete, simplistic and uninformed.

I have to apologize to the extent that I mis-spelled tsunami for the website I quoted in the original email.

The correct site is www.pensiontsunami.com This site is not labor friendly, but is a cauldron of articles from across the Unites States as to the state of governmental Defined Benefit plans.

You can see for yourself the assault and reduction in "guaranteed" benefits across the country.

By the way, one would only have to research Foundations, Endowments, Taft-Hartley plans, and corporate trusts – to identify this failure of the plans are systemic.

One individual believed that Defined Benefit plans are protected by the Pension Benefit Guarantee Corporation(PBGC), in the event a DB scheme fails. Sorry, that safety net does not apply to governmental plans. Taken from the site:

The Pension Benefit Guaranty Corporation's Role

The PBGC is a little-known agency of the federal government. Created by Congress as part of ERISA in 1974, the PBGC insures the private pension plans of 44 million Americans. These "**defined-benefit**" pension plans provide a specified monthly benefit at retirement. This is unlike 401(k)-type retirement plans, which require employee contributions and require employees to bear some of the investment risk.

The PBGC's ability to do its job of insuring these pension plans depends upon the performance of its investments, as well as the funding and solvency of large private pension plans. If the market performs poorly, or the PBGC is required to take over very large pension plans that have failed, the PBGC could need a bailout in the future. And that would be very bad news for taxpayers and employees.

What is the Problem?

The PBGC insures numerous private pension plans. It also serves as trustee for many plans that have already ended. Its assets, therefore, must be sufficient to "cover" the number of plans and retirees that require payment now, and may require payment in the future. According to its Annual Report[2], the PBGC had assets totaling $63 billion in 2008. It also made huge strides in 2008 by decreasing its deficit to $11.2 billion. At the end of fiscal year 2007, the deficit was reported to be $14.1 billion.

However, the Annual Report didn't cover the entire 2008 calendar year. Instead, the PBGC's fiscal year ended on September 30. Market activity after that date wasn't accounted for in the 2008 report. Most of the stock market's decline happened during the last quarter of 2008 and the first quarter of 2009. As a result, the numbers in the 2008 Annual Report most likely do not reflect the actual condition of the PBGC's current investments.

Additional information:

During fiscal year 2010, the PBGC paid $5.6 billion in benefits to participants of failed pension plans. That year, **147 pension plans failed**, and the PBGC's deficit increased 4.5 percent to $23 billion. The PBGC has a total of $102.5 billion in obligations and $79.5 billion in assets.

The intent of these emails are to provide information on the state of perceived “guarantees’ that are not part of the landscape in these global economic times – and are likely to evaporate going forward.

John

From: Sopranuk, John
Sent: Monday, December 20, 2010 9:36 AM
Subject: State 7 Local governments & Pensions

Hello,

I have been approached by many, many people to enter the arena for information on the debate of DB vs. DC retirement plans. As a board we are still making decisions as to what, if anything we should do in providing information to the masses. I have attempted here to provide to you information for **YOU** to read and take ownership in, in developing a position on the matter.

As many of you know – I have tracked the state of pension systems domestically as well as globally for the last several years. I have expressed to many of you the thoughts and presentations I have heard from numerous experts relative to Defined Benefit systems. Recently, the collapse of European benefit packages, specifically relating to retirement systems: increasing retirement ages, reduction in benefits and escalating contribution rates up to and including Social Security nationally (USA) and PERA locally (in addition to Qwest & United pension systems) has developed into quite the crisis.

The latest lawsuit in Minnesota to roll-back pension benefits to 1999 levels is being closely watched by numerous states and local governments. As you can see the "*Guarantee*" doesn't seem to be holding water – as seen here in Colorado:

"Colorado suspended its 3.5 percent COLA earlier this year, as state projections showed its retirement system bankrupt by 2029 even if the system met it's 8.5 percent assumed return rate, while South Dakota reduced its COLA from 3.1 percent to 2.1 percent in July." (*States eye MN Pension Suit*)

As many of you know I have the belief from my research that the demise of DB schemes will happen. The PEW Center provided (*Trillion Dollar Gap*) the first in-depth study of statewide retirement systems. The flaw in the study is - that we truly do not know just how bad the liabilities are for each these statewide plans.

Rogoff was thought to be less than credible by the mainstream press a few years ago when he provided his eye opening manuscript on the 800 years review of sovereign debt (*This time is Different*). I have to admit – to the few of you who I sent this two years ago – I did get a few looks of surprise. Now his work is in play – as he predicted the country by country collapse.

Last night 60 Minutes provided a very real and fair review of the crisis as it is today. Again, some of the material was on DB schemes.

http://www.cbsnews.com/video/watch/?id=7166293n&tag=contentMain;cbsCarousel

I provide the documentation from credible sources to salt your information research in this "debate" DB vs. DC.

You throw in irrevocable transitions from one plan to another, portability of funds, dominion & control of plans and assets, proprietary funds, increased fees, severe reduction in assets for beneficiary provisions etc…..It would be a mystifying position to take in adopting the FPPA plans – because of the "guarantee."

The below site also tracts public funds. If this alone does not raise your perceptions of "Guarantees," then nothing will. www.pensiontsunami.com

Lastly, some will attempt to provide the simplistic view that this is nothing more than an academic exercise or Democrat vs. Republican perceptions.

I'm sorry – it's just math.

John