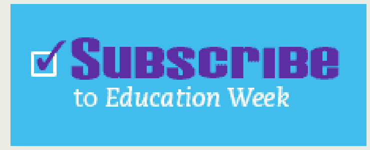

TRANSCRIPT

October 1, 2008

The Financial Crisis and Schools

Guests:
John Musso, a former teacher and district chief financial officer, is the executive director of the **Association of School Business Officials International**, which represents more than 6,000 school business management professionals across the country. The organization works to improve financial management in school districts.
Dan Otter is a former teacher who co-founded and now runs the web site **www.403bwise.com**, which seeks to educate people—especially teachers—about saving for retirement.

Michele McNeil (Moderator):
Good afternoon, and welcome to today's live chat on how the financial crisis on Wall Street is trickling down to affect school districts, teachers, and their retirement savings. As we're chatting about this topic today, the U.S. Senate is preparing to take a major vote on the $700 billion bailout package for the financial services industry. There are a lot of nervous folks out there who are wondering what this means for their pensions and 403(b) plans, and how this will affect school districts' budgets and education priorities in general. To answer your questions, we have John Musso, the executive director of the **Association of School Business Officials International**, and Dan Otter, who founded and runs the financial education website **www.403bwise.com**. I'm Michele McNeil, a state policy and school finance reporter, and I'll be your moderator. Let's get started.

Question from **Alina Moran, Curriculum & Technology Specialist, Brain-Strong, Inc.**:
Will this financial fiasco impact federally funded educational projects? How so?

John Musso:
Over the course of time, we can look back at many different types of economic scenarious and see reductions of federally funded education projects and programs. This is no exception. Schools historically have a difficult time getting full funding or any funding for federal categoricals. I don't believe that any area will be a "sacred cow" when reductions begin. Additionally, the impact will be felt outside the federal educational funding components as cities and states begin to see federal reductions for some of their projects. This in turn will create that "domino effect" that will trickle down to each community and the school systems that serve those communities.

Question from **teri fedele, teacher, syracuse city school disrtrict**:
I just realized that the 403b institution that my district approves, nationwide, is not FDIC or SPIC insured. How can this be, and what will happen if Nationwide goes "belly-up"? I want to roll this investment over to my own personal IRA on my 15 year anniversary, but am told by my HR

department that I cannot do this. You mean to tell me that in America, I do not have the right to access my own hard-earned and saved cash? I have since stopped all contributions and will save cash in my hometown bank checking account until the dust settles.

Dan Otter:
Hi Teri, Most likely you have a fixed annuity (which operates much like a certificates of deposit, but as you point out is not insured by the Federal Deposit Insurance Company a.k.a. FDIC) and/or a variable annuity (mutual fund within an insurance product — mutual funds are securities regulated by the SEC but are also not guaranteed). If you have the latter investment (a variable annuity) it is highly likely that your account has lost value. However, it is unlikely that you would lose all (or most of your) money (fixed or variable annuity) due to the financial status of your provider, Nationwide. I asked Certified Financial Planner Scott Dauenhauer, owner of Meridian Wealth Management, for further details about firm insolvency and this is what he had to say: If an insurance company becomes insolvent, only the assets in the "fixed" or "general" account are at risk — meaning creditors of the insurance company could get to them. However, I have never seen an annuity lose principal during an insurance company insolvency. The worst-case scenario would be that the company becomes insolvent and no other insurance company (or the government!) rescues it. In such a situation you would have to rely on a state guarantee fund. For instance, in California (where I reside), I believe the state covers 85% of the account balance up to $100,000. Check with your state. If you own a variable annuity, only the portion of the account invested in the fixed account would be potentially at risk. Variable annuity sub-accounts and mutual funds held in custodial accounts (known as 403(b)(7) account) are subject to market fluctuation but are not available to creditors in the event of a bankruptcy or insolvency. Finally, I understand your frustration at not being able to access your money when you would like. Unfortunately, the only way you can access 403(b) money is when a distributable event occurs including the following (but not limited to): attain age 59-1/2; separate from service in or after the year in which you reach age 55; part of a series of substantially equal periodic payments for your life or the joint lives of you and your designated beneficiary; hardship; disability and death. You do have to keep in mind, and I realize it is difficult in times like this, that in exchange for giving you a pretty good deal (tax deferred savings + no taxes on earnings during accumulation) the government does not want this money to be easily accessed until retirement.

Question from **Inga Weberg, Sales Mgr., Redleaf Press**:
What kind of timeline do we typically see from market to schools to budgets? If the budget is already set for the fiscal year, is there a delay in cuts to the district and hitting the next year or are they more instant? Thank you.

John Musso:
There will be a delay in some cuts but an instant impact for some. School systems need to look critically at their fiscal year, analyze the potential issues, and strategically plan for dealing with the issues. Examples of immediate issues are the oil prices that rose so quickly in the middle of many school systems current budgets. Delayed impact can best be seen by those goods and/or services that have yet to be produced or performed. Example being capital construction programs. If projects have already been priced out there is certainty that inflation will far exceed any contingencies or other inflationary factors that were originally built in.

Michele McNeil (Moderator):
Several readers wrote in with questions about how their retirement accounts might be affected by AIG's woes, which led to an $80 billion loan to the company from the federal government. Here's one question and answer:

Question from **Lynn Keenan, Health Science Teacher, Polk COunty**

School:
I have a 403B acount with AIG/VALIC...how secure is this? I have a 4% fixed annuity.

Dan Otter:
Hi Lynn, I know it must have been very scary to read about AIG's troubles the past few weeks. But the fact is that your 403(b) is offered through the subsidiary VALIC, which unlike the parent (AIG), is pretty well capitalized. My sense is that your investment should be OK. Here's a letter from AIG/VALIC to participants that should help alleviate some of your concerns:
http://403bwise.com/pdf/AIG_Client_Letter_September17_2008.pdf

---

Question from **Brian Cory, Vice Principal, Tenafly HIgh School, Tenafly NJ**:
With green concerns and financial concerns, are the pilots of schools turning to a four day week holding water?

John Musso:
Back in the 1970's school systems looked hard at the effect of a 4 day school week. Then, only a handful of school systems moved in that direction. Research was shakey. Today, one in seven school systems are seriously looking at the feasability of such programs. At the onset, there is typically alot of parent resistance due to childcare concerns, the child's ablility to focus for the extended time, and how an extended day fits into extracurricular activities, as well as reduction of salaries for support staff who who are implicated in the reductions. There have been successful 4 day programs instituted and there have been 4 day programs that have not worked for one reason or another. Those programs that are working have taken a close look at what worked and didn't work in the 70's. They have also done their homework with parents and employee groups. My only caution would be that as school systems move forward to these types of programs, that we do so for all the right reasons. One of those being meeting the students needs and not sacraficing student achievement.

Question from **Dora Tartar, Reading Supervisor, Pleasant Valley School District**:
I am contemplating retirement at the end of this school year. Are our retirements in jeporady?

Dan Otter:
Hi Dora, Possibly (at least in the near term). There are two reasons this is a very inopportune time to be contemplating leaving the workforce, especially if your retirement is to be funded primarily by investments tied to the stock market: (1) Your investments have most certainly lost value, perhaps significantly; and (2) You would be drawing money from retirement funds in a declining market, the worst time to do so (this is why many financial planners recommend that retirees set up a separate money market account/bank savings account made up of about 3-5 years of living expenses that is to be tapped during a declining market — the worst time to be selling assets). Hopefully, as a school employee, you have planned to fund retirement through a combination of a state teacher pension plan and perhaps Social Security. Both of which should provide a steady, guaranteed rate of return. As far as your personal investments go (both inside and outside of self-directed retirement accounts), the current economic climate is another (albeit painful) reminder of the wisdom of risk diversification. Ideally, at this stage of the investing cycle (approaching retirement) investments should be more heavily weighted toward safer, fixed investments (bond funds, fixed annuities, cash, etc.). The reason for this allocation is that soon-to-be retirees have less time to make up significant market losses. Here's a story on allocating investments:
http://403bwise.com/participants/getwise_investment_allocation.html

---

Question from **Kevin Dugan, Principal of Mullica Twp. School**:
With the huge stock market fall out affecting the pension balance has there been any discussion about freezing COLA increases? Has there been any talk about freezing wages for a year for current employees?

John Musso:
Yes and yes. School systems are looking at every available means of cost savings or cost reductions. As we know, we either increase revenue or decrease expenditures to balance budets. Today, there is very little room with increasing revenue. As much as we try to keep cuts as far away from the classroom as possible, ultimately, some school systems will find it unavoidable.

Question from **Margaret Wilson, Parent, Rogers Elementary**:
How will this impact the retirement plans for teachers who are already retired (like myself)? Is there any danger that we could receive less money on a monthly basis then we do now?

Dan Otter:
Hi Margaret, I checked again with Certified Financial Planner Scott Dauenhauer who does consulting work for the California State Teachers Retirement System (CalSTRS). Here's what he had to say: The current financial situation will have an affect on teacher pension plans; they are going to lose money as most have a decent portion invested in stocks. For example, CalSTRS has about 60% invested in stocks, and clearly this market correction will have a negative impact on assets. Hopefully the other assets they invest in will moderate the negative returns. While pension systems may experience a negative return that does not mean that teachers who are retired or looking to retire will see a decrease in their pension. Most teacher pensions are backed by the taxpayers and are set in law, meaning there is a pre-defined formula and that's what they will get. Of course, if the market takes longer to recover or if the pension plan was not funded correctly to begin with, there is a possibility that current teachers and their employers could see an increase in the amount that they would have to contribute to these plans — this was a concern even before the recent stock market issues. The answer to this question is one that is local, it depends on your state. Check with your pension provider to see how well they are funded and if they are under-funded what steps they are taking to correct it. For the most part, you shouldn't have to worry about your pension plan.

Question from **Kevin Putman, Engineered Solutions Consultant, Carrier Corporation**:
When considering the financial crisis and how this will affect each school districts budget, what are their plans for the infastructure needs, both new and existing buildings, for the future?

John Musso:
The infrastructure needs won't change. However, the school system's ability to generate funds or realocate funds to pay for these needs remains uncertain based upon the unique circumstances and situations of the different school systems. Some school systems who rely on elections and voter support for such imporovements may find it increasingly more difficult to seek such approval. ASBO will be working with its members helping them to find alternative funding solutions that may work for their individual situations. During these troubled economic times, professional development for staff becomes a critical part of a school system's success in moving forward. ASBO also relies on our corporate members to help bring new and different solutions to our members during these times.

Question from **Steven Shippee, Olympia, Washington**:
Isn't this "just another dip or downturn" and is something that we just ride out ... when one uses percents, this is not the largest percentage drop ever ... ? Therefore shouldn't we just all calmly continue to fund our

pensions and Deferred Compensation Programs?

Dan Otter:

Hi Steven, I agree with everything you say. Through my website, books and when I talk to employees I try to stress again and again that saving for retirement requires a long-term perspective because saving for retirement is a long-term endeavor. On a daily, weekly, monthly and even year-to-year basis, the market goes up and the market goes down, but historically, over long periods of time (15-20+ years), the market goes in one direction: up. In fact, according to Ibbotson Associates, the stock market has had a positive return nearly 3 out of 4 years since 1926. However, the market drops on average 20% every five years, and 10% every two years (this is the risk part of investing and must be factored into any investment decision). The best course of action is to have a plan and stick with it (my plan is: contribute regularly to low-cost mutual funds properly allocated for every stage of the investment cycle — beginning, middle, approaching retirement, in retirement). Unfortunately, people often lose twice in severe market downturns. They bail out of the market when it drops, and then when it rebounds they get back in at a much higher cost — which is the exact opposite of the way we buy everything else (Who rushes to buy clothes when their prices soar?). Rough rule of thumb on diversifying investments: the fixed portion of your portfolio should mirror your age. Example: a 35-year-old might have a portfolio split 65% stocks and 35% fixed investments). If anyone is looking for a simple, automatic way to diversify investments see this story on Target Date Retirement Funds:
http://403bwise.com/participants/getwise_investment_target.html

---

Question from **Javier Melendez, Senior Director of Recruitment, Orange County Public Schools, Orlando, FL**:

What is your view of the correlation between the financial crisis and the hard-to-staff schools in the nation? Could the financial crisis worsen these schools'already precarious situation?

John Musso:

Yes. There are actually several correlations that can be drawn. The current financial crisis will certainly impact a school systems ability to raise revenue at some point. With less available dollars, there will be more competition for those dollars within the budget. Salaries and benefits at some point will feel the punch. With less dollars to spend, it will be difficult to attract and retain the best and brightest to staff our schools. Additionally, teachers, administrators and support staff may find it more profitable to seek employment outside the public school sector, thus creating additional problems. We can follow the financial crisis all the way from Wall Street to Main Street as we see the dominos start to fall. However, now is not the time to panic, but to stay calm and make sure we are all thinking clearly and strategically.

Question from **Becky, Librarian, San Antonio**:

How can younger citizens keep their retirement accounts safe? Where should the money be going to avoid problems such as this crisis in the future?

Dan Otter:

Hi Becky, A large mattress. Just kidding. It's easy to be spooked by the recent events. But the fact is the 700+ market drop was followed by a 400+ market gain. I'll say it again: strive to invest in diversified, low-cost mutual funds properly allocated for your stage of the investing cycle (real rough rule of thumb: the fixed portion of your portfolio should mirror your age. Example: a 35 year old might have a portfolio split 65% stocks and 35% fixed investments), and you stand a better than average chance of doing very well. I cannot emphasize enough the importance of investing in low-cost investments. It's one of the few things an investor can control. Consider: inflation has averaged about 3% a year. Increased energy costs have probably pushed inflation to 4-5% this year. If an investor is paying

2% for a variable annuity (the average cost of a variable annuity) and inflation is 4%, that investor must return better than 6% just to break even. Yikes! Numerous investment firms offer products charging less than 0.5%. Strive to invest in such products. Push your employer to add such products. Due to their long investment timeline, the young investor stands to gain the most from low-cost investments. See these charts on time horizon and fees:
http://403bwise.com/participants/getwise_tools.html and
http://403bwise.com/participants/getwise_investment_fees.html

---

Question from **Ric Ericksen, Business Manager, Germantown, Wi**:
we are doing our annual cash flow borrowing and then investing proceeds until needed - do you have any knowledge of the impact on these two operations

John Musso:
In this case, good investment sense is critical. I am assuming that interest earnings are better than interest payments against the borrowing of such funds.

Question from **Janet Pullen, CFO, St. Joseph School District**:
What investments are "safe" and what investments are at risk? Specifically, please address FNMA and FHLMC bonds, FHLB, FFCB.

John Musso:
Its tough getting financial advisors to give opinions on "safe" investments so I can't even begin to offer an opinion. Typically, "T-Bills", Federally Backed Treasury Bills "were" the safest investment. I would refer this question to your school systems professional financial banker/analyst.

Question from **Chris Toy, Educational Consultant, Former Principal, Freeport Middle School, Freeport Maine**:
As a high school teacher back in the 70s I taught a required economics course for seniors. It is no longer required for graduation. What are the implications of the current state of the economy for teaching elementary, middle, and high school students about financial literacy in the nation's schools?

Dan Otter:
Hi Chris, I'm glad you asked! In addition to my 403(b) education and advocacy work, I am a doctoral student at the University of New Mexico where I am investigating financial literacy issues. Specifically, I am looking at how to get financial literacy curriculum into the schools in a meaningful way, because as you point out it simply isn't happening on a widespread basis today (though the Jump$tart Coalition for Personal Financial Literacy is working hard to change this situation **http://jumpstart.org/**). My post doctoral goal is to start the Teacher Financial Literacy Project whose mission would be twofold: (1) work to improve teachers' own personal financial literacy (and thus their confidence in teaching the subject; with the added goal of reducing teacher attrition); and (2) facilitate peer-to-peer professional development workshops — modeled after the hugely successful National Writing Project — that would allow teachers to collaborate on the design and implementation of financial literacy curriculum. Research shows that without teacher buy-in, education policy, no matter how well intentioned, faces stiff implementation resistance. So if you know anyone who has a million dollars to contribute please let me know! In all seriousness, check **www.403bwise.com** later next year for more information on this effort. In the meantime, I urge you to lobby your local school entities to include this needed instruction. On a side note, two books that basically predicted this current financial situation: The Coming Crash in the Real Estate Market by John R. Talbott (published in 2003); and The Two Income Trap by Elizabeth Warren and Amelia Warren Tyagi (published in 2004).

Question from **Traci Dennard, College Bridge Coordinator, National-Louis University**:
How is this affecting postsecondary education as well as the faculty and staff who are employed at these institutions?

John Musso:
As we look at the statistics, we find that the consumer spendng is slowing, unemployment is rising, personal income growth is weakening, inflation is accelerating,foreclosures are exponetially increasing as well as other loan defaults. Americans are having to made decisions on paying either to gas bill or buying groceries. Being said, choices have to be made. No doubt that students in post secondary institutions will have to make similar decisons. I would not expect that postsecondary education will not feel some impact.

Question from **Jim Kohlmoos, Knowledge Alliance**:
Many districts are already facing severe budget pressures. Is it possible some districts will implode,dissolve, or go "bankrupt"and disappear?

John Musso:
Jim, For the children's sake. Lets hope not. Organizations such as ASBO are working very hard with our school business officials to help them manage the current economic issues. However, I have learned to never say never. If we all put our collective talents to work, maybe we can avoid some of these worst case scenarios.

Question from **Paul Odham, Transition Services, Orange Co. Public Schools**:
My question is for Dan Otter of 403bwise.com. Given the stress that the market is exerting (and may continue to exert)on state pension plans and the fact that so many state plans were underfunded and under performing before this financial crisis; do you feel that either individual states or the federal government may enact changes before 2009 in teacher 403-b plans increasing accountability and investment options for all state employees?

Dan Otter:
Hi Paul, I do agree that there were challenges facing state pension plans even before this current market downturn. You may recall that a few years ago California Governor Arnold Schwarzenegger tried to close the state pension plan (CalSTRS) to new teachers and replace it with a 401(k)-type plan. Fortunately for new teachers, that plan failed. It’s clear that state pension plan solvency will only become more of an issue in the future. On the 403(b) front, sweeping new IRS rules are set to go into effect this January 1st which will increase employer accountability. Unfortunately, I don’t think in the short term it will improve access to quality investments. In fact, it may even make it worse. For complete detail on the new regs, see:
http://www.403bwise.com/employers/getwise_regulations.html

Question from **Steve Giegerich, St. Louis Post-Dispatch**:
Does the current economic crisis make financially-strapped urban districts more vulnerable or are they insulated by long-term funding through low-risk bonds? As reporters, where should we focus to best determine if the fallout from Wall Street and Washington is creeping into the school districts we cover?

John Musso:
Steve, While I would hesitate to paint even all large urban systems with the same brush, a couple of things you might watch as a reporter would be: 1) a decrease in revenue as unpaid property taxes that may have been buoyed by escrow accounts start to affect that revenue stream, 2) urban systems are more heavily impacted by reduced federal funds, and of course 3) changes in the district’s rating that affect the cost of borrowing. I would also encourage conversations with individuals in those school

systems.

Question from **karen Arleo, teacher, Christa McAuliffe Elem.**:

I currently put in $100 each month in my annuity. Should I stop that $100 until things settle down. I don't want to send good money after bad and risk losing it?

Dan Otter:

Not at all! Investors satisfied with their plan should continue to contribute each month. In fact, the market is now on sale so that $100 (if you are purchasing stock mutual funds) will go much further than it did last month. If I had to quibble with your plan it would be that I would urge you to look at investing in mutual fund products instead of annuity/insurance products. I don't believe in mixing insurance and investing. I think the "insurance" protection sold in annuity products is simply not worth it. See: **http://403bwise.com/participants/getwise_investment_fees.html** If you are investing in a fixed annuity and you have a state pension plan you might want to consider mutual funds for your 403(b). One school of thought on this goes like this: the pension plan can be considered the safe stable part of your portfolio allowing you to take a little more risk with your supplemental investments (such as a 403(b) plan). Of course only you can determine if this is a school of thought worth buying into!

Question from **Chris Lovelace, Teacher, Oscoda Area Schools**:

I haven't heard anyone talk about prices, especially real estate and how this will effect them. I was wondering about non-market investments and whether or not the cost of investing in real estate will become more affordable and in the long run more profitable.

John Musso:

We have heard that is is a buyers market. At one point in time, buyers were pretty much getting what they were asking. Now it seems like its a buyers market if you can get a mortgage loan. What we are finding is that with fewer individuals being able to purchase homes, rental property costs are increasing. Real estate has always been a good investment depending on the circumstances, but, that one is best left up to the financial advisors and economists.

Question from **Sue Gipson, Gratn Writer, Fresno Unified Shool District-California**:

I have been investing in mutual funds-403B for 15 years. Should I discontinue my monthly deposits at this time?

Dan Otter:

Not at all! As long as you have properly allocated your investments (see: **http://403bwise.com/participants/getwise_investment_allocation.html**)and are satisfied with investment choices (I favor low-cost mutual funds), time, as Mick Jagger sang, is on your side. By contributing to a 403(b) you are making regular purchases each month (for some folks this is once a month and for others more). That means your contributions now and in the short term will go a lot of further. This is known as dollar cost averaging (your regular contribution buys less when the market is high; and more when the market is low). Look at it this way: investments are on sale.

Question from **Pat Engblade, Faculty, Baker College**:

If the bail out, or the rescue bill from the senate, does not pass, how will schools meet payroll if they can not borrow from banks whenever state payments to schools are delayed? Many schools no longer have much of a fund equity due to rising costs.

John Musso:

Pat, This is certainly a troubling issue. Some states may be capable to enact emergency legislation to help in such circumstances. This is exactly where the term was coined "From Wall Street to Main Street". Schools in these circumstances will certainly need to look at other daily expenses that don't need to occur in order to preserve employee payroll disbursements.

Question from **Felicia Ambrogio, Web Coordinator, Facts On File**:
Which school programs are getting hit the hardest? Which school programs are still strong and supported in these hard times?

John Musso:
Impact on individual programs will vary greatly between school system to school system based upon their current fudning levels,proposed future funding levels, property tax base, their strategic plans, philosophies, and the communities that they serve.

Question from **Jen Anys, Teacher, Pittsburgh Frick 6-9**:
Are we better off withdrawing our PSERS retirement contributions now and take the penalty than try to ride out the crisis? Should we believe what they say when they assure us our money is safe? Does being "federally insured" mean anything anymore in terms of our retirement or credit union accounts?

Dan Otter:
Hi Jen, I can totally understand yours (and many others) fears and concerns. Now is really the time for calm. Lets step back and look at a couple of things... (1) Pensions (such as PSERS) are indeed exposed to the market and without question have been negatively affected by recent events. However, in contrasts to most self-directed retirement plans such as a 403(b), 401(k) etc., state pension plans are operated by a team of professionals very well versed in the ups and downs of the market. (2) Most pension plans are backed by state legislation/guarantees. I would check with PSERS admnistrators for details (Here's their contact info: **http://www.psers.state.pa.us/contact.htm**). (3) The market experiences a 20% drop every 5 years, and a 10% drop every 2 years but according to Ibbotson associates, The stock market has had a positive return nearly 3 out of 4 years since 1926. (4) It's doubtful you would be able to access pension money unless eligible for distribution (rules vary by state, of course) and I think that is a good thing. Research shows that many investors lose twice in a market downturn. They sell after the market has fallen. Then jump back in when the market rises. (5) I realize your question has to do with a state pension plan (where the participant has virtually no control over investment decisions), but when it comes to individual investments such as the 403(b), it is important to have a plan and stick with it (which is also what pension plan managers do). Here's my plan: contribute regularly to low-cost mutual funds properly allocated for every stage of the investment cycle — beginning, middle, approaching retirement, in retirement. I have been an investor since 1992 and this plan has stood up very well. Yes, my investments are down recently, but they are doing quite well when factored over a 16-period.

Question from **Robbie Matthews, Title I Reading, Cumberland County Schools**:
In an earlier response it was stated "many financial planners recommend that retirees set up a separate money market account/bank savings account made up of about 3-5 years of living expenses that is to be tapped during a declining market". To have this amount of resources available, one would have to have more than the total of $100,000 that is currently insured by the FDIC. Am I correct in thinking that an individual may have increased protection if the money has different beneficiaries or additional owners for each CD/account? In other words, if one account is under John Smith for $100,000 and another is under John and Mary Smith for $100,000, you would have protection on each one?

Dan Otter:
Hey Robbie, Yes, that is the case. I also believe you can divide it up among institutions — meaning you could have several accounts in your name at several institutions (double check on this). I am pretty certain the FDIC guarantee will increase to at least $200,000. This is something that I think we could see happen shortly. Three-to five years of living expenses can seem like an awful lot of money, but if you are also drawing from a teacher retirement plan and/or Social Security this amount may be less than $100,000.

Question from **Kashi Nelson, Teacher, KIPP AMP Academy Charter School**:
How do you believe the continued financial crisis will impact the future of school reform efforts, particularly, charter schools?

John Musso:
There is no doubt that additional or even continued level funding is going to be up for grabs as new budgets move forward and are developed or redefined. With alot of competition for the same resources, it is highly probably that any type of reform efforts will be scrutinized.

Question from **Meg Fischer teacher Somerset County Vo-Tech HS**:
You refer to pension and "perhaps" Social Security. Is it legal for schools to opt out of the Social Security System? Is it the choice of the state, local, or is it Federally required.

Dan Otter:
I used to teach in California and was not part of Social Security. Instead, I contributed 8.25% of my salary to the state pension plan (CalSTRS). In contrast, when I taught in Maryland, I contributed to both Social Security and the state pension plan (though not nearly as much as I did to CalSTRS). I am not sure who makes the decision to opt out of Social Security.

Question from **Joni Burgin, Superintendent, Grantsburg School District, WI**:
How will this financial situation affect the OPEB GASB 45 investments (Wisconsin Fund 73)?

John Musso:
Joni That could be an interesting question. Right now the implementation dates are: Phase 1 - June 30, 2008 Phase 2 - June 30, 2009 Phase 3 - June 30, 2010 I am not sure the financial situation will affect the reporting guidelines.

Question from **Louise Fischer Director of Finance Merrill Schools Merrill WI**:
We just completed our short term borrowing whereby our borrowing rate, at present, is 1% higher than what we are making on our cash account at the bank. Any strategies on how we can lessen this cost or do you foresee interest on asset accounts rising within the next 12 months?

John Musso:
Louise Alot will depend on how quick the legislators on Capitol Hill can act. I would certainly, if already aren't, making sure that you are putting out RFP's to banks for this type of borrowing. Sometimes you can negotiate that rate for other services you could use the bank for.

Question from **Leigh Hopkins, National Network Director, National Center on Time and Learning**:
Senator McCain has proposed a spending freeze on domestic discretionary funding, and Senator Obama proposes another $18 billion a year for preschool and K-12 education. Regardless of who wins the

election, what does your crystal ball tell you about what might happen to federal and state education budgets in light of the current financial crisis?

John Musso:

Leigh One thing that I always say is that those of us who use crystal balls for such things usually end up eating glass. Needless to say, regardless of the election results, we will have to deal with the aftermath of the economy for some time. State and federal budgets will feel some sort of pressure

---

Question from **Michael Bertram, President Denville Board of Education, Denville, NJ**:

We have a $69.5 million dollar referendum scheduled for March 2009 to build a new middle school. How can we pass a referendum in this climate? What can we tell the voters about the chance that things will improve relatively soon? Thanks for any suggestions.

John Musso:

First of all, you really can't promise your voters the economy will improve. It certainly has to, but any of us who speculate in the current climate of uncertainty are only kidding ourselves. When working with voters, the main premise is to be open and honest. Community members need to know how the money will be spent and how it will directly impact the student achievement. If there are safety concerns, share those. If there are other areas of budget efficiencies that can be achieved, implement them and share them with the voters. Passing a referendum in good economic times is difficult so it won't be easy. And, if it fails the first time around, I would keep trying. Enlist community members who are "movers and shakers" in the community. Grass roots work always helps. Break down the annual cost increase to each taxpayer. In some cases, I have seen PR campaigns compare the monthly tax increase to beng less than some of us spend on one or two cups of "designer coffee." Good luck. And, **ASBO** always has resources you can access in this and other areas.

Question from **Ronald P. Walker, Superintendent, Geary County Schools, Junction City, KS**:

It appears the bailout is going to happen one way or the other. If so, what are the consequesnces for education funding considering there will only be a limited amount of money for discresionary spending? Are we headed for cuts of 20% or more?

John Musso:

In all probability, education will fare better with the bailout rather than without it. That's not to say that there won't be funding issues either way. ASBO will remain on top of this and other issues preparing school business officials in all areas of professional development. Very similar to our 403(b)work.

Question from **Charlie-teacher, Maryland**:

I have a 403B account with AIGValic. This account gives me a fixed return. I am 54 yrs old with 32 yrs service as a teacher. I have about $40K invested in this account. In light of the recent news concerning AIG, am I in danger of loosing this money? Should I consider a new firm and who can an invester trust these days. Could I withdraw without a penalty to help pay off my children's college loans? I'm confused and concerned and find it difficult to trust anyone that stands to make money from my decisions.

Dan Otter:

Hey Charlie, In a previous answer I explained that 403(b) money is with AIG subsidiary VALIC, which unlike the parent is well capitalized. I'll post again information to participants from AIG/VALIC: **http://403bwise.com/pdf/AIG_Client_Letter_September17_2008.pdf** As far as moving this money to another firm, here are my thoughts...

Each individual must gauge their own risk tolerance, but for me I would much rather be in a mutual fund product than an insurance product (fixed or variable). Insurance is important but I don't believe in mixing insurance and investing. Keep them separate. I have home, auto and term life insurance (low cost insurance which pays out if I die), and then I have investments. The "insurance" protection offered through annuity products is simply not worth the cost. See: **http://403bwise.com/participants/getwise_investment_fees.html** Given the choice between a AIG/VALIC product and a low-cost mutual fund offered through firms such as Fidelity, TIAA-CREF, T. Rowe Price and Vanguard, I'm going to go with the latter because of fees. If you are fortunate enough to have these firms available at work and are looking to change vendors I would consider ceasing contributions to AIG/VALIC and then directing all new contributions to a lower cost firm. Unfortunately, many insurance firms impose surrender charges on transfers. These disappear over time. Find out if fees exist, and how long they exist. Transfer the money when it is no longer subject to a surrender charge. In AIG/VALIC's defense, it is my understanding that in some cases they are offering a mutual fund only platform with lower investment costs than their variable annuity products. For complete information on the 403(b) including accessing money for college (not easy to to do; would most likely have to be through a Hardship Withdrawal, meaning you would need to be under severe financial distress — have you looked into Maryland's 529 College Savings Plan which is administered by T. Rowe Price?) see: **http://403bwise.com/participants/getwise_faq.html**

Question from **Lorraine McLaughlin, grandparent, Shepherdsville, KY**:
What percentage of the federal budget is allocated for education? A Louisville, Ky newspaper today quoted a member of the board of directors of the National Association of Secondary School Principals, stating the figure was only 2 percent. Is this accurate?

John Musso:
Due to the complexity of the Federal Budget, pinning down an exact percentage is difficult due to the various sources of funding to education that may or may not be inlcuded in that data. However, we do know tha education is primarily a State and local responsibility in the United States. It is States and communities, as well as public and private organizations of all kinds, that establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in America reflects this predominant State and local role. Of an estimated $1 trillion being spent nationwide on education at all levels for school year 2007-2008, a substantial majority will come from State, local, and private sources. This is especially true at the elementary and secondary level, where just over 91 percent of the funds will come from non-Federal sources. That means the Federal contribution to elementary and secondary education is a little under 9 percent, which includes funds not only from the Department of Education (ED) but also from other Federal agencies, such as the Department of Health and Human Services' Head Start program and the Department of Agriculture's School Lunch program. Even when support for postsecondary education is added in, ED's contribution, including loans and other aid made available as a result of ED's student financial aid programs, is only about 12 percent of the total spending for all levels of education. ED's $68.6 billion appropriation, by the way, is less than 2.3 percent of the Federal Government's $3 trillion budget in fiscal year 2008.

Question from **Cindy, Recruitment Services, Martin County Schools**:
You said earlier "During these troubled economic times, professional development for staff becomes a critical part of a school system's success in moving forward." Where can I find some research/validation of that statement? As you know...it's usually the first to go...

John Musso:

Cindy, An excellent question. There is empirical evidence by many researchers who have done studies on teachers and other professionals relative to the value. The web is always an excellent source. I think the National Council of Teachers of Mathematics has done some studies in that area. Additionally, ASBO members continually demonstrate and discuss the value of formal and informal PD they receive through ASBO International as do other members of professional associations.

Question from **Linda Macaulay, Lecturer, Towson University**:
In what ways can teachers protect their pensions when we really have no say into where our money goes? For example, in PA, 7.25% of my salary as an elementary teacher was automatically payroll deducted for my pension. I had no say where/how it was invested. So, what options do I have now?

Dan Otter:
You are right that we really have no say (or very little) in regard to where our money goes in pension plans. Please don't take this the wrong way, but I think this is probably a good thing. Chances are we would manage our pension plans the way we manage our self directed plans (which overall is pretty poorly, too many of us are not properly allocated, too many of us pay too much for investments, too many of us sell when the market is low and buy when the market is high). I think we have to trust (which is in short supply today) that the administrators of these plans have hired competent investment management. Generally, these folks are quite cautious (often operating rules mandate caution). This crisis wasn't caused by pension managers.

Question from **Brett Pawlowski, DeHavilland Associates**:
Regarding school budgets - aside from cutting expenses, are schools and districts also looking at alternate sources of revenue? Would you look to see them more active in soliciting grants, creating foundations, and setting up community/school partnerships (particularly with the business community)?

John Musso:
Brett Alternative sources of revenue is always something that should happen during budget preparation. Regardless of the economics of it all, schools should continually maximize tax payer dollars through foundations, grants and other areas.

Question from **Marbeth Ingle, Dir of HR, Phillips Programs**:
What could be some negative affects regarding the economy for non-profit schools that primarily get their funding from local counties?

John Musso:
Marbeth This is one of those "domino effect" things. As counties receive less property tax, sales tax, etc., their budgets become strained. This may or may not be passed on to others.

Question from **Ric Ericksen, Busi Mngr, Germantown Schools WI**:
We are taking bids monday on short term borrowing and then will reinvest the funds. Any idea how this may play out?

John Musso:
Much will depend on what happens on Capitol Hill in the next few days and the affect it has on Wall Street. Make sure you ask your financial advisor all the right questions.

Question from **Allison Armour-Garb, Director of Education Studies, Rockefeller Institute of Government**:
Have many school districts had unpleasant surprises with their cash investments—such as money market mutual funds—in recent weeks? With

50 sets of state rules on school district investments, some are less restrictive than others; are school districts in certain states at greater risk?

John Musso:
Allison, Every state has a different set of regulations and yes, some are more restrictive than others. Higher yield vehicles are typically higher risk.

Question from **Katie Kinman, Education Student, Anderson University (IN)**:
As someone preparing to enter the education profession within a year, what role will the current financial situation play in my job search, if any?

John Musso:
I have always felt that there are always jobs for the best and the brightest. That being said, school systems may need to begin tightening the budgets and can do it in a variety of ways. Increasing class size, not replacing retired teachers and those types of downsizing activities certainly will make it more difficult out there in the job market. I would encourage you not to become discouraged, but to continue to follow your dreams and your heart. Teaching is one of the most noble professions. After all, who else has the opportunity to make a difference in the life of a child every day they go to work?!

Question from **Tara Shepperson, Education Chair, Argosy University, Hawaii**:
Will this latest crisis impact instructional technology in K-12? How is technology, in general, prioritized in budgets these days?

John Musso:
Maybe and maybe not. Some school systems may see technology as a means to help deliver education to students in such a way as to help mitigate budget expenses in other areas. These economic times are best handled by maintianing a focus and being steadfast in our committment to children. ASBO and its corporate members will be working with our members to help them find creative solutions to these types of problems so student instruction is not sacraficed

Michele McNeil (Moderator):
We've had such a great response that we're going to keep the chat open for a few extra minutes. So keep reading...

Question from **Cheryl leatherbury, Regional Director, Scientific Learning**:
What impact would you expect to see on school district levy elections, referendums, bond elections...many scheduled this fall?

John Musso:
Cheryl As mortgage loans default, property tax revenues decline and communities feel the economic fall out, everone will certainly begin to think twice about voting yes to increase taxes. We can only hope that voters make decisions on whats best for students and the future of their communities. But, this becomes harder as families have to make decisons about which bill to pay this month.

Question from **Alex Smith, employee of a school textbook publisher**:
How do you see the current financial crisis impacting the ability of schools to purchase new materials for instruction? Please address states with and without a formal adoptions process.

John Musso:
Based upon individual school budgets and specific budget issues, school systems will make individual decisions and those types of purchases. In some cases, some systems may have to postpone adoptions formal or informal to meet every day expenses such as utiltiies, salaries, benefits, etc.

Question from **Nick Curran, Business Manager, School District of Omro**:

We have our OPEB funds invested in money market funds currently. Are these funds at risk for a significant lose? Should these funds be withdrawn and kept in our local bank until things settle down?

John Musso:

There may be some risk with money market funds relative to principle.The US Security and Exchange Commission has a web site that can detail these risks. When in doubt, always seek professional counsel.

Question from **Christ**:

It is unfair that I do not have control over my retirement. I asked to cash it in this summer and they said no. I said it is my money. What can be done about this and do I have any options beside quitting my job to get it?

Dan Otter:

Hi Christ, I get this question a lot and understand the frustration. Keep in mind that the government is giving folks who participate in a defined contribution plan (such a 403(b) plan) a pretty good deal: tax deferred contributions and no taxes on gains during accumulation. In exchange for this, the government doesn't want participants using these types of plans as short term savings accounts. Another option is to save money in non-tax favored accounts. You won't get the tax deferral benefits, but you will be able to access this money at any time.

Question from **Dirk Angevine, Head of School, Compass Montessori, a charter elementary**:

How do you think the current credit crunch will limit charter schools likelihood of securing a line of credit as easily as before? We have a CD we have borrowed against before but I am wondering about looking again in a number on months. We are having a hard time keeping up with the inflationary costs with built in limits since we are located in Colorado.

John Musso:

Credit lines will be much harder to secure.

Question from **Will Lovett, Lobbyist, Illinois Education Association**:

Do you think that since many state pension plans will be hard hit by the correction in the market that they will turn to Pension Obligation Bonds as they have here in IL in 2003 and in New Jersey? Or, do you think that the credit crunch and the uncertainty has depressed any want by private entities or governments to purchase this type of bond?

John Musso:

I think that this credit crunch has put many private entities in a mode of being very vareful in their investments.

Question from **Matthew Swift, staff writer, ASCD**:

Do you think the presidential candidates are doing enough to ensure the financial crisis won't affect public servants, such as educators, too dramatically?

Dan Otter:

Hey Matthew, I think they are both making the point that the financial markets need stabilizing. This in turn (and in theory) should help all affected by the crisis. At this point I don't think the candidates can segment where help should go beyond broad categories such as financial institutions and perhaps home owners. The reality is that most pension plans (which most public servants are part of) are backed by state legislation/guarantees, so from that perspective, public servants may be better off than workers relying solely on a 401(k) plan.

Question from **Matt Halmy, educational non-profit manager, Josephson Institute**:

It seems that budgest will be tight considering the financial situation. In terms of curriculum, programs and materials, can we expect schools to still be interested in moving forward with new programs and initiatives, or is the financial weather going to put a freeze on any new spending?

John Musso:

Matt Some school systems will have to prioritize their programs based on their strategic plans, initiatives and ability to pay.

Question from **Melanie Smith, SPED Teacher, Harrisonburg City Schools**:

Will the current bailout plan affect my ability to get a loan?

Dan Otter:

For sure your ability to get a loan is affected in some way by the current financial situation. The bailout/rescue plan/insert name should improve the climate for loans.

Question from **James Stanfield, EdD SPECIAL EDUCATION**:

In past economic down-turns, funding for Special Education has generally been spared from sharp Fed & State budget cuts. Will they be spared this time, especially considering the severe depreciation of real estate values and the short-fall the resulting tax revenues states now depend upon to finance education.

John Musso:

I am not counting on anything become a "sacred cow" during these times. I would be prepared for reductions in any and all areas. ASBO International will be monitoring these types of issues in order to provide current and up to date information for all of our members. Keep an eye on our web site or other federal legislative sites for up to date info.

Question from **Roslyn Ince, Teacher, Grove Street Elementary School**:

If there is no rescue or bailout plan, are teacher pensions protected in some way against tampering? How would this rescue plan affect teacher pensions?

Dan Otter:

Roslyn I don't know that anything is exempt if state or federal legislators decide to tack on to it. some years back, state legislators in several states tried to attach to state teacher pension plans, but unsuccessfully.

Question from **Pauline Borgen, Dir. of Business & Finance, Marinette School District**:

1. What should we look for and questions we should ask when talking to our banks and financial institutions? 2. What can we do to protect the District's money? 3. What are the signs/symptoms we should watch for to know if "we" are in trouble?

John Musso:

Most school systems and their states have very strict regulations on types of investment vehicles. Very direct and frank discussions with your financial institutions and representatives need to take place relative to your particular situation. Eroding of investment principle is something that must be monitored closely. It's one thing to erode interest earnings, but another to erode or deplete the principle of an investment. Eroding of cash flow is also a good indicator of troubles on the horizon. You should look at current trends comparing to historical trends to make some assumptions. Don't hesitate to reach out to other school business officials in ASBO's vast network of resources. We have alot of best practices that others can help you with.

Michele McNeil (Moderator):
Thanks to John and Dan for their great insight, and to all of our readers who wrote in with questions. We had far more questions than we could squeeze into this hour, but we will continue to monitor the situation on Wall Street and the implications for education. The transcript of this chat will be available on *Education Week*'s Web site shortly:
http://www.edweek.org/chat/

The Fine Print

All questions are screened by an edweek.org editor and the guest speaker prior to posting. A question is not displayed until it is answered by the guest speaker. Due to the volume of questions received, we cannot guarantee that all questions will be answered, or answered in the order of submission. Guests and hosts may decline to answer any questions. Concise questions are strongly encouraged.

Please be sure to include your name and affiliation when posting your question.

Edweek.org's Online Chat is an open forum where readers can participate in a give- and-take discussion with a variety of guests. Edweek.org reserves the right to condense or edit questions for clarity, but editing is kept to a minimum. Transcripts may also be reproduced in some form in our print edition. We do not correct errors in spelling, punctuation, etc. In addition, we remove statements that have the potential to be libelous or to slander someone. **Please read our privacy policy and user agreement if you have questions.**

---Chat Editors