April 14, 2010

Editor:

Your April 13 article on teacher pensions (“Teachers’ Pension Gap May Be Triple That Reported”) offers outdated data, suggests the use of accounting standards contrary to those accepted by public and private pensions, and misstates the typical long-term returns pension funds earn on their investments.

By focusing on the worst two-year investing period since the depression, your article reports a pension gap that, in just the past year, has changed dramatically. The Federal Reserve reports that in 2009, from the first quarter to the fourth, the total assets of public employee pensions grew by an impressive $501 billion—a figure that will no doubt increase when reports for the first quarter of 2010 are released.

Your article also suggests that pension funds follow an investing strategy that would never produce the returns needed to ensure pension payments and that overlooks the impressive long-term record of public pension managers. A Morningstar reports shows that for any time period evaluated, whether measured by time-weighted or by investor returns, public plans have consistently outperformed retail mutual funds. For example, for the 25-year period ending on December 31, 2009, the median investment return was 9.25%. On a 10-year time-weighted return basis, public plan investor returns outpaced retail mutual funds by 170 basis points. Why should public employee pensions trade this record for 401k plans that rely primarily on retail mutual funds?

Your article also focuses attention on California, a state whose fiscal problems are well known and that exist for many reasons unrelated to public employee pensions. Governor Schwarzenegger’s administration has routinely manipulated their pension calculations showing increases in employer contributions by starting with a year that the state made no contributions to the pension funds. In that state the issue is less about the type of pension system used and more about the state fulfilling its fiduciary responsibility to teachers, police, fire fighters, and other public servants.

The majority of public employee pension funds can meet their pension benefit obligations and have years to recoup losses incurred during the last two years—losses every 401k investor also experienced. Even the most poorly funded states have more than 50% of the money needed to meet pension obligations that will come due over the next three decades. During that time, plan sponsors and employees will continue to contribute to the plans and earn returns that we expect will continue to beat those earned by mutual funds.

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**National Conference on Public Employee Retirement Systems (NCPERS)** is the largest trade association for public sector pension funds, representing more than 500 public funds throughout the United States. Established in 1941, it is a network of public trustees, administrators, public officials and investment professionals who collectively oversee $2.7 trillion in retirement funds managed on behalf of six million retirees and 14 million active public servants.