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Affiliated with the Rhode Island AFL-CIO

May 6, 2013 E-Newsletter



EXCLUSIVE: State Pension Fund Lost \$200M under Raimondo



The state pension fund lost more than \$200 million in fiscal year 2012 as the state moved into hedge funds and other alternative investments under General Treasurer Gina Raimondo, raising questions about the investment strategy she has pursued and the viability of the pension reforms she has orchestrated. The assets in the state pension fund dropped from \$7.488 billion in June 2011 to \$7.284 billion a year later, a decrease of \$204 million, according to the independent annual audit. Overall, the fund had a positive rate of return of 1.55 percent during the same period. But the fund still lost money because the benefits paid out wiped out the modest gains for the year and exceeded the amount of new contributions to the fund from workers and the state. It was the first time the fund suffered a net loss since the recession. The accompanying rate of return was the lowest for a non-recession year in a decade. (See below table.) Before Raimondo took office, the state pension fund was on track to recover the \$2.5 billion it had lost in the recession. In fiscal year 2010, the fund

gained \$508 million with a return rate of 13.46 percent. In 2011, assets increased by \$911 million, fueled by a return rate of 20.4 percent, with the bulk of the growth occurring in the first six months of that fiscal year, before Raimondo took office in January 2011. The lower returns coincide with higher fees the state is paying to investment managers. During the Caprio era, the investment fees were among the lowest of any state pension fund in the country, with .215 percent of net pension assets going towards fees for investment managers in fiscal year 2010. Under Raimondo, the cost of investment fees has nearly tripled to .58 percent of pension assets, according to documents her office provided to GoLocalProv yesterday. **Missed opportunity to recover recent losses** A state labor leader called the pension fund losses ‘outrageous’ given the continued recovery of the markets in 2012. “You would expect that the people investing our pension money would have capitalized on that,” said Frank Flynn, the president of the Rhode Island Federation of Teachers and Health Professionals.

“It kind of makes you wonder about the management of the fund,” he added. In the first six months of Raimondo’s tenure, the state’s pension investments remained largely unchanged from her predecessor. But in June 2011, the State Investment Commission, which Raimondo chairs, approved a plan that made significant changes to where the state allocated its assets. One year later, a quarter of state pension assets were in alternative investments, including \$1 billion in hedge funds, state records show. Raimondo has said one of her chief aims in the new investment strategy is to reduce risk. But one member of the State Investment Commission, Marcia Reback, worries that the strategy is so risk-averse that the state is not making the 7.5 percent assumed rate of return—one of the key assumptions on which pension reform was predicated. She said the state has to balance out its investment portfolio so that it can capitalize on the post-recession uptick in the markets. “What we’re doing is being so [risk-averse] in our investments, we’re not capturing the up-market,” said Reback, the former president

of the Rhode Island Federation of Teachers and Health Professionals. **Is Raimondo right about hedge funds?** Others are questioning whether investing in hedge funds even reduces risk, as Raimondo claims. One critic who has emerged recently is Forbes.com columnist Edward Siedle, who has launched a blistering broadside against Raimondo’s pension reform. Siedle has specifically taken her to task for moving pension assets into hedge funds, which he says are “high” not “low” risk. He has described her approach as using “unsustainable investments” to solve “unsustainable pensions.” Siedle’s position appears to be in line with one of his former employers, the U.S. Securities and Exchange Commission, which has noted that many hedge funds use “leverage ... short-selling and other speculative investment practices that are not often used by mutual funds.” The SEC’s Office of Investor Education and Advocacy describes leverage as “borrowing to increase investment exposure as well as risk.” *Continued on next page*

EXCLUSIVE: State Pension Fund Lost \$200M under Raimondo

Continued from page one

“The thing about hedge funds is that they make a ton of money—for the people who own them. For their customers, not so much,” said Tom Sgouros, a progressive blogger and past candidate for state treasurer. “Their fees are quite high, and so is the risk, which is funny, since the point of hedging is supposed to be reducing risk. This is not to say there are no lucky customers, but the odds are clearly on the side of those who think our investments in hedge funds are not going to perform well.”

How other states compare

Raimondo spokeswoman Joy Fox noted that the state’s performance in 2012 was “comparable to other public pension plans similar to Rhode Island.”

A cursory review of other similar-sized states shows Rhode Island behind some peers and ahead of others in

fiscal year 2012. Vermont had a rate of return of 2.2 percent or higher for the three pension plans it has. Delaware had a 2 percent rate. Two other New England states did worse than Rhode Island: New Hampshire and Maine were both between one percent and half a percent. **(See table in report)**

But, like Rhode Island, at least three of those four other states saw dramatic reductions from rates of return that were in double digits in the previous fiscal year.

When asked to explain why the pension fund lost money in 2012, Fox said the benefits paid out to retirees exceeded the total contributions from workers and the state itself by approximately \$400 million. The financial audit for the year shows that \$881.1 million was paid out in benefits against \$582.7 million in new contributions—a difference that could not be made up by \$115.6 million in investment returns for the year.

Impact on pension reform
“Passing the Rhode Island Retirement Security Act of 2011

has put the pension on a path to fix this situation over the long term,” Fox said.

But some worry that the low rate of return undermines the just-passed pension reform, which included as one of its key assumptions an assumed rate of return of 7.5 percent. “The numbers obviously have been overestimated,” said state Rep. Karen MacBeth, D-Cumberland. “When we passed pension reform this was an expectation and we’re not meeting it with our rate of return.”

The rate of return for pensions is often viewed as a five-year average. As of 2012, that average was 1.19 percent, according to the annual audit. One year earlier, it was 4.02 percent.

Any five-year average that includes 2008 and 2009 is going to be below the target,” Sgouros said. “It’s a shame we weren’t able to move the return back closer to the target range in a year that saw dramatic gains in the equities markets.”

The final returns for fiscal year 2013 are months away, but so far, in the fiscal year to-date the rate

of return is about 11 percent, according to Fox. However, that still won’t be high enough to raise the five-year average to 7.5 percent.

MacBeth said the state can’t afford to wait too far into the future to address the low rate of return. “We’re not meeting our rate of return,” she said. “We need to figure that out now.”

She said state lawmakers owe it to the public who have entrusted them with reform, as well as the state retirees who have already taken a hit in their pension income.

The landmark pension reform legislation that passed in fall 2011 took effect in July 2012. Changes to benefits, including a suspension of cost of living adjustments, are expected to save about \$4 billion over 20 years, according to Fox. That translates into an annual savings of \$200 million.

See the Excerpts from Comprehensive Annual Financial Report for Fiscal Year 2012

Bangladesh Factory Accident: Is There Blood On Your Shirt?

The cheap clothes that Americans buy from retailers every day actually come at a very high price. That cost came into stark relief last week when Rana Plaza, a building housing several garment factories, collapsed in Savar, Bangladesh, killing at least 500 workers and injuring thousands more. With bodies still being pulled from the wreckage, the accident is already “one of the worst industrial accidents in world history,” according to Scott Nova, the executive director of the Worker Rights Consortium.

The workers who died were producing clothing for American and European consumers, **companies like Wal-Mart, JC Penny, K-Mart, Sears, Target, QVC, HSN and Designer Clothing** and earning only \$38 a month, according to the Associated Press. Now the clothing brands and retailers that profited from the cheap labor at Rana Plaza are struggling to wash the blood from their hands, while other brands rethink their role in Bangladesh as a whole. - **READ MORE**

RI AFL-CIO: Teachers Poll Says 'NO' to Gist

85% of teachers believe her contract should not be renewed

An independent survey of Rhode Island’s public school classroom teachers today offered a stinging indictment of the leadership of Deborah Gist as the state’s Education Commissioner. The survey, conducted by Fleming and Associates from April 22 to April 24, consisted of a telephone survey of 402 randomly selected Rhode Island public school teachers. Read the entire survey **HERE**.

Reich: 'Repeal the Sequester'

Robert Reich explains in his blog this week why weak economic growth means we need to repeal the sequester.

Below is a cross-post from Reich's blog.

Economic forecasters exist to make astrologers look good. Most had forecast growth of at least 3 percent (on an annualized basis) in the first quarter. But we learned in the Commerce Department's report it grew only 2.5 percent.

That's better than the 2 percent growth last year and the slowdown at the end of the year. But it's still cause for serious concern.

First, consumers won't keep up the spending. Their savings rate fell sharply—from 4.7% in the last quarter of 2012 to 2.6% from January through March.

Add in March's dismal employment report, the lowest percentage of working-age adults in jobs since 1979, and January's hike in payroll taxes, and consumer spending will almost certainly drop.

Median household incomes continue to decline, adjusted for inflation. Another report out today showed consumer confidence fell in April.

Second, the recovery continues to be wildly lopsided. The only thing really keeping it going is the rip-roaring stock market. But the stock market only boosts the wealth of the richest 10 percent of Americans, who own 90 percent of stocks (including 401-K retirement accounts).

But no economy can maintain momentum just on the spending of the richest 10 percent.

Third, American exports can't possibly pick up the slack. In fact, they're dropping. Europe is falling into recession because of austerity economics. Japan is still a basket case. China's economy is slowing. Much of the developing world's economy is dependent on exports to the developed world—so don't hold your breath for developing countries to bail us out.

So what is Washington doing? Worse than nothing. It has now adopted the same kind of austerity economics that's doomed Europe—cutting federal spending and reducing total demand. And the sequester doesn't end September 30. It takes an even bigger bite out of the federal budget next fiscal year.

Earth to Washington: The economy is slowing. The recovery is stalling. At the very least, repeal the sequester.

You don't have to be an astrologer to see the dangers ahead.



MIKULSKI FIGHTS SOCIAL SECURITY, VETERANS AID CUTS

The Bay Net

U.S. Senator Barbara A. Mikulski (D-Md.) joined with Senator Tom Harkin (D-Iowa) to introduce a Senate resolution fighting against cuts to Social Security benefits for seniors and disabled veterans through using the Chained Consumer Price Index (Chained CPI) to calculate cost-of-living adjustments. National groups lending their support to this effort include the Alliance for Retired Americans....[Read More](#)

SOCIAL SECURITY CRITICS ON LEFT AND RIGHT POUNCE ON SOCIAL SECURITY 'FIX'

Allison Linn, NBC News

There's not much that the left and right can agree on these days, but many on both sides appear to have found a common foe in the latest plan (Chained CPI) to address Social Security costs....[Read More](#)

THE ELDERLY AND UNEMPLOYED STRUGGLE WITH SEQUESTER

SHARON CHEN, FOX 5 SAN DIEGO

"All our funds in La Mesa are Gone, Vista has cut theirs in half," said Debbie Case, President/CEO of Meals-on-Wheels Greater San Diego....[Read More](#)

LOANS BORROWED AGAINST PENSIONS SQUEEZE RETIREES

Jessica Silver-Greenberg, New York Times

To retirees, the offers can sound like the answer to every money worry: convert tomorrow's pension checks into today's hard cash. But these offers, known as pension advances, are having devastating financial consequences for a growing number of older Americans, threatening their retirement savings and plunging them further into debt....[Read More](#)

CANCER CLINICS: OUR CUTS FROM SEQUESTER NEEDED EARLIER REMEDY THAN FAA'S

Sam Baker, The Hill

Congress should have addressed deep cuts to cancer clinics before tackling airline delays caused by sequestration, people at several of those clinics said Friday....[Read More](#)

NEW BUSINESSES HELP UNLOAD THE STRESS OF MOVING SENIORS

Janice Lloyd, USA Today

Movers that specialize in seniors aim to smooth the way during one of the most trying times of life, when an elderly person either decides to move or is forced to move because they can no longer live alone or care for themselves...[Read More](#)

IDENTITY THEFT EPIDEMIC OF ID THEFT HITS SENIORS

MSN Money

If a person relies solely on Social Security benefits, that money isn't taxed. Since these senior citizens don't have to file a return, they are often unaware that their identities have been stolen to file fraudulent tax returns, Treasury Inspector General for Tax Administration J. Russell George told the Senate hearing...[Read More](#)

PRESIDENT OBAMA'S BUDGET PUTS HOUSE DEMOCRATS IN BIND

Alex Isenstadt, Politico

President Barack Obama blurred the lines this month when he embraced cuts of his own to earned benefits for seniors as part of his budget plan. And Democrats now fear their leader's tack to the center could blunt one of their sharpest weapons in the battle for the House of Representatives next year...[Read More](#)

GOP MOVES AWAY FROM ENTITLEMENTS AND TOWARD TAX REFORM IN BUDGET DEAL

The Washington Post

With another fight over the national debt brewing this summer, congressional Republicans are de-emphasizing their demand for politically painful cuts to retirement programs and focusing on a more popular prize: a thorough rewrite of the U.S. tax code...[Read More](#)

First Public Hearing Underway on Chained CPI Proposed to Slow Future COLA for Senior Citizens



Republican chair of House Ways and Means subcommittee on Social Security issued news release blasting Treasury secretary; in opening says reducing COLA only would be called 'benefit cut' in Washington

The first congressional hearing on the budget cuts to Social Security proposed by President Obama is underway. Rep. Sam Johnson (R-Tx), chair of the Social Security panel of the House Ways and Means Committee, released his opening statement and the prepared testimony of witnesses. The Texas Republican also released a news release this morning accusing Treasury Secretary Jack Lew of making "conflicting statements" about the Chained CPI before the full committee...[Read More](#)

Veteran's Benefits

Did you know that Veterans benefits may be available to you for certain types of senior living?

Veterans Affairs has established an "Aid and Attendance" benefits program to assist eligible veterans and dependents who are entitled to VA pension or VA compensation. The "Aid and Attendance" benefit provides funding for qualified individuals who need intermediate or skilled nursing care.

In order to qualify for the "Aid and Attendance" benefit:

1. You must be a veteran who served at least 90 days in active duty with at least one day served during wartime; and was honorably discharged.
2. You must be a surviving spouse of a veteran currently receiving nursing care or aid and attendance services.

Some income restrictions apply...[Read More](#)



"Fix the Debt" CEOs Enjoy Taxpayer-Subsidized Pay

By Sarah Anderson, Scott Klinger, Javier Rojo



A new report by IPS and Campaign for America's Future shows that America's top CEOs are pocketing massive taxpayer subsidies at the same time they're pushing austerity cutbacks in government programs that benefit ordinary citizens **REPORT KEY FINDINGS**

Thanks to a "performance pay" tax loophole, large corporations in the United States today are routinely deducting enormous executive payouts from their income taxes. In effect, these companies are exploiting the U.S. tax code to send taxpayers the bill for the huge rewards they're doling out to their top executives.

During the three-year period 2009-2011, the 90 publicly held corporate members of the austerity-focused "Fix the Debt" lobby group shoveled out \$6.3 billion in pay to their CEOs and next three highest-paid executives.^[i]

These 90 Fix the Debt member firms raked in at least \$953 million — and as much as \$1.6 billion — from the "performance pay" loophole between 2009-2011. The exact full value of corporate windfalls from this loophole will remain impossible to compute until we have more complete mandated disclosure for executive compensation.

Top executives at these same Fix the Debt companies are aggressively advocating cuts to government programs that benefit the ordinary American taxpayers subsidizing their compensation. Many of these executives have also added to America's debt and deficit by using tax havens and other accounting tricks to have their corporations avoid paying their fair tax share.^[ii]

Health insurance giant UnitedHealth Group enjoyed the biggest taxpayer subsidy for its CEO pay largesse. The nation's largest HMO paid CEO Stephen Hemsley \$199 million in total compensation between 2009 and 2011. Of this, at least \$194 million went for fully deductible "performance pay."^[iii] **That works out to a \$68 million taxpayer subsidy to UnitedHealth Group – just for one individual CEO's pay.** A just-released proxy reveals that Hemsley pocketed another \$28 million in "performance pay" in 2012, which computes into a tax break for UnitedHealth of nearly \$10 million.

Discovery Communications stood next in line for a government handout. Between 2009 and 2011, CEO David Zaslav pocketed \$114 million, \$105 million of this in exercised stock options and other fully deductible "performance pay." That translates into a \$37 million taxpayer subsidy for Discovery and its lavish executive pay policies. In 2012, Zaslav hauled in enough additional "performance pay" to generate a tax break worth \$9 million.

Even big losers win with the "performance pay" loophole. Gambling titan Caesars Entertainment has hemorrhaged money in recent years, driving CEO Gary Loveman's stock options underwater. Loveman managed, even so, to take home \$9.6 million in cash bonuses between 2009-2011, a windfall that's generating taxpayer subsidies the firm can cash in to lower its taxes over years to come.

INTRODUCTION

Fix the Debt is a corporate-backed lobby group committed to slashing Social Security and other earned benefits and social insurance programs — all under the veil of "deficit reduction." But, as this report documents, the very taxpayers who pay into and depend on these programs and benefits are subsidizing excessive compensation for the top executives of Fix the Debt member corporations and other large firms.

These pages calculate how much the corporations Fix the Debt CEOs manage have benefited from a federal tax code loophole that lets major firms deduct unlimited amounts off their income taxes for the expense of executive stock options and other so-called "performance-based" pay. These CEOs are raking in huge taxpayer-funded bonuses at the same exact time they're insisting on deep cuts in the government programs that benefit ordinary Americans.

[Click here for the full report. Then click on the report link](#)

AFL-CIO, Union Plus Offer “Dreams of Jobs and Freedom Scholarship” Program

At the February AFL-CIO Executive Council meeting, leaders decided to commemorate the Fiftieth Anniversary of the March on Washington. One of the ways this is being implemented is the authorization of the AFL-CIO and Union Plus “Dreams of Jobs and Freedom Scholarship” program. The AFL-CIO has partnered with the Union Privilege program to offer \$5,000 scholarships to help talented high school seniors from families in need—including union families and those in the community—to help pay for the costs of higher education. **The children and grandchildren of union members are eligible to apply.** “The AFL-CIO has created a website where students can apply directly: www.aflcio.org/scholarship,” said **Ruben Burks**, Secretary-Treasurer of the Alliance. “If you know any good candidate, please tell them applications are due by July 1, 2013.”

Seniors - Especially Men - are at Higher Risk as Pedestrians!

Pedestrians account for 13% of all motor-vehicle traffic deaths, even though walking accounts for just 10.5% of trips. The risk of pedestrian death increases slowly through life and peaks with people over age 75, who are more than twice as likely to be killed by a car than are people overall. The results were published in *Morbidity and Mortality Weekly Report* (<http://tinyurl.com/bn6g6p8>). Men were found to be twice as likely as women to be killed as pedestrians. This may be due to men walking more often than women, as well as alcohol consumption, **Laurie Beck**, an epidemiologist who led the study says. Read the NPR story at <http://tinyurl.com/bnqnll2>

Cancer Physicians Campaign to Make Lifesaving Medications More Affordable

One hundred cancer specialists from around the world have banded together in support of an important cause: protesting the extremely high cost of many drugs used to treat cancer. Currently, the cost of some cancer drugs is over \$100,000 a year. According to the doctors, these drugs can make a huge difference in patient outcomes but are often unaffordable. The physicians also point out that the drugs are priced much higher than they need to be for pharmaceutical companies to turn a reasonable level of profit, and that the companies have crossed the line into exploiting patients. To read a *New York Times* article about the story, go to <http://tinyurl.com/bnofsj7>.

“The Alliance strongly supports the effort to reduce the cost of cancer drugs,” said Ms. Easterling. “When pharmaceutical companies charge exorbitant prices for life-saving medications, it places a huge burden on seniors and programs like Medicare and Medicaid.”

Leadership Council of Aging Organizations Expresses Concern over Obama Budget

The Leadership Council of Aging Organizations, a coalition of 68 nonprofit organizations (including the Alliance for Retired Americans) which work on issues impacting seniors, sent a letter to President Obama on Monday. In the letter, LCAO expresses concerns with several aspects of Obama’s Fiscal Year 2014 budget, including chained CPI and proposals that shift certain Medicare costs towards beneficiaries. The letter also praises some aspects of the budget, including a provision that would allow Medicare to negotiate the prices of prescription drugs with pharmaceutical companies. To read the letter, go to <http://tinyurl.com/coc6x54>.

“The Leadership Council of Aging Organizations, which represents a broad range of groups working to protect seniors, has taken a strong stance against chained CPI and Medicare cost shifting,” said Mr. Coyle. “We are hopeful that President Obama and members of his administration will heed the letter’s advice.”

MEALS ON WHEELS SEQUESTRATION CUTS TAKING EFFECT

Arthur Delaney, The Huffington Post

Federal funding for senior nutrition has been reduced by budget cuts known as sequestration, meaning less food for old people here and elsewhere. The White House has said the cuts would mean 4 million fewer meals for seniors this year, while the Meals On Wheels Association of America put the loss at 19 million meals....**[Read More](#)**
