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To the Editor:

Bloomberg reporter Martin Z. Braun overlooks some important facts about how public pension funds operate in his article decrying the level of their investment returns in 2015. (“U.S. Public Pensions Post Worst Return Since Market Crash,” February 3, 2016)

Pension fund managers have a long-term outlook because they are managing assets over decades, not days. One year of relatively low returns doesn’t doom a pension fund. Some years the returns are low; other years they are high. Over time they balance out, which is why rate-of-return assumptions are established and measured for the long haul.

Braun also rests his argument on a flawed analysis by Moody’s Investors Service on unfunded pension liabilities, asserting that Illinois’s state pension funding shortfall of $110 billion is almost 300% of annual revenue. That is a jarring figure until you realize that Moody’s and the author failed to note that the shortfalls are amortized over 30 years. Comparing a three-decade shortfall to state revenues for a single year would obviously produce a distorted impression of the problem. The correct math tells a serious but far less dramatic story. Illinois’ revenues totaled $40 billion in 2014, the most recent data available. Even if we assume no revenue growth in the next 30 years, total revenue over 30 years would reach $1.2 trillion. This is the denominator from which the state would need to cover $110 billion of pension liability. This translates into 9% of state revenues, not the 300% that is quoted in the article.

Of course, if Illinois hadn’t slacked off on paying its fair share into the fund over decades, the shortfall would have been far less significant. The state’s public sector employees certainly haven’t had the luxury of granting themselves a payment holiday; in fact, they have been required to increase their payments over time. It’s time for Illinois to honor its commitments to teachers, police, fire-fighters, and other public-sector employees.

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