April 19, 2010

Editor:

Your April 15 article on public employee pensions (“Pension costs swell Grand Rapids city budget deficit”) offers an incomplete picture of the pension situation in Grand Rapids, focuses on a single year of poor investment returns, and fails to report on the long-term success of the pension plan managers in your city.

From 1994-2002 and from 2006-2009, the City of Grand Rapids did not contribute a single dollar to the Police and Fire Retirement System because of the successful investments of the pension fund managers. The most recent actuarial assessments are certainly a reflection, in part, of the market downturns in 2008. However, this situation would be significantly different if the city had not taken a “pension holiday” for 13 years.

This one-year aberration in 2008 hardly justifies a substantial reduction in benefits or calls to change to a different retirement plan because the situation changed dramatically again in 2009. According to the Federal Reserve, from the first quarter of 2009 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. The Grand Rapids pension plans experienced a similar rebound in 2009—more than a 30% return on its investments.

As for calls by some city officials to change to a different pension program, they should recognize that public employee pensions have an impressive long-term record unmatched by other plans, such as a 401K. 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?

In your article Mayor George Heartwell says that pension costs will continue to rise unless we see market improvement. In 2009 we did see market improvement—a situation that has continued in the first quarter of 2010 and that will profoundly affect the next actuarial adjustment. Whatever that improvement, we hope the city will never again take a short-term view of its public employee pension obligations and will avoid the pension holidays that contributed substantially to the problem the city now faces.

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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.*