April 14, 2010

Editor:

Your April 13 article on teacher pensions (“Teachers’ Pension Fund Under-Funded by $36B”) offers outdated data, suggests the use of accounting standards contrary to those accepted by public and private pensions, and misstates the typical long-term returns pension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 placing so much attention on the worst two-year investing period since the depression, the study referenced (and your article) suggest a pension gap that, in just the past year, has changed dramatically—for all public employee pension funds, including New York’s. 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 should follow projections and an investing approach more like that used in the private sector. Such a suggestion overlooks the enviable long-term record of public pension managers. A Morningstar report shows that for any time period evaluated, whether measured by time-weighted or by investor returns, public plans have consistently outperformed retail mutual funds, which are the primary investment tool for private pensions and 401ks. 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?

Moreover, a recent survey by the Employee Benefit Research Institute found that 43 percent of workers said they had less than $10,000 in retirement savings in 2010. Confidence in ability to save enough for a secure retirement hovered at 16 percent of respondents, the second lowest point in the 20-year history of the survey. This underscores the fact that 401ks are a failed experiment and is unsustainable in providing retirement security.

The majority of public employee pension funds can meet their pension benefit obligations and have years to recoup losses incurred during the recession 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.

Hank Kim, Esq.
Executive Director & Counsel
National Conference on Public Employee Retirement Systems

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.