



FRIENDS OF THE MIDDLE NEWSLETTER #148 — MAY 29, 2012

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A Republican Politician Tells a Truth

(posted by Steven W. Baker / SteveB, May 29, 2012)

This is just about as straight and simple as it can be told. I just hope some of the "rock for brains" Republicans are listening. Alan Simpson says they "shouldn't even be in Congress."

"Alan Simpson Slams Fellow Republicans for Unwillingness to Compromise" by Huffington Post

May 27, 2012, (http://www.huffingtonpost.com/2012/05/27/alan-simpson-republicans_n_1549604.html)

Former Sen. Alan Simpson (R-Wyo.) lashed out at members of his party on Sunday, slamming them for their unwillingness to compromise on proposed tax increases.

In his characteristically colorful style, Simpson told CNN's Fareed Zakaria that Republicans' rigid opposition to new tax revenues has hampered productivity and diminished the chances of reaching an agreement with Democrats on debt reduction.

"You can't cut spending your way out of this hole," Simpson, who was appointed as co-chair of President Obama's Commission on Fiscal Responsibility and Reform in 2010, said. "You can't grow your way out of this hole, and you can't tax your way out of this hole. So put that in your pipe and smoke it, we tell these people. This is madness."

Simpson continued: "If you want to be a purist, go somewhere on a mountaintop and praise the east or something. But if you want to be in politics, you learn to compromise. And you learn to compromise on the issue without compromising yourself. Show me a guy who won't compromise and I'll show you a guy with rock for brains."

The former senator, along with debt commission co-chair Erskine Bowles, developed a plan in 2010 for bringing down the top tax rate and lowering the deficit by repealing a number of tax cuts and credits. The initial plan, commonly known as Simpson-Bowles, was mostly ignored by lawmakers. A bipartisan budget modeled after their report was rejected by the House earlier this year.

During the interview Sunday, he expressed frustration with his party's focus on social issues, as well as the ability of outspoken figures like Americans for Tax Reform head Grover Norquist to drive the conversation.

"I guess I'm known as a RINO now, which means a Republican in name only, because, I guess, of social views, perhaps, or common sense would be another one, which seems to escape members of our party," Simpson said. "For heaven's sake, you have Grover Norquist wandering the earth in his white robes saying that if you raise taxes

one penny, he'll defeat you. He can't murder you. He can't burn your house. The only thing he can do to you, as an elected official, is defeat you for reelection. And if that means more to you than your country when we need patriots to come out in a situation when we're in extremity, you shouldn't even be in Congress."

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And here's the problem -- they need a tax break...

"Typical CEO in U.S. Made \$9.6 Million Last Year" by Christina Rexrode and Bernard Condon, AP

May 25, 2012, (<http://www.theglobeandmail.com/report-on-business/international-news/typical-ceo-in-us-made-96-million-last-year/article2443297/>)

(Profits at big U.S. companies broke records last year, and so did pay for CEOs.)

The head of a typical public company made \$9.6-million in 2011, according to an analysis by The Associated Press using data from Equilar, an executive pay research firm.

That was up more than 6 per cent from the previous year, and is the second year in a row of increases. The figure is also the highest since the AP began tracking executive compensation in 2006.

Companies trimmed cash bonuses but handed out more in stock awards. For shareholder activists who have long decried chief executive officer pay as exorbitant, that was a victory of sorts.

That's because the stock awards are being tied more often to company performance. In those instances, CEOs can't cash in the shares right away: They have to meet goals first, like boosting profit to a certain level.

The idea is to motivate CEOs to make sure a company does well and to tie their fortunes to the company's for the long term. For too long, activists say, CEOs have been richly rewarded no matter how a company has fared – "pay for pulse," as some critics call it.

To be sure, the companies' motives are pragmatic. The corporate world is under a brighter, more uncomfortable spotlight than it was a few years ago, before the financial crisis struck in the fall of 2008.

Last year, a law gave shareholders the right to vote on whether they approve of the CEO's pay. The vote is nonbinding, but companies are keen to avoid an embarrassing "no."

"I think the boards were more easily shamed than we thought they were," says Stephen Davis, a shareholder expert at Yale University, referring to boards of directors, which set executive pay.

In the past year, he says, "Shareholders found their voice."

The typical CEO got stock awards worth \$3.6-million in 2011, up 11 per cent from the year before. Cash bonuses fell about 7 per cent, to \$2-million.

The value of stock options, as determined by the company, climbed 6 per cent to a median \$1.7-million. Options usually give the CEO the right to buy shares in the future at the price they're trading at when the options are granted, so they're worth something only if the shares go up.

Profit at companies in the Standard & Poor's 500 stock index rose 16 per cent last year, remarkable in an economy that grew more slowly than expected.

CEOs managed to sell more, and squeeze more profit from each sale, despite problems ranging from a downgrade of the U.S. credit rating to an economic slowdown in China and Europe's never-ending debt crisis.

Still, there wasn't much immediate benefit for the shareholders. The S&P 500 ended the year unchanged from where it started. Including dividends, the index returned a slender 2 per cent.

Shareholder activists, while glad that companies are moving a bigger portion of CEO pay into stock awards, caution that the rearranging isn't a cure-all.

For one thing, companies don't have to tie stock awards to performance. Instead, they can make the awards automatically payable on a certain date – meaning all the CEO has to do is stick around.

Other companies do tie stock awards to performance but set easy goals. Sometimes, "they set the bar so low, it would be difficult for an executive not to trip over it," says Patrick McGurn, special counsel at Institutional Shareholder Services, which advises pension funds and other big investors on how to vote.

And for many shareholders, their main concern – that pay is just too much, no matter what the form – has yet to be addressed.

"It's just that total (compensation) is going up, and that's where the problem lies," says Charles Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware.

The typical American worker would have to labor for 244 years to make what the typical boss of a big public company makes in one. The median pay for U.S. workers was about \$39,300 last year. That was up 1 per cent from the year before, not enough to keep pace with inflation.

Since the AP began tracking CEO pay five years ago, the numbers have seesawed. Pay climbed in 2007, fell during the recession in 2008 and 2009 and then jumped again in 2010.

To determine 2011 pay packages, the AP used Equilar data to look at the 322 companies in the S&P 500 that had filed statements with federal regulators through April 30. To make comparisons fair, the sample includes only CEOs in place for at least two years.

Among the AP's other findings: – David Simon, CEO of Simon Property, which operates malls around the country, is on track to be the highest-paid in the AP survey, at \$137-million. That was almost entirely in stock awards that could eventually be worth \$132-million. The company said it wanted to make sure Simon wasn't lured to another company. He has been CEO since 1995; his father and uncle are Simon Property's co-founders.

This month, Simon Property's shareholders rejected Simon's pay package by a large margin: 73 per cent of the votes cast for or against were against.

But the company doesn't appear likely to change the 2011 package. After the shareholder vote, it released a statement saying that "we value our stockholders' input" and would "take their views into consideration as (the board) reviews compensation plans for our management team." But it also said that Simon's performance had been stellar and it needed to pay him enough to keep him in the job.

Simon's paycheck looks paltry compared with that of Apple CEO Tim Cook, whose pay package was valued at \$378-million when he became CEO in August. That was almost entirely in stock awards, some of which won't be redeemable until 2021, so the value could change dramatically. Cook wasn't included in the AP study because he is new to the job.

- Of the five highest-paid CEOs, three were also in the top five the year before. All three are in the TV business: Leslie Moonves of CBS (\$68-million); David Zaslav of Discovery Communications, parent of Animal Planet, TLC and other channels (\$52-million); and Philippe Dauman of Viacom, which owns MTV and other channels (\$43-million).
- About two in three CEOs got raises. For 16 CEOs in the sample, pay more than doubled from a year earlier, including Bank of America's Brian Moynihan (from \$1.3-million to \$7.5-million), Marathon Oil's Clarence Cazalot Jr. (from \$8.8-million to \$29.9-million) and Motorola Mobility's Sanjay Jha (from \$13-million to \$47.2-million).
- CEOs running health-care companies made the most (\$10.8-million). Those running utilities made the least (\$7-million).
- Perks and other personal benefits, such as hired drivers or personal use of company airplanes, rose only slightly, and some companies cut back, saying they wanted to align their pay structure with "best practices."

Military contractor General Dynamics stopped paying for country club memberships for top executives, though it gave them payments equivalent to three years of club fees to ease "transition issues" caused by the change.

The typical pay of \$9.6-million that Equilar calculated is the median value, or the midpoint, of the companies used in the AP analysis. In other words, half the CEOs made more and half less.

To value stock awards and stock options, the AP used numbers supplied by the companies. Those figures are based on formulas the companies use to estimate what the stock and options will eventually be worth when a CEO receives the stock or cashes in the options.

Stock awards are generally valued based on the stock's current price. Stock options are valued using company estimates that take into account the stock's current price, how long until the CEO can cash the options in, how the stock price is expected to move before then, and expected dividends. Estimates don't generally take inflation into account.

The shift to stock awards is at least partly rooted in what is known as the Dodd-Frank law, passed in the wake of the financial crisis, which overhauled how banks and other public companies are regulated.

Beginning last year, Dodd-Frank required public companies to let shareholders vote on whether they approve of the top executives' pay packages. The votes are advisory, so companies don't have to take back even a penny if shareholders give them the thumbs-down. But shame has proved a powerful motivator.

It got Hewlett-Packard to change its ways. After an embarrassing "no" vote last year on the 2010 pay packages, including nearly \$24-million for ousted CEO Mark Hurd, the company huddled with more than 200 investment firms and major shareholders, then threw out its old pay formula. New CEO Meg Whitman is getting \$1 a year in salary and no guaranteed bonus for 2011. Nearly all her pay is in stock options that could be worth \$16-million, but only if the share price goes up.

Other companies took notice, too. Last year, shareholders rejected the CEO pay packages at Janus Capital, home builder Beazer Homes and construction company Jacobs Engineering Group. All won approval this year after the companies made the packages more palatable to shareholders.

To be sure, shareholders aren't voting en masse against executive pay. Instead, they seem to be saving "no" votes for the executives they deem most egregious.

Of more than 3,000 U.S. companies that held votes in 2011, only 43 got rejections, according to ISS. But the mere presence of the "say on pay" vote is triggering change, shareholder activists say.

"Companies that have gone through that trial by fire don't want to go through it again," says Mr. McGurn, the ISS special counsel.

Even Chesapeake Energy, a company perennially in the cross-hairs of corporate-governance activists, is bowing to pressure. The company has drawn fire for showering CEO Aubrey McClendon with assorted goodies. In addition to handing him big pay packages – \$17.9-million for 2011 – Chesapeake in recent years has spent millions sponsoring the NBA's Oklahoma City Thunder, which he partially owns, paying him for his collection of antique maps and letting him buy stakes in company wells.

Last year, shareholders of the natural gas producer passed the proposed 2010 pay package but by a low margin, 58 per cent. This year, with shareholder pressure mounting, the board has ended some of Mr. McClendon's perks and stripped him of his title as chairman. A lawsuit settlement is forcing him to buy back his \$12-million worth of maps.

After losing the chairman job, Mr. McClendon issued a statement saying the demotion "reflects our determination to uphold strong corporate governance standards." Chesapeake will seek shareholder approval for Mr. McClendon's 2011 pay at its annual meeting in June.

So far, Citigroup is the highest-profile company to have its pay package rejected this year. The bank planned to pay CEO Vikram Pandit about \$15-million for his work last year, noting that he had returned the company to profitability in 2010 and worked for \$1 that year. Shareholders, who watched the stock price plunge 44 per cent in 2011 (after adjusting for a reverse stock split) weren't so forgiving.

It's usually around January that boards decide how much to pay a CEO for the previous year. Then they inform shareholders and ask for their vote in the spring – usually after the cash portion has already been handed out. For Mr. Pandit, that meant he had already received \$7-million in salary and cash bonus by the time shareholders voted against his pay.

In a statement, Citi said it took the vote seriously and planned to "carefully consider" the input of major shareholders. It hasn't given more specifics. Richard Parsons, who retired as Citi's chairman after the April annual meeting, as previously planned, said after the vote that the board should have done a better job explaining to shareholders how it determined CEO pay.

Another big change is that more companies are giving themselves the right to take back a top executive's pay from previous years if they determine that the executive acted inappropriately to inflate the company's financial results.

The Dodd-Frank overhaul will eventually require public companies to include such broad "claw back" provisions, which will expand on narrowly written rules from a decade ago. But companies aren't waiting. In a separate study, Equilar found that 84 per cent of Fortune 100 companies now include claw backs in their executive pay packages, up from 18 per cent in 2006.

Last year, the former CEO of Beazer Homes agreed with regulators, who cited the older claw back rules, to turn over \$6.5-million he had earned when profits were inflated. In February, UBS took back half of the previous year's bonuses awarded to many investment bankers because of subsequent losses in the unit.

Picking the right mix of incentives is partly just guesswork, and sometimes the results are simply a force of serendipity. Stocks can get swept up in rising or falling markets, so the fortunes of CEOs with well-designed pay packages can reflect luck – good or bad – not just managerial skills.

In February 2009, James Rohr, the head of PNC Financial Services, was granted options that allowed him to buy shares in the future at the then-current price, which had fallen 62 per cent in five months on its way to a 17-year low the next month.

The stock has since doubled, and the options, mostly based on hitting certain profit and cost-cutting goals, are worth more than \$20-million in paper profit, according to research by GMI Rating, a corporate governance watchdog. If investors had bought PNC stock just before the financial crisis in 2008, they would still be down more than a fifth.

Luck, of course, can cut both ways. Mr. Rohr is still waiting to cash in options granted in 2007, valued then at \$2.5-million, when the stock was 18 per cent higher than it is today.

Some shareholder groups doubt that ever-higher CEO pay, ingrained as it is in the corporate psyche, will ever be refashioned dramatically enough to satisfy shareholders and consumer groups who see the paycheques as too big, too disconnected from performance, and set by wealthy directors who are oblivious to the way that most of their shareholders live.

"I hope we have seen the last of this," says Rosanna Weaver of the CtW Investment Group, which works on shareholder issues with union-sponsored pension funds and has lobbied against CEO pay packages at a number of companies. "But I would be very surprised, just given what I know of human nature, let alone what I know of the financial markets."

Still, she's encouraged by the change that has already been stirred.

"It's a very big task," Ms. Weaver says. "I still believe it is worth trying."

20120528-02	14:59	Pam	Re: "Many Hospitals, Doctors Offer Cash Discount for Medical Bills" (reply to SteveG, FotM Newsletter #147)
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Wow. This is amazing. The insurance companies have us over a barrel. From now on, if I need anything done other than routine maintenance, I'm going to ask for the cash up front price. This outrage has got to stop. I know hospitals charge \$7.00 for an aspirin or something along those lines. Who says we don't need consumer protection?! Elizabeth Warren, we need you.

20120528-03	15:59	Art	Re: "Many Hospitals, Doctors Offer Cash Discount for Medical Bills" (reply to SteveG, FotM Newsletter #147)
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Wow! This is ridiculous. Interestingly, I also use cash with my primary physician. After I retired from the military I had of course access to TRICARE or military health care. Since I had a good job I opted for BC/BS instead and used that while I worked and did not use TRICARE for almost 20 years. Of course, I paid several hundred a month for that. When I retired for real I had access to MEDICARE. My primary physician does not take MEDICARE or TRICARE, so I just pay him cash and get a 25% discount. So far, as I have run the math, it is far cheaper. I still have MEDICARE and TRICARE as backups but have not used them for the most part.

The downside is I really have no idea what something should cost, so I am still at the mercy of unscrupulous medical businessmen. I'd trust most of them about as far as I'd trust my Golden around an unguarded hamburger. We really need to fix a very broken medical system. All my foreign friends think we are just nuts.

[20120528-06](#) 17:05 SteveG Re: "Many Hospitals, Doctors Offer Cash Discount for Medical Bills"
(reply to Pam & Art, above)

Several years ago I was searching for medical insurance and talked with an insurance agent that stated: He had calculated how much he had paid for house insurance, medical insurance, auto insurance and had calculated the medical costs for doctors and medical facilities (including 3 child births) plus any car wrecks and home losses. His calculations showed that if he had paid for everything and had no insurance he would be \$100,000 ahead.

In 2010 I had 2 hospitalizations for a total of 4 days – 3 one time and an overnight. After insurance payments I owed \$4000. I asked the hospital if I could make arrangements and they immediately discounted 50% and offered a bigger discount if I completed some paperwork.

The medical insurance & medical care system are broken and attempts to fix the system are greeted with roadblocks on every corner.

[20120528-04](#) 16:27 MarthaH Fw: Letter to the Greencastle, Indiana *Banner-Graphic* (re: Tea Party: "Staying Together Regardless of Political Differences")

"Staying Together Regardless of Political Differences" by Kelsey Kauffman, *Greencastle Banner-Graphic*

May 25, 2012, (<http://www.bannergraphic.com/story/1853229.html>)

To the editor:

For the past two years, I've been attending monthly meetings of the Greencastle Defenders of Liberty, the local Tea Party organization. I am generally of a different political persuasion, but I am also pro-life in the broadest sense and fear that the deficit, along with climate change, is among the worst legacies that my generation will leave to our children. Thus, I enjoy both my differences and similarities with speakers and members at the meetings.

I was disappointed, however, when the speaker at the most recent meeting sought to demonize those who disagree with her. Supporters of President Obama were characterized as "fascist, socialist, Marxist pigs." IRS agents were likened to Nazi "brown shirts."

Dire predictions were made that Obama would attempt to take the election by force. Attendees were exhorted to stockpile food and batteries.

Such nonsense! The election in November will involve the same peaceful transfer of power as every other American election. I suspect that the Tea Party's preferred candidate will win this election just as mine won last time. That is the nature -- and the beauty -- of the system.

The speaker claimed that she was "tired of being bullied by the government and the Black Panthers." Since I've not noticed any threatening Black Panthers in the quarter of a century I've lived in Greencastle, I'm betting that she doesn't come from here.

Nor does she seem to appreciate our community's longstanding tradition of neighbors caring about one another -- cheering for our school teams, eating pancakes together at the fire station, gathering for our annual July 4th celebration, pitching in when neighbors are in need -- regardless of any political or religious differences we may have. I hope we stay that way.

[20120528-05](#) 16:55 Art Re: Letter to the Greencastle, Indiana *Banner-Graphic* (reply to MarthaH, above)

The Party of hate and fear. Surprise, surprise.

[20120528-08](#) 18:30 SteveM Re: Letter to the Greencastle, Indiana *Banner-Graphic*

While I probably don't share the values of the "speaker" in question, he/she has the same rights to speak as you or Kelsey. Some how the whiny liberal left thinks that is a right reserved only for them. read the the quote below, slowly with out moving your lips,

"Political correctness is a doctrine, fostered by a delusional, illogical minority, and rabidly promoted by an unscrupulous mainstream media, which holds forth the proposition that it is entirely possible to pick up a turd by the clean end." [—Rush??? —SteveB]

[20120528-07](#) 18:26 SteveM Fw: Photos: The Problem Is Not How They Got In, But How to Get Them Out





20120528-09 23:59 SteveB Photo: Fruit of the Kalahari Desert

<http://www.watermelon.org/>



—Friends of the Middle,
Steven W. Baker (SteveB), Editor/Moderator

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