Guest Opinion

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P.E.R.S.: THE GREATEST SWINDLE IN AMERICAN HISTORY

By Fred M. Starkey
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"In an age of deceit telling the truth is a revolutionary act." --George Orwell.

"The very word secrecy is repugnant in a free and open society: and we are as a people inherently and historically opposed to secret societies, to secret oaths and secret proceedings. We decided long ago that the dangers of excessive and unwarranted concealment of pertinent facts far outweighed the dangers, which are cited to justify it." "There is a very grave danger that an

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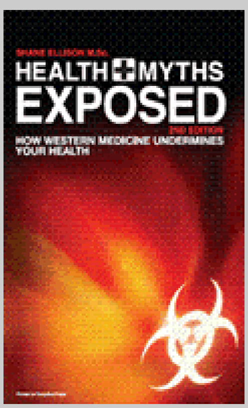
So, all Government Agencies will be shouting for more money. Telling us the economy is doing them in. Of course, that is a lie: it is PERS that is doing them in. As of today, according to the Mercer Actuaries,



announced need for increased security will be seized upon those anxious to expand its meaning to the very limits of official censorship and concealment." --JFK, Speech of April 27, 1961.

In 2006 I was able to publish a quick overview of Oregon PERS in the Springfield Times and on NewsWithViews.com. Regardless of proven facts and documentation, I was turned down by 2 major newspapers from Oregon. Telling the Truth is difficult, because, as I found out personally, many do not want the truth to be told.

There is deliberate and practiced secrecy about the Oregon State Pension system known as PERS (Public Employees Retirement System). In fact, all States regarding their Pensions is not known by at least 99.95 % of the people in them and 99.99 % of the people who are funding them: the private taxpayer. It is a secret: see if you know the following facts.

In a historical review of Swindling Schemes Oregon PERS ranks at the top and could be the Biggest Swindling Scheme in the history of the USA. Let me explain.

If you want financial security for your future: you are instructed by the media, and others, that you must put aside "X" amount per year. Of course you are going to take all the risk, because defined pension benefits only take place in the government and approx. 12% of the private companies in the USA: and that amount is declining rapidly, because they can't afford them. Of course all kinds of rosy scenarios are presented showing how you can become a

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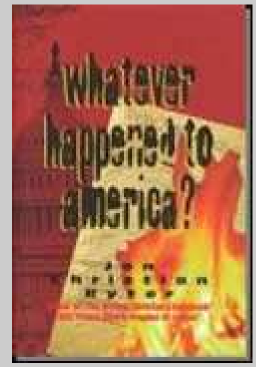

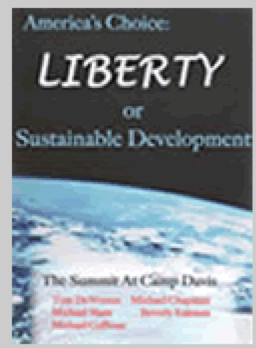

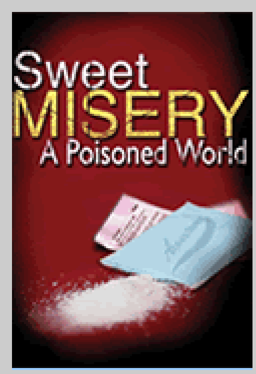

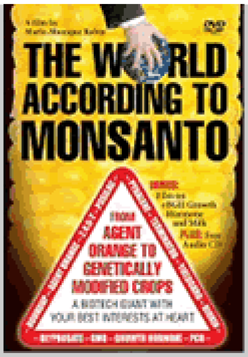

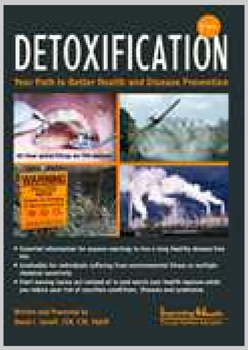

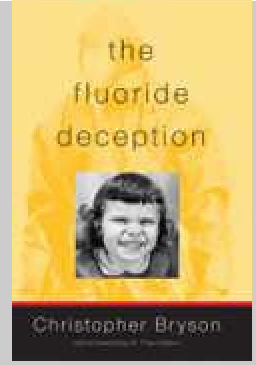

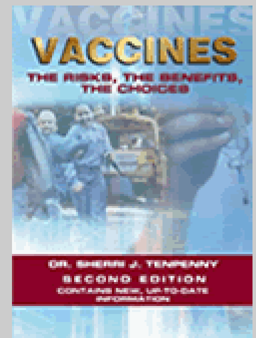

millionaire and enjoy a life of ease, comfort, and complete pampering.

What is the reality? The median for ages 55 – 65 have $100,000 saved. The top 11% of the same age group have $250,000 or more. Only 2.8% are 1st generation millionaires. This is usually after 40 years of working and saving. A $100,000 will buy you annuity of $5,000 per year.

Let's say in addition to S.S. you want a $25,000 annuity with a 2% Cost of Living Adjustment (COLA) for you and your wife, so you can live a modest life. What will that cost in the private sector: $661,000.00. Let's say you want $42,500 a year, how much will that cost you?:

$1,180,000.00. (Fidelity Annuity: 1-800-634-9361) Now, let's say you were employed by Oregon State Government and in their PERS system. Number one: you don't have to contribute to your pension. Two: Nothing is taken out of your check: they will do the savings for you. Three: You don't have to manage or invest the money: they do that for you also. Fourth: You don't have to take any risk because it is guaranteed. Five: and when you want to retire, they double the money in your account. Sixth: then they will pay you a 10% plus annuity on that money.

The recent PERS report of 2009 showed an average annuity/pension of $24,775 with an average number of years at 21 and an average age of 59. So, at age 59, not 65, you will have a joint annuity with a 2% COLA, for 21 years of service. This is 500% more than the private sector. The average annuity/pension for 30 years of service is $42,500 with a 2% Cola. That is 850% more than the private sector.

Now, remember these people think they "earned" it. Do you think these people are delusional? In fact, recently it was discovered that the average salary for a bus driver in Portland was $100,000 a year.

Are these pensions funded like the private sector? No: they have never been funded like the private sector: never. Why didn't you know: because the National News Media is not only, not research oriented, they simply are not that intelligent. (Clinton/Gore/Cattle Trading)

How are these pension paid for? All States use an 8% or more discount rate? What is a discount rate? It is an assumed rate of return they will get on their money. In the private sector they must use the AAA Corporate Bond rate of 4.9%. How did they come up with this? They average the return over a vast number of stocks for "x" amount of years, which according to the Bell Curve, in the middle of the curve, is 8%. The basic reference is:

> Stocks for the Long Run by Jeremy Siegel. So, they take that assumption and calculate the capital needed to fund the pension. This is against the law in the private sector and this is where the start of where the swindle takes place. Remember, the actuaries who run these State Pension are paid 3 – 5 million a

> year: there is a lot of selfjustification involved. And, of course all the people in PERS don't want the "Good Ship Lollipop" to leave the harbor. The Courts, Judges, Governor, Congressman, and all State Employers are in the system. This is a secret society of bandits and thieves.

When I told a Congressman that PERS was not a funded pension, he didn't believe me, like most people. So, I told him to call and find out what the capital requirement was for a $53,000 a year pension with the 2% COLA: he called. Fidelity required $900,000.

PERS required $552,000.00: only 61.33% as compared to the private sector. He was shocked, and then the light bulb went on. This same individual wanted a private audit of PERS before he would sign off on the budget: but the Democratic controlled legislature wanted no such thing. Why?

Remember that payout will increase each year by 2%. So, as Dr. John Shoven, from the Hoover Institute stated, they are paying a 10% plus annuity. The 2% COLA is not given in the private sector unless you want to pay for it. But almost all states have a COLA.

See, when the State tells you they are fully funded. What that means is that they are fully funded using the 8% discount rate or 60 – 65% of the capital needed in the private sector. Is that Deceit? I think it is. It is also lying.

I knew this in the late 1990's and stated that PERS would go bankrupt, which took place.

How did I know? Statistics. From 840 monthly observations of the S&P 500, 33 (4%) of those months were 2.00 S.D. from the mean: worse than – 11% and greater than +12.2%. But 21 of these extremes were on the downside: about 63%. When you consider that stock market is usually in an upslope, this sticks out. The edges of the curve go sharply upward. At the extremes the market is not random walk: it is more likely to destroy fortunes than create them. The Stock Market is a very risky place. (Peter L. Bernstein: Against the Gods)

So, when you have a leveraged account with only 60% of the capital up, the swings will be wider and especially devastating on the downside as proven from the statistical study. Oregon PERS has dropped 37.4% since the 2007 high. But, note that no portfolio protection insurance was taken by the state or any government agency: complete mismanagement when considering the historical probabilities. So, how do they make up the capital?

Each PERS participant is called an Employer. So, they send a bill to each employer to fund the pension. They now call this the “Side Account”, which includes: Pension Bonds, UAL (Unfunded Acturial Liability) and employer payroll cost. Today, that amount is now 40 – 42% of payroll. But, it is already scheduled for an increase of 6.5 % in 2011 and 6.5% in 2012: another 13%, which will make that total 53% plus. In other words, you send the Government entity One Million, the first $400,000 goes to fund PERS. Many have a deferred compensation plan in addition to PERS.

So, all Government Agencies will be shouting for more money. Telling us the economy is doing them in. Of course, that is a lie: it is PERS that is doing them in. As of today, according to the Mercer Actuaries, PERS is paying out 2 Billion more than they are taking in. They will need a 24 Billion to bring PERS back to the 8% discount rate funded level. Where will they get the money? From the private taxpayer of course: that is the plan.

Can PERS be paid? NO. Why? Because a Monte Carlo simulation or a statistical modeling of future investments tell us that if you take 10% a year from your annuity you will be out of money in 15 years. (PERS is paying a 10% plus annuity) The average life expectancy is now 80 for a male and 85 for a female: people are living longer. If the average retirement is 59, then their pension will be emptied at the age of 74, which is 6 years short of the average male and 11 years short for the average female. There are over 105,000 to date on a PERS pension. As they say in Baseball: Bye, Bye Baby.

There are a lot more facts, evidence, and proof. But, State Pensions will go bust, or the private citizen will lose all his savings, his home, possessions and be thrown out into the street to keep paying the pensions.

Prediction based on probabilities. The Stock market should peak in 2009 and then head down into the fall of 2010 with the Dow at

2,000 – 5,000. State Revenue will collapse.

The USA deficit as a percent of GDP was 3 – 4% during the Bush years. In less than 100 days, our new President has turned the deficit into 12.5% of GDP. So, Major Inflation is on the way with a collapsing dollar: your savings will buy less and less. Unless we can get a better governor and many new legislators that will shut down PERS, you may lose everything. Turn off the TV and start handing out this information.

Fred M. Starkey was previously the Lead-Long Term Analyst for Shearson Lehman out of NYC. In One Year he was the most followed analyst out of 30 by a 5:1 ratio. He turned down a lead analyst position with Merrill Lynch and Pru Bache in NYC, recruited by Stotler and Company, and transferred to Oregon. He is now a private consultant to FCM's, Grain Merchants, Wheat Farmers, Cotton Mills, Cotton Merchants, Gold Bullion Dealers, and others regarding pricing, hedging, and forecasting. Fred has been married for 37 years, the parent of 6 children, and lives in Springfield, Oregon by the McKenzie River.

E-mail: harborlightsinvestment@msn.com

Home