

UNITED STAFF UNION

§ Dennis Eisenberg, *Chairperson, Pension and Benefits Committee*

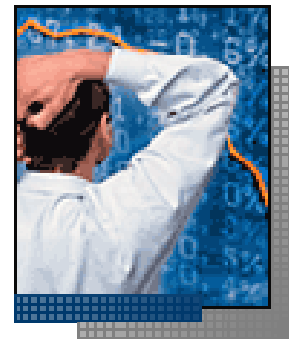


Q3 2008 Update

Bailout Deal Fails to Calm Wall Street's Concerns

SCARY. LAST WEEK WAS MORE THAN SCARY. And we're not talking about Palin's inability to answer specific questions in a debate or her foreign policy experience answer in Katie Couric's interview.

How bad is it? It was worse than Halloween Scary. The economy lost 159,000 nonfarm jobs in September. It was the biggest drop in five years, and it was spread over the length and breadth of the economy. The most comprehensive measure of joblessness, which includes what official lingo dubs "marginally attached workers," increased in September to 11%. A year ago, it was 8%.



Take a look at just the market changes in the last week of September.

- Oil lost 12.2% for the week under the assumption that global demand will fall with the credit contraction and a recession.
- European markets lost about 10% this week. Asia finished down about 10.9% and Latin America lost about 19%.
- The Dow dropped 'only' 7.3% while the S&P 500 gave back 9.3%. Small and mid sized indexes dropped even more losing 12.1%.
- Natural resources got slaughtered. Metals and mining was the hardest-hit area, declining by 26.2% slamming returns to funds in this category.

The global financial contagion along with a strengthening U.S. dollar combined to hammer foreign and natural resources funds the hardest. For the quarter World Equity Funds (-21.02%) suffered their *worst* quarterly showing since second quarter 1962, when markets were dragged down by then Premier Khrushchev's announcement that the Soviet Union intended to deploy nuclear missiles in Cuba.

To the Rescue: It's TARP on Monday, EESA on Friday

The Troubled Asset Relief Program, or TARP [TAR Paulson?] was the name given to the relief legislation; the official name of the legislation has been changed to *Emergency Economic Stabilization Act*.

I doubt you will recall that markets rebounded, and dramatically, after the Cuban crisis passed. But they did. Here's the \$64 question: will the massive **bailout** "restructuring" plan put forth by Paulson help get us out of this financial barnyard?

United Staff Union

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The Rescue – Will it Work?

Ed Note: This extract was written just before the final passage of the EESA which is essentially the same bill rejected before by the House, except that the finalized legislation also contains lots of pork to get the votes to pass the bill. The analysis raises serious concern if this scheme will work. Have we just put lipstick on the financial pig?

The financial world has been permanently altered by the collapse of the debt bubble that inexorably built up over the past three decades. Such an undertaking requires more than two weeks of work.

Any plan that is adopted must include a sufficient dose of strong medicine to prevent the culture of self-delusion and moral hazard that created the current crisis from further perpetuating itself.

What Henry Paulson and Ben Bernanke are desperately trying to explain to Congress is that America's leadership must immediately restore the world's confidence in American economic and political leadership.

But the Paulson Plan was generated under impossible conditions. Were it to succeed, the best that could be expected at this point is a slow revival of the credit system. To hope for more is sheer folly.

Recession

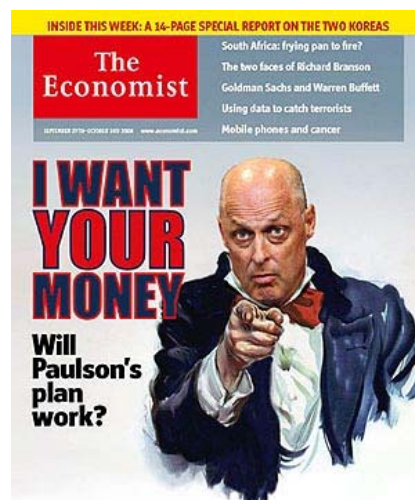
It is a certainty that America, and then the rest of the world behind it, is going to experience a severe recession the likes of which it hasn't seen for decades. Frankly, *HCM* can't see any way that such a slowdown can be avoided, although *HCM* has some ideas on how to begin to work out of it. Moreover, if by some miracle it were to be avoided, it would merely delay the inevitable purging of the psychological and financial excesses that have been piling up in our economic system over the past thirty years.

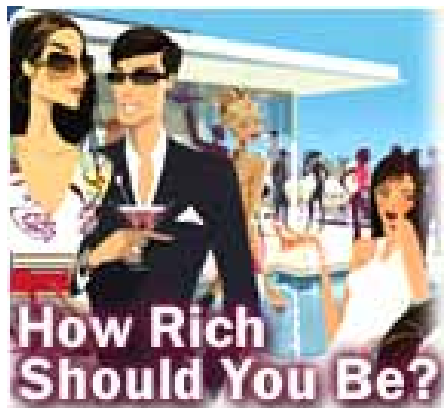
The Paulson Plan is being pushed with the same kind of urgency that pushed the U.S. to invade Iraq, and the President has no more weapons of mass destruction to sell. A bad deal would be worse than no deal at all.

HCM views the Paulson Plan as a matter of form over substance. The details of how the plan will work are ultimately less important than whether the plan succeeds in rebuilding market confidence. In order to be successful, the Paulson Plan needs to be followed up by comprehensive regulatory reform that accomplishes the goals of convincing the public that the financial system will be fairer in the future than it has been in the past (i.e. that the gains will be spread more equitably and that failure will not be rewarded) and that strong steps will be taken to prevent the oversights that led to the current instability from being repeated.

We have yet to see the non-financial economy bear the full brunt of the collapse of the financial economy. Main Street is only starting to pay for the sins of Wall Street. The stock market remains in deep denial about the scope and depth of the economic slowdown this country is about to face. As the consequences of tighter credit seep into the mainstream of the American economy, there is every reason to expect that mortgage default rates will rise and home prices will continue to fall, further depressing the value of the mortgage securities that the government is supposed to be purchasing under the Paulson Plan.

The primary reason why economic growth is going to be sluggish is that credit is going to be strictly rationed for the foreseeable future, which means that only the most creditworthy borrowers will be able to access capital at a reasonable cost. Companies that need capital will be the ones that find capital most difficult and expensive to access.





American Oligarchy

This brings HCM to two related areas that need to be legislated immediately:

1. financial institution leverage; and
2. the taxation of highly compensated financial executives.

There is a point when free enterprise tips over into a degree of economic and social inequality that is politically unacceptable, and the United States has reached that point.

HCM is well aware that its views on this topic genuinely anger many of its readers, but this is an issue that must be addressed as an essential component of any program that will return confidence to the financial system.

Free market economic policies, in particular tax policies, have led to the creation of an American oligarchy whose wealth and power is excessive. While not as pernicious as the oligarchy that rose from the ruins of the Soviet Union and now lords over Russia and spends its money garishly over the

world, an American oligarchy has unduly benefitted from ill-advised tax and economic policies and must be reigned in as a sign to Main Street that the game will no longer be rigged against it.

In addition to the gargantuan amounts of compensation being paid out, the taxes paid on these amounts continued to drop over recent years. This is a result not only of reduced taxes on capital gains and dividends, which are only good economic policy up to a point, but on tax deferral schemes and other aggressive tax stances taken by corporate, private equity and hedge fund executives to reduce their taxes to unconscionably low levels.

Yet these earnings are no less the product of their labor than a teacher's or a policeman's earnings are a result of his or hers.

Last year, several private equity billionaires actually had the gall to lobby on Capitol Hill to retain the 15 percent tax rate on their "carried earnings." These individuals argued that if their taxes were raised, they would no longer be willing to take the kinds of business risks that lead to new job formation and economic growth. Attempts to require these over-indulged [*fill in the blank*] to pay the same taxes on their income as ordinary Americans were derailed in what must go down as one of the most cynical lobbying efforts in history.

Hedge fund managers play their own games. The most popular tax reduction technique among this crowd is the formation of offshore trusts that enable them to defer their management and performance fees for periods as long as ten years. A ten year deferral of taxes reduces the effective tax rate paid on these managers' already huge earnings to virtually zero on a present value basis while they continue to enjoy the ability to profit from investments in America's (once) free markets.

Fairly taxing the upper 1/10 of 1 percent isn't going to plug the gaping U.S. budget deficit, but it will go a long way to returning a sense of fairness to a system that has lost its moral compass.

Source: Michael Lewitt of Hegemony Capital Management



Jim Jubak

Cheer up: Here comes a recession

Although the huge financial-rescue plan may help Wall Street, there's still plenty of bad news to come in the real economy. History gives us reason for hope, however.

By [Jim Jubak](#) 9/30/08

<http://articles.moneycentral.msn.com/Investing/JubaksJournal/cheer-up-here-comes-a-recession.aspx?page=all>



WEA Insurance / USU Pension Plan

09/30/08

Investment Name	YTD 09/30/08	Prior 3 Months %	One Year %	Three Year %	Five Year %
Stable Value					
Guaranteed Long Term	3.90%	1.3%	5.0%	4.5%	4.3%
Fixed Income					
American High Income Trust RITEX	-13.19%	(9.2%)	(11.9%)	0.9%	4.1%
IncomeFlex Lifetime					
IncomeFlex LT Income & Equity Fund	-12.24%	(6.2%)	(10.2%)	N/A	N/A
IncomeFlex LT Conservative Growth	-17.58%	(8.5%)	(15.5%)	N/A	N/A
IncomeFlex LT Balanced	-20.14%	(9.7%)	(18.0%)	N/A	N/A
IncomeFlex LT Growth	-21.60%	(10.5%)	(19.4%)	N/A	N/A
IncomeFlex LT Aggressive Growth	-23.98%	(11.4%)	(21.8%)	N/A	N/A
Balanced					
Lifetime Income Equity Fund	-12.24%	(6.0%)	(9.2%)	1.9%	4.2%
Lifetime Conservative Growth Fund	-17.58%	(8.3%)	(14.6%)	1.2%	4.8%
Lifetime Balanced Fund	-20.14%	(9.4%)	(17.2%)	0.8%	5.1%
Lifetime Growth Fund	-21.60%	(10.2%)	(18.6%)	0.6%	5.2%
Lifetime Aggressive Growth Fund	-23.98%	(11.2%)	(21.1%)	0.1%	5.4%
Large Cap Stock					
Dryden S&P 500 Index	-23.91%	(8.4%)	(22.0%)	0.1%	5.0%
Vanguard Total Mkt Index VTSSX (VTSAX 3, 5 Yr)	-23.64%	(8.5%)	(21.2%)	(1.6%)	3.9%
Large Cap Growth / Turner	-36.64%	(18.7%)	(28.8%)	(2.3%)	4.2%
Large Cap Value / AJO Fund	-29.92%	(7.1%)	(22.7%)	(1.1%)	4.9%
Domini Inst. Social Equity DIEQX	-22.44%	(8.1%)	(20.6%)	(1.0%)	3.4%
Mid Cap Stock					
Mid Cap Growth - Artisan Partners	-29.64%	(12.0%)	(22.5%)	2.5%	7.5%
Vanguard Mid Cap Index VIMSX	-28.73%	(15.1%)	(24.5%)	(1.0%)	8.0%
Mid Cap Value - Wellington	-29.92%	(10.7%)	(32.0%)	(2.1%)	5.8%
Arial Fund ARGFX	-27.72%	(2.4%)	(26.6%)	(5.6%)	3.0%
Arial Appreciation Fund CAAPX	-22.27%	(4.0%)	(20.5%)	(2.1%)	3.6%
Small Cap Stock					
Vanguard Small Cap Index NAESX	-20.47%	(5.0%)	(17.2%)	1.0%	8.6%
Sm. Cap Growth - TimesSquare	-18.72%	(2.2%)	(13.8%)	3.1%	7.9%
Small Cap Value - Munder	-31.33%	(10.6%)	(30.7%)	(8.4%)	N/A
International					
International Equity - Artio / (Julius Baer) BJBIX	-33.96%	(23.3%)	(31.0%)	1.8%	10.0%
Calvert World Values Int'l CWVIX	-32.77%	(21.6%)	(33.9%)	(1.1%)	6.9%
Other - Specialty					
Alpine Int'l Real Estate EGLRX	-53.32%	(36.0%)	(54.6%)	(10.1%)	4.9%
American Cent. Real Estate REACX	-20.54%	4.3%	(12.4%)	6.0%	13.5%
T. Rowe Price New Era {Nat. Resources} PRNEX	-26.20%	(33.9%)	(19.7%)	8.5%	20.2%

**Italic = Socially Conscious fund*

AIG, the World's Largest Insurance Company is Bankrupt -- Could This Happen to Rock Solid Prudential?



Shares in AIG, which was once the world's largest insurance company, peaked at \$100 in late 2000, fell to \$41 at the end of the tech bear market in 2003, peaked again at around \$72 in early 2007, and fell as low as \$1.25 before sinking like a rock into Davy Jones's financial graveyard.

The Fed didn't regulate AIG. As an insurance company, AIG was actually regulated at the state level. The same is true for Prudential.

True / False Pop Quiz:

1. _____ Is Prudential's "Guaranteed Investment Fund" insured by the FDIC?
2. _____ If Prudential were to be declared insolvent, which will return 100% of your invested money, the Guaranteed fund or the Large Cap Growth/Turner mutual fund?

Here's a Q&A piece from Prudential. Relevant statements include the following:

"If [Prudential Retirement Insurance and Annuity Company (PRIAC) was to become insolvent, any investments in the Guaranteed Income Fund (GIF), through PRIAC, are part of the insurance company's general account and are subject to claims of creditors. If such a situation were to occur, however, in general, policy claims (such as your account) represent one of the first significant categories of claims, ahead of general creditor and stockholder claims. In addition, in the event of insolvency, state insurance guaranty associations may afford some additional financial protection."

"All guarantees are based on the claims paying ability of the issuing company. Each company is solely responsible for its financial condition and contractual obligations."

"Prudential's balance sheet is strong and the company is highly rated by the major independent rating agencies. We have the capital strength and the diversified mix of businesses that position us for sustainable, long-term performance."

"Assets in a qualified retirement plan, like a 401(k), however, are segregated from other funds by being held in a Trust or group annuity contract. The Trust is established by the Plan Sponsor (the employer) exclusively for the benefit of the Plan's participants. The Trust, which is required under the Employee Retirement Income Security Act of 1974 (ERISA), protects the assets of the Plan by not permitting unauthorized access or activity by the plan sponsor, the record-keeper, or other unauthorized parties."

1. *The answer to Q1 is false.* The Feds don't 'guarantee' the guaranteed fund, and as noted by the first two paragraphs of the Q&A above, those dollars are subject to creditor risk. If insolvent, you can lose money. Having said that, Pru is currently AA+ AM Best rated.

And in a conference call Friday the Pru management focused on their risk controls in order to assure participants and sponsors that Pru remains as a solid company. However, we all know that a lot of verbal assurances have been given to shareholders and then within weeks companies went under (Lehman Brothers, etc.). When I previously asked about the percentage of bonds Pru had in two failed companies no exact information was forthcoming, but promised.

The USU Pension and Benefits Committee will continue to monitor Pru's status and alert you if something major occurs. For now, we must take them at their word and nothing they've provided to us suggests that the Guaranteed fund is at risk.

2. *The answer to Q2 is mutual funds.* As noted in the commentary above, all of the mutual funds are walled off from Pru's company assets and are in a Trust. So in the event of a Pru insolvency you'd get back 100% of your mutual funds assets. However, if events got so catastrophic that we were faced with this meltdown, most everything you could own would be worth a lot less.



Prudential Short Term Redemption Fees

Prior to exchanging funds, be aware that some funds have short term redemption fees, typically involving money that haven't been in the account for 30 or 60 days. Typically the amount that's subtracted if you move assets to another fund is 2%.

If you are doing the exchange on-line, you will see a red box ■ with an "R" in it to warn you that the fund is subject to a ST redemption fee.

Prudential Excessive Trading Monitoring Program

Market timing, which is a type of excessive trading, is the process of making frequent transfers into and out of the same fund over a short period, usually trying to exploit a perceived "mispricing" of that fund. Any excessive trading can harm a fund's performance – and the retirement security of long-term investors – by increasing transaction costs and/or disrupting the portfolio manager's strategy.

Prudential Retirement's Excessive Trading Monitoring Program is designed to protect the interests of the vast majority of plan participants who are long-term investors by identifying and stopping abusive or excessive trading. To continue to address this important issue effectively, we are updating our definition of excessive trading. We will define "excessive trading" as follows:

One or more "round trip" trades within a thirty-day period, where each buy or sell in the transaction is greater than \$25,000; AND where the trading pattern did not result from systematic rebalancing, transfers supporting a long-term asset allocation strategy, payroll deductions, or other retirement planning activities. (We define a "round trip" as a transfer into and out of the same fund offered as part of your plan.)

Of course, not all trades are considered “excessive.” Automatic or system-driven transactions such as contributions or loan repayments by payroll deduction, regularly scheduled or periodic distributions, or periodic rebalancing through an automatic rebalancing program, are beyond the scope of these concerns.

Should you have additional questions, contact Prudential at 800-253-2287. Participant Service Representatives are available Monday through Friday, 8 a.m. to 9 p.m., ET.

Bear Markets – Will the Past Help Guide Your Future Returns?



The broad market is now down 24% for the year and 30% from the last top in October 2007.

The average bear market of the past 75 years has been down 40%, so we may have another 10% to go while waiting for the capital markets to stabilize.

Of the 10 prior bear markets since 1940, three never went down 50% measured from the market top, including 1987.

Of the seven (7) bears that did, the shortest time to a 50% reversal was in 1948, at 104 days. This bear market took 344 days to get there, the longest aside from the grinding 847 days for the 2000-'02 bear, at which point the market was near a bottom.

There's no strong pattern, except that the 50% retracement point seems to have been an occasion for a rest or bounce, with one-month subsequent returns between a loss of 1% to a gain of 12%.

In 1966, the 50% give-back was the end of the bear -- but in the other six instances, there was more downside, of between 5% (1962) and 34% (1973).

Source: *Barrons* 9-29-08



Liz Pulliam Weston

Money math you need to know

These six simple calculations will help you put your finances in perspective, whether the question is your real buying power or the amount you need to quit your job forever.

Here's a link to an article to MSN's columnist Weston. And for those of you who are “math challenged” it's an easy read – in two minutes you will get really good basics.

I sent this link to my college and young adult kids – stuff they need to know or be reminded about too. So how much does a \$1.92 drink once per week at Starbucks [*don't you wish it cost this much*] cost a 25 year old in terms of retirement savings? See the table of how much a \$100 grows over time at 6%, 10%, etc.

<http://articles.moneycentral.msn.com/SavingandDebt/Advice/MoneyMathYouNeedToKnow.aspx?page=all>

Please cancel your credit cards before you die.

A lady died this past January, and Citibank billed her in February and March for their annual service charges on her credit card. Citi also added late fees and interest. The balance had been \$0.00 and now was around \$60.00. A family member called Citibank.



Family Member: 'I am calling to tell you she died in January.'

Citibank: 'The account was never closed and the late fees and charges still apply.'

Family Member: 'Maybe, you should turn it over to collections.'

Citibank: 'Since it is two months past due, it already has been.'

Family Member : So, what will they do when they find out she is dead?'

Citibank: 'Either report her account to frauds division or report her to the credit bureau, maybe both!'

Family Member: 'Do you think God will be mad at her?'

Citibank: 'Excuse me?'

Family Member: 'Did you just get what I was telling you - the part about her being dead?'

Citibank: 'Sir, you'll have to speak to my supervisor.'

Supervisor gets on the phone:

Family Member: 'I'm calling to tell you, she died in January.'

Citibank : 'The account was never closed and late fees and charges still apply.' *(This must be a phrase taught by the bank!)*

Family Member: 'You mean you want to collect from her estate?'

Citibank: 'Are you her lawyer?'

Family Member: 'No, I'm her great nephew.'

Citibank: 'Could you fax us a certificate of death?'

Family Member: 'Sure.' (Fax number is given)

After they get the fax:

Citibank: 'Our system just isn't set up for death. I don't know what more I can do to help.'

Family Member: 'Well, if you figure it out, great! If not, you could just keep billing her. I don't think she will care.'

Citibank: 'Well, the late fees and charges do still apply.'*(What is wrong with these people?)*

Family Member: 'Would you like her new billing address?'

Citibank: 'That might help.'

Family Member: 'Odessa Memorial Cemetery, Highway 129, Plot Number 69.'

Citibank: 'Sir, that's a cemetery!'

Family Member: 'What do they do with dead people on your planet?'