



NASRA
NEWS RELEASE

For Immediate Release
April 2, 2004

Contact: Keith Brainard
(512) 868-2774

Jeannine Markoe Raymond
(202) 624-1417

State Retirement Funds Refute Latest Wilshire Report

WASHINGTON, DC, April 1, 2004—Echoing sentiments relayed last year, the National Association of State Retirement Administrators (NASRA) issued another letter to Wilshire Associates, Inc. raising concerns about the alarmist tone of their newest *Report on State Retirement Systems*, which again “presents a distorted and misleading view of the fiscal condition of State pension funds.”

Last year, NASRA president Frank Ready (Executive Director of the \$14 billion Mississippi Public Employees’ Retirement System) stated the report was essentially “a marketing piece camouflaged as industry research,” noting that Wilshire has issued similarly inflammatory reports in the past that also employed “selective use of statistics and illusory terminology to paint a bleak picture of the public pension plan universe.”

Despite the request that Wilshire reconsider the manner in which they present their data, their 2004 report uses the same tactics. NASRA’s current president, Dave Bergstrom (Executive Director of the \$7.5 billion Minnesota State Retirement System) stated the report “is likely to once again misinform and confuse, rather than enlighten, its readers,” noting “it again does not provide the proper context for its findings, makes inconsistent comparisons, and uses inappropriate measurements.”

“Years ago, a colleague of mine asked that Wilshire ‘please attempt to make apples-to-apples comparisons,’ characterizing what had been done as simply being fruity,” said Bergstrom. “Unfortunately, Wilshire refuses to recognize industry standards for reporting and measuring pension funding levels.”

Some of the specific concerns cited by Bergstrom include:

- the report’s use of market, rather than actuarial, values for plan assets, in spite of the fact that most public pension plans measure their assets by actuarial value;
- comparing plans against one another across a wide range of time periods, even though market fluctuations can dramatically change plan funding levels from one valuation date to the next;
- the report’s failure to describe the meaning and consequences of the term “underfunding;” and
- ranking states by dollars rather than percentages, which results in a bias against larger states.

“If you look beyond the hype, Wilshire’s own numbers, even using methodology that paints the darkest picture possible, show that public pension plans as a group are in good financial condition: the median public pension plan has accumulated reserves that are 82% of their current pension obligations, even after the sharp market declines of recent years.” Bergstrom again urged Wilshire to reassess the manner in which they present data for statewide public retirement systems. “In doing so,” he said, “our members—the directors and administrators of many statewide public retirement systems will be better served.”

NASRA members are the directors and administrators of the nation’s State employee retirement plans and most of the largest statewide public retirement systems, which together provide pension coverage for more than 15 million working and retired public employees, and oversee assets exceeding \$1.5 trillion.

Attachments (1)

###



2003-2004

April 2, 2004

DAVID BERGSTROM (MN)
PRESIDENT

Mr. Dennis Tito, Chief Executive Officer
Wilshire Associates
1299 Ocean Avenue, Suite 700
Santa Monica, CA 90401

ED HENNESSEE (TN)
PRESIDENT ELECT

LAURIE FIORI HACKING (OH)
FIRST VICE PRESIDENT

Dear Mr. Tito:

M. STEVE YOAKUM (MO)
SECOND VICE PRESIDENT

As current president of the National Association of State Retirement Administrators (NASRA), I am deeply disappointed in the latest edition of Wilshire's annual report on state retirement systems. In many respects, this report appears similar to last year's edition, which my predecessor at NASRA said, "present[ed] a distorted and misleading view of the fiscal condition of State pension funds." Since your report again does not provide the proper context for its findings, makes inconsistent comparisons, and uses inappropriate measurements, it is likely to once again misinform and confuse its readers.

FRANK READY (MS)
IMMEDIATE PAST PRESIDENT

THOMAS K. LEE (MD)
VICE PRESIDENT, REGION I

WILLIAM P. HANES (KY)
VICE PRESIDENT, REGION II

ERIC STANCHFIELD (WI)
VICE PRESIDENT, REGION III

Below I have listed some of the concerns NASRA members, including myself, have about this report:

TERRY SLATTERY (NM)
VICE PRESIDENT, REGION IV

- Once again, the report repeatedly refers to "underfunding" but never explains the term's meaning or describes the consequences of various levels of funding. The actuarial and financial implications for a plan funded at 95% are much different than those for a plan with a funding level of 65%.
- The continued use of market—rather than actuarial—values represents a significant flaw in your report. A substantial majority of public retirement systems use actuarial value of assets to measure their funding level. This industry-recognized practice is based on a simple calculation, requires no assumptions, and is a more accurate method for reporting a pension plan's assets in the context of a plan's funding program. It also is intended to avoid the type of results featured in your report: dramatic year-to-year changes in funding levels that, if recognized by state pension funds, would skew funding policies from one year to the next.

MICHAEL J. O'CONNOR (MT)
VICE PRESIDENT, REGION V

MICHAEL CARTER
CHAIR, ASSOCIATE
ADVISORY COMMITTEE

JENNIFER HUNT
VICE CHAIR, ASSOCIATE
ADVISORY COMMITTEE

GLENDIA CHAMBERS
EXECUTIVE DIRECTOR

KEITH BRAINARD
DIRECTOR OF RESEARCH

JEANNINE MARKOE RAYMOND
DIRECTOR OF FEDERAL RELATIONS
EMAIL – JEANNINE@NASRA.ORG

- Ranking states by the dollar value of their plans' collective unfunded liabilities is inherently biased against larger states and misleads readers by distorting the true public pension funding situation. According to this methodology, large states will look as if they are in far worse financial shape compared to small states, even if their funding levels are identical.
- The report's omission of the funding situation among local government pension plans, while allowing readers to infer that you are reporting the funding situation in each state, distorts the report's assessment. Some states feature few locally-sponsored pension plans, with most or all pension liabilities held at the state level. Other states feature many local plans, holding a significant percentage of the liabilities within that state.
- Measuring unfunded liabilities against states' general funds ignores the fact that fiscal arrangements vary widely. Presenting such a ranking is terribly misleading.
- Even the same fund will have a different value if it is assessed on December 31st, June 30th or September 30th of a given year. Ranking plans against one another that use disparate valuation dates is nearly meaningless, especially in light of recent unprecedented market volatility and your report's use of market, rather than actuarial, values.
- Two column headings in the report's Appendix C state, "Rank out of 123 Pension Systems" when in fact the columns are actually ranking 50 states and the District of Columbia. Readers who fail to notice this error will misinterpret the data in this column.

On behalf of NASRA's members, who together oversee \$1.5 trillion in assets held in trust for more than 15 million working and retired public workers, I urge you to reconsider the manner in which you present actuarial funding data for statewide public retirement systems. In doing so, our members—the directors and administrators of many statewide public retirement systems—along with millions of public employees, will be better served.

Sincerely,



David Bergstrom
President, National Association of State Retirement Administrators
Executive Director, Minnesota State Retirement System