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BNA’s report on the Manhattan Institute for Policy Research’s latest study attacking public pensions is long on ideological musings by the study’s authors, and short on other perspectives. (“Public Pension Plans Need Governance Fixes, Report Says,” March 9, 2016.)

Public pension plan participants faithfully make their contributions, and indeed have no choice but to do so. State and local governments, on the other hand, have gotten into the bad habit of withholding their required contributions as their political and economic fortunes shift. The underfunding problems that have afflicted a minority of public pension funds should be addressed squarely by those who have failed to honor their commitments.

The study’s conclusion that public pension plan governance is flawed and must change is a solution in search of a problem. Of course, governance structures vary, as they are designed by the laws of 50 states. There is no one-size-fits-all governance structure that would work for, say, a small pension plan in a rural state and a multi-billion dollar pension system in the largest, most diverse states. But everywhere, there are high standards for governance. Directors and trustees act as fiduciaries, and they are subject to strict sets of duties prescribed by legislatures, courts, and their own boards. The Manhattan Institute suggestion to add political appointees such as taxpayer advocates and financial experts to “balance” pension fund boards is short-sighted. Doing so would politicize boards, forcing them to concentrate more on short-term political considerations and vested financial interests at the expense of performing their fiduciary duty to beneficiaries and participants. Pension trustees exercise due diligence, follow procedural prudence, and are guided by plan investment staff and outside investment consultants when making investment decisions. Thus, while it is important for trustees to be informed and educated, it is misguided and counterproductive to insist that trustees be plan CIOs.

But perhaps there is a role for taxpayer advocates and financial experts. Why not deploy them to monitor the budget and appropriations processes in their states? That way, they could make sure that promised contributions to pension plans are paid on time and in full, rather than piled up in arrears to the detriment of hard-working teachers, firefighters, police officers, and other public servants.

Respectfully submitted,

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