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Here they go again. Partisans whose agenda is to dismantle public pensions love to dig through research to mix and match their own personal set of facts in support of their views.

In “Public Pensions Aren’t Taking More Investment Risk? You’re Kidding Me,” (March 11, 2016), Andrew Biggs focuses on the wrong data from an NCPERS report to underscore anti-pension arguments. The right information to examine is the level of risk for each unit of return, which shows that risk levels have remained fairly constant since the 1980s. This measure is not to be confused with the Sharpe Ratio, which is a measure of the average rate of return earned in excess of the risk free rate per unit of risk.

As for whether risk should be measured by the standard deviation of returns of each asset class within a portfolio, that would certainly be informative – but as the author himself notes, it is “a very hard thing to measure” because portfolio composition shifts over time. That is exactly why we developed an approach that analyzes historical data from more than 2,000 state and local pension plans.

Shouldn’t the bottom line for a pension fund be the amount of investment income it receives at the end of the day, regardless of which asset class it comes from? That is what we have used in our analysis to examine the risk. The composition of portfolios of pension funds certainly has changed over time – as has the investment landscape overall, with the creation of new instruments to both diversify and manage risk. Yet, the data show that while the composition of portfolios may have changed, the risk levels remained pretty stable over 30 years. This is a testament to the long-term perspective and management skill of trustees and administrators of pension funds.

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