Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
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Regular Executive Committee Meeting

October 20, 2009
9:00 a.m. – 9:30 a.m.
1:30 p.m. – 3:30 p.m.*
Senate Hearing Room A/B/C
Olympia

AGENDA

9:00 a.m. – 9:30 a.m.

9:00 a.m.	(A)	SCPP Recommendations on Economic Assumptions

1:30 p.m. – 3:30 p.m.

1:30 p.m.	(B)	Approval of Minutes
1:35 p.m.	(C)	AAG Report
1:50 p.m.	(D)	Review of Today's Meeting
2:30 p.m.	(E)	Constituent Correspondence
3:00 p.m.	(F)	November Meeting Agenda
3:30 p.m.	(G)	Adjourn

*These times are estimates and are subject to change depending on the needs of the Committee.

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Select Committee on Pension Policy

P.O. Box 40914
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Regular Committee Meeting

October 20, 2009
10:00 a.m. – 1:00 p.m.*
Senate Hearing Room 4
Olympia

AGENDA

10:00 a.m.	(1)	**Approval of Minutes**
10:05 a.m.	(2)	**2010 SCPP Meeting Dates (Proposed)** - Kelly Burkhart, Administrative Services Manager
10:20 a.m.	(3)	**Work Session, LEOFF 1 Survivor Benefits** - Aaron Gutierrez, Temporary Policy Analyst
10:50 a.m.	(4)	**SCPP Recommendations on Economic Assumptions** - Darren Painter, Policy Analyst
11:20 a.m.	(5)	**Work Session, Managing Future Health of Retirement Systems** - Matt Smith, State Actuary

Public Hearing With Possible Executive Session

12:50 p.m.	(6)	**Past Part-Time Service Credit** - Dave Nelsen, Senior Policy Analyst
1:00 p.m.	(7)	**Adjourn**

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Public pensions on crisis footing

Steep investment losses drive return by some to risky ways

By David Cho
Washington Post

The financial crisis has blown a hole in the rosy forecasts for pension funds that cover teachers, police officers and other government employees, casting into doubt as never before whether these public systems will be able to keep their promises to future generations of retirees.

The upheaval on Wall Street has deluged public pension systems with losses that government officials and consultants increasingly say are insurmountable unless pension managers fundamentally rethink how they pay out benefits or make money, or both.

Within 15 years, public systems on average will have less than half the money they need to pay pension benefits, according to an analysis by PricewaterhouseCoopers. Other analysts say funding levels could hit that level within a decade.

After losing about $1 trillion in the markets, state and local governments are facing a devil's choice: Either slash retirement benefits or pursue high-return investments that come with high risk.

The urgent need for outsize returns by these vast public pension funds, which must hit high investment targets year after year to keep pace with rising retirement costs, is fueling a renewed appetite for risk on Wall Street.

Before the crisis, many public pension funds had experimented with risky trading techniques or committed more of their money to hedge funds and other nontraditional firms, which in turn invested some of it in complex mortgage securities. When these melted down, pension funds got burned.

Now, facing an even bigger funding gap, some systems are investing in the same securities, betting that a rebound in their value will generate huge returns.

"The amount that needs to be made up is enormous," said Peter Austin, executive director of BNY Mellon Pension Services. "Frankly, they are forced to continue their allocation in these high-return asset classes because that's their only hope."

Some pension experts say the funding gap has become so great that no investment strategy can close it and taxpayers will have to cover the massive bill.

The problem isn't limited to public pension funds; many corporate pension funds have lost so much ground that they are also pursuing riskier investments. And they, too, could end up a taxpayer burden if they cannot meet their obligations and are taken over by the federal Pension Benefit Guarantee Corp.

Public systems still have enough to meet their obligations. If governments take no action, retirees could keep drawing full benefits in the near term even under the most pessimistic projections.

But already, some funds are seeking to trim benefits to conserve money. Some governments have also proposed increasing the amount of public money paid each year into the funds. In practice, however, some political leaders have begun doing the opposite – cutting annual contributions to pension funds – as a way of balancing state and local budgets buffeted in the recession by falling tax revenue and rising costs.

Even if public pension funds were to hit their 8 percent investment targets every year, they would have less than half of what they need by 2025, according to Kim Nicholl, the national director of PricewaterhouseCoopers' public sector retirement practice.

This is because a greater share of the population will be retired and those who are retired will live longer, thus collecting benefits longer, she said.

"I don't think you can invest your way out of this. Plans are going to have to make changes," Nicholl said. "The scale of the losses was just so great and the liabilities are growing so fast, much faster than they can keep up."

For these reasons, billionaire investor Warren Buffett has called these pensions ticking "time bombs." The financial crisis, experts say, shortened the fuse.

By the numbers

$1 trillion: Approximate amount of money state and local pension funds have lost in financial markets

8 percent: Anticipated annual return on investments by pension funds

32 percent: Decline in the Standard & Poor's 500-stock index this decade