

## **INCOME INEQUALITY**

### **Hidden Economic Cost of Pension Reform**

#### **I hope that everyone will have an enjoyable and safe Fourth of July Holiday.**

I want to take some time to start a conversation about income inequality and the negative effect it has on the American middle class and retirees.

The struggle for social and economic justice in the United States cannot be won unless we address the issue of rising income inequality. Income inequality is related to many challenges we face in America today, including retirement security. Do pension reforms of the past three decades exacerbate income inequality? Does rising income inequality in turn dampen the economy? The purpose of the Nation Conference on Public Employee Retirement Systems (NCPERS) study is to address these questions.

This is a brief summary of a NCPERS study which reviewed changes in pensions resulting from pension reforms at national and state levels. At the national level, the key change has been a trend of conversion of defined-benefit (DB) pension plans into defined-contribution (DC) plans.(1) At the state and local levels pension changes consisted of cuts in benefits, increased employee contributions, and conversion of DB plans into DC plans. These changes, as I've talked about before, have a negative impact on plan participants and beneficiaries as well as on local economies. Therefore, I believe these changes will have an impact on income inequality.

The NCPERS study analyzed the relationship between pension changes and income inequality at national and state levels. At the national level, the data allowed us to examine trends in pension changes, income inequality, and economic growth during the 1980s, 1990s, and 2000s. At the state level, these trends could be examined only during 2000–2010.

**National Trends** – The analysis found that income inequality was highly co-related with the trend toward conversion of DB into DC plans. The correlation between income inequality and percentage of workforce (public and private) covered by DB plans was high. This correlation is robust and means that the lower the percentage in the workforce with DB plans, the higher the income inequality. Other factors that had a robust inverse relationship with income inequality included changes in the percentage of the workforce in unions, marginal (top income) tax rates, and the rate of investment in public education. Inverse relations mean that higher income inequality is the result when the percentage of the workforce in unions; marginal tax rates; and the rate of investment in public education are all lower.

The national-level analysis also examined the relationship between income inequality and economic growth. The analysis shows that the higher the correlation regarding income inequality means that the economic growth will be lower.

**State Trends** – The analysis found that the higher the number of negative pension changes made by a state government, the higher is the increase in income inequality in that state. Again, by negative changes we mean cuts in benefits, increases in employee contributions, and conversion of DB plans into DC or hybrid plans. The data show that the correlation between negative pension changes and income inequality indicates that the more negative changes a state makes to its pension plan, the higher is the income inequality in that state.

The analysis shows that with a single negative change in pensions in a state, income inequality increases by 15 percent in that state. This relationship holds true even when other factors contributing to income inequality, such as lack of investment in education, are taken into account.

**Implication** – Policymakers should pay serious attention to income inequality and its hidden economic cost to taxpayers before they make the changes that diminish DB pensions. Rather than making changes such as increasing employee contributions, cutting benefits, converting DB plans into DC or hybrid plans, and so forth, policymakers should close tax loopholes.

A recent study of a number of states by Good Jobs First shows that on average states gave away twice as much in economic development subsidies and loopholes as they were required to pay into annual pension contributions. Whereas taxpayer money given through loopholes and subsidies often ends up in overseas tax havens, pension checks are spent locally and stimulate local economies.

**Note:** *The complete study can be downloaded at [www.ncpers.org/income\\_inequality](http://www.ncpers.org/income_inequality).*

We are all affected by income inequality. The less replacement income at retirement creates a negative impact on the retiree, the communities' we live in, turn down of local economies, which results in less investment in our communities. We'll all lose out and will have reduction in our quality of life.

Again, I wish all our membership and their families a Happy and Safe Fourth of July celebration.

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## **Labor Day, a time to enjoy and reflex**

I've spent a lot of time lately, discussing and being critical of political and business interest attacks on Define Benefit pension plans, Public Employees, and their Unions. Today, I would like to focus on wishing everyone a happy and enjoyable Labor Day Holiday.

Labor Day was promoted in the 1880's by Central Labor Union and the Knights of Labor, who organized the first parade in New York City in 1882. President Grover Cleveland establish Labor Day as an official holiday in September of 1887. Following the deaths of workers at the hands of the US Military and Marshals during the Pullman Strike in the summer of 1894, the United States Congress unanimously voted to make Labor Day a national holiday, President Grover Cleveland sign the bill into law six days after the end of the Pullman Strike.

The Labor Day Parade was an expression of the public support for the strength and "esprit de corps" of the American trade labor movement and its organizations. The Sunday before Labor Day was dedicated to the spiritual and educational emphasis of the Trade Labor movement, became known as Labor Sunday.

Today, Labor Day has become the celebration by most Americans as the end of summer, Concerned by some as the last day to wear white for women or seersucker for men. In US sports it's the start of football, the NFL and NCAA college teams. The beginning of school and the resumption of classes.

No matter the reason for celebration, it's important that we take a moment to enjoy the fruits of our labors as working men and women in America. To take this time to enjoy being with our family and friends. And, hopefully to reflex on the sacrifices that were made by earlier working men and women in America, that made this day possible. Its purpose is a creation of the America labor movement and is dedicated to the social and economic achievements of American workers. It constitutes a yearly national tribute to the contributions workers have made to the strength, prosperity, and well-being of our country. Including, strong pensions that allow workers to enjoy a healthy life and retirement after a lifetime of labor.

The vital force of labor added materially to the highest standard of living and the greatest production the world has ever known and has brought us closer to the realization of our traditional ideals of economic and political democracy. It is appropriate, therefore, that the nation pay tribute on Labor Day to the creator of so much of the nation's strength, freedom, and leadership... the American worker.

*Resource: USDOL History of Labor Day*

I wish all of our membership and their families a Happy and Safe Labor Day.

Fraternally,

Lou Walter, Business Manager/Financial Secretary

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### **Celebrating the Fourth of July with Renewing Our Commitment to Safety**

I hope all our members have a Happy and Enjoyable 4th of July weekend with their family and friends. Independence Day is the summer holiday that represents the birth of our nation and the freedoms and life that we enjoy in our daily lives. We'll celebrate the holiday with fireworks, family reunions, outdoor concerts, barbecues, parades, and of course baseball games, the list of family activities goes on.

We are very blessed that we can enjoy these activities in a country that allows most of us the freedom to organize and to collectively bargain for the right to celebrate this holiday and that we have the economics for us and our families to enjoy all the activities of the holiday weekend.

I hope we'll remember that not all workers enjoy the same benefits and conditions that we do. Workers in this country and around the world struggle and may not have the most basic rights that hopefully we will never take for granted.

The United States Declaration of Independence provides those human rights that:

*"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, among these are Life, Liberty, and the pursuit of Happiness."*

These words are considered the best known sentences in the English Language.

The most important element to pursuit of happiness is that we have a safe workplace. When the IBEW was formed in 1891, one out of two or fifthly percent of electrical workers were killed on the job. In response to those fatalities, over time, we have developed the best safety rules, best practices, training, and equipment in the world, to mitigate one of the most hazardous occupations in the world. Yet, in the United States, since June of last year, we are still experiencing a fatality rate of one lineworker every two weeks. In the majority of these deaths there was a clear violation of OSHA safety rules or safe work practices. Which should say to us that all these deaths were preventable.

We call these events are accidents. They are not accidents if they are caused by lack of planning or foresight. Ignoring our training and not applying the known practices and safety rules. By not saying anything when we see these things happening. Dismissing others when they point out unsafe acts.

Each of those families that lost a member to an unsafe work place event will not be enjoying the upcoming holiday weekend. The loss of a family member is an inconsolable event, fathers and mothers who will not play with their sons and daughters. Brothers and Sisters who will no longer pursue happiness of being with their families which most of us will enjoy in our daily lives. Will we accept the responsibility to be are Brothers and Sisters keeper, by example and voice. To be a positive presentence in the workplace. To demonstrate a unwavering commitment safety.

Going forward we must ask ourselves what will we do to make sure that no one will be hurt or injured on the job? Will we commit to follow and apply all the safety rules on the job? Will we establish a standard of performance that says ZERO is the ONLY acceptable level of performance regarding injury and death of our Brothers and Sisters?

I would be a hypocrite if I said that I never violated a safety rule or took a shortcut for whatever reason. I ask myself and every member to commit to new standard of ZERO. All the required tools are there for us. We need say no more injuries and no more deaths.

Unit 123 Chairman Rick Luitin brought to my attention the "Hold the Pull" youtube video and IBEW 1245's "Peer to Peer" safety committee program PG&E. Local 77 sent a delegation to 1245's Safety Summit in March of this year. It was very impressive what they are doing there. I've asked BM/FS Tom Dalzell of 1245 to assist our Local to develop a similar program. If you are interested in participating in the developing the IBEW 77 Safety Summit and the "Peer to Peer" Safety Committee contact me E-Mail to [peer2peersafety@ibew77.com](mailto:peer2peersafety@ibew77.com).

Again, I wish all our membership and their families a Happy and Safe Fourth of July celebration.

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Please see the article below regarding retirement. Published on behalf of Business Manager/Financial Secretary Lou Walter.

Sustainable Investing Maybe the Future of Long Term Investment Portfolios

Many of you may remember when former Mayor McGinn brought forward an initiative for the City of Seattle departments to divest of carbon based investments, including SCERS. I'm sure it caused quite a stir in the world of Seattle's financial portfolio. I know I had a hard time seeing how we, SCERS, could

unbundle our investment portfolio and what effect such action would have on returns. How define carbon production (energy companies) or carbon users (automobile manufacturing). But, now there's more discussion and interest in exploring and redefining of what is "long term investment and fiduciary responsibility"

Will we be able to measure companies, money managers and capital investments based on Environment, Social, and Governance (ESG) performance? ESG refers to the three main areas of concern regarding sustainability and ethical impact of investing in a company or business. ESG is a catch-all term to evaluate these investments will be considered as "socially responsible investing". The purpose ESG is to influence and in some cases require how asset managers will make investments in their portfolios.

SCERS is a long term investor. In the future do we have a duty, as trustees, to take in consideration an investment portfolio that measures known environmental concerns regarding climate change, hazardous waste, and sustainability? Social concerns such as diversity, human rights, consumer protection, and animal welfare? Corporate governance concerns regarding management structure, employee relations, and executive compensation?

On May 27th, 2014, 250 people attended the 'inclusive capitalism' conference held in London. In one room the people there represented or controlled over \$30 trillion in assets. This group doesn't represent the 99% or even the 1%. This group represent only a tiny fraction of the 1%.

The people represented here with this amount of total investable wealth in the world and if money is power, then this is the most powerful group of people ever to focus on income inequality. Will capital investment move away from companies on interested in short term profits? Will long term sustainable profits gain more value over the short sighted investors?

Many investors talked about the environmental stewardship, others focused on treating workers well. The question of restoring and sustaining trust in the capital markets and making sure that economic growth is more "inclusive" and that the rules of the market favor the many and not the few.

I follow the thinking that if we start to see investment decisions looking towards favoring "long Term" and sustainability over "short term" and expedient investing strategies.

With using ESG standards and long term investing we can restore confidence and sustainability to the global capital markets. Most of the problems in the investment community are self-inflicted. It seems the people with the most wealth are starting the very important conversations required to change how markets are managed.

Finally, the election is over and I'll be your elected retiree representative on the Seattle City Employees' Retirement System's Board of Administrators for another 3 years. It's a great honor and privilege to serve the retirees and active members of Seattle's retirement system.

I want to thank everyone for your continuing support. I'm reminded of the old Chinese curse "May you/we live in interesting times". Seems like around every corner there's a new challenge for us to deal with. Interesting times indeed.

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