

July 29, 2016

To The Editor:

The most obvious factor pushing some pension plans to take more risk is that state and local governments have reneged on funding commitments, leaving investment managers to do more with less.

Agreements negotiated in good faith by police, firefighters, teachers, and other employees have been ignored. Pennsylvania, for example, went 15 years without making a full contribution to its pension plans, gambling that future investment returns would make up any shortfall. Plan participants had no such luxury, and made their full contributions on schedule.

Fortunately, effective risk management is part of the long tradition of professional investment management by public retirement systems. Our analysis of historical benchmark data from the U.S. Census of Governments shows that portfolio risk levels have risen over the last four decades, consistent with broad market trends. However, the risk level per unit of performance of total portfolio was basically unchanged from 1980 to 2009, and was only marginally higher than it was in the 1960s and 1970s.

Respectfully submitted,

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