

Ways & Means Actions

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Background and Experience

My name is Glenn Harrison. I live in Albany. For 32 years I was a high school math teacher. I have been retired for nearly 20 years. For 11 1/2 years I served on the PERS Board - from March 1987 through February 1994 and again from October 1999 to June 2003. I have had five governor appointments to the PERS Board. I was the Vice Chair from Jan. 1990 to Feb. 1993 and Chair from Feb. 1993 to Feb. 1994.

First I was appointed by Gov. Neil Goldschmidt to fill a vacancy through June 1987 becoming the first labor representative on the PERS Board. Then I was reappointed for a 3-year term. I was then reappointed by Governor Barbara Roberts in 1990 for a 3-year term that should have ended June 30, 1993 when I retired. But I continued to serve on the PERS Board until a replacement was appointed and confirmed by the Senate in February 1994.

In 1999 I was appointed to the dual position representing both educators and retirees by Governor John Kitzhaber in to fill the remainder of a term and reappointed for a June 2000-August 31, 2003 term.

I was on the PERS Insurance Committee - 1988 - Feb. 1994 & Oct. 1999-2002, Chair 2000-03 and the PERS Legislation Committee - 1988-91, 1999-2003. So I have some experience with PERS in the past.

For five years I served on a school board and for nine years I was on the Albany Budget Committee chairing it for six years. So I know the challenges for public employers as well.

Funding

As you know funding for retirement payments come from three sources. Employers pay a share, employees pay a share either directly or through accepting reduced salaries if the employer picks up this 6% portion, and typically the largest portion comes from investment earnings. Each time there are major losses in the market, it can be traced back to greed.

On October 19, 1987 there was Black Monday when the stock market dropped over 20% - the largest one day drop in history. Part of the blame for the 1987 crash was the interplay between stock markets, index options, and futures markets. The market rallied the next two days, but took two years to fully recover.

Then in 2001 the Enron scandal broke and their stock price dropped from \$90 a share to about 26¢. Enron had invented a series of dummy companies where they dumped their losses. Investors including Oregon PERS funds lost billions. Like many other states, Oregon's Attorney General filed a claim in bankruptcy court and did recover a small portion of what had been lost.

In July 2002 WorldCom filed for Chapter 11 bankruptcy and wiped out the investments made by many savvy investors including the Oregon Investment Council. The WorldCom stock value dropped from \$64.50 a share to 14¢. Their CEO Bernie Ebbers, CFO Scott Sullivan, along with three others went to prison for an \$11 billion fraud, the largest accounting fraud in history.

Then in 2007-08 the Banking and Housing Crash hit and the long period of recession began. Money had been loaned to many people who couldn't afford to pay it back, but had been assured they could. Mortgages were chopped up and combined to make new trillion-dollar derivative investment opportunities for those in the know at the expense of others. Citibank, Goldman Sacks, Morgan Stanley, Lehman Brothers, AIG and others took losses and several reorganized. The US Congress approved a \$700 billion taxpayer bailout of financial institutions that were on the brink of collapse which were considered "too big to fail." Plus the Federal Reserve provided over \$16 trillion in total financial assistance to these same institutions during the financial crisis. Now the 10 largest banks each have more money than they did before the financial crash.

Oregon's State Treasurer and Attorney General have done a good job seeking justice in the Countrywide Financial and the pending Bear Stearns suit.

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The settlement with Tyco produced two pay outs. The Initial Distribution occurred in March 2009. A second distribution was made in September 2010. A redistribution of unclaimed, un-cashed, returned and other funds was made in early December 2011.

Fix the Real Problem

Over the years Oregon's Treasurers and Attorney Generals have been good about seeking to recover the Oregon funds lost because of fraud. It is time that Oregon, along with others states, and the US government ask their Treasurers and Attorney Generals to even more aggressively seek to recover their lost investment revenue from those who exhibited personal and corporate greed.

In Oregon the money recovered from the OIC's use of PERS funds should be added to the PERS account so that employers would not have to make up as much of the loss and employees and retirees would not suffer losses in the future. Investments of other Oregon funds should be reimbursed from their recovered losses. Without this revenue each future years earnings will be lower than they otherwise would have been.

The frauds related to the London InterBank Offered Rate or LIBOR and the Standard and Poor's Traders at large banks such as Barclay's, UBS, Deutsch Bank, and Royal Bank of Scotland colluded to rig the price of money. LIBOR is the underlying interest rate used to set mortgage rates, bond rates, and other interest rates. UBS, a Swiss global financial services company headquartered in Switzerland, has already been fined \$2.5 billion and Oregon should get its share of the fine.

Barclays, UBS and Royal Bank of Scotland have already settled cases with the government that cost them more than \$2.5 billion in penalties. Each admitted to submitting false interest rate information to the British Bankers Association that was used to establish Libor, a benchmark for loans and securities issued throughout the world. UBS and Royal Bank of Scotland had their Japanese brokerage subsidiaries enter a guilty plea in the United States. Other banks are likely to reach settlements with the government in the coming months, including admissions of wrongdoing. The discount broker Charles Schwab based its claim of a RICO violation on the banks' having engaged in a pattern of racketeering activity involving mail, wire and bank fraud in manipulating Libor. Under antitrust laws, it is illegal for competitors to take concerted action that affects the price of goods and services for their own benefit.

However, yesterday Judge Naomi Reice Buchwald of Federal District Court in Manhattan, dismissed most of the claims filed against the banks by private plaintiffs, most important the antitrust and Racketeer Influenced and Corrupt Organizations (RICO) counts that bring with them triple damages and attorneys' fees for any violation. The antitrust decision was that the banks were not acting as competitors, but were colluding. Judge Buchwald's reasoning reflects the approach taken by the Justice Department in the settlements reached with the three banks over Libor manipulation. Those cases involved admissions of violating the federal wire fraud statute from the submission of false information designed to manipulate Libor, not a violation of the antitrust laws. The cases before Judge Buchwald represent many class actions seeking billions of dollars in damages that were consolidated into a single proceeding.

The fallout from the manipulation of LIBOR has already cost banks \$2.5 billion in penalties, in addition to loss of reputation. The claims by investors over some Eurodollar futures contracts will move forward, and the amounts involved in that case could be significant. Cases against Bank of America, JPMorgan Chase, Citigroup and Deutsche Bank will continue.

Freddie Mac recently filed a lawsuit against them for antitrust violations, breach of contract, and fraud with potential damages of \$5 billion. It was filed in Virginia, so the ruling in the Manhattan court may not apply.

SAC Capital Advisors is one of the world's largest hedge funds. Corporate greed continues. Just last Friday, Michael Steinberg became the most senior SAC employee to be caught in the government's multiyear insider trading investigation. FBI agents went to his upper east side Manhattan apartment and arrested him.

The budgets of the Governor, State Treasurer, and Attorney General each need to be adequate to make funding the legal actions and settlement negotiations that are needed to protect Oregon funds.