NASRA

National Association of State Retirement Administrators

PRESS STATEMENT

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FOR IMMEDIATE RELEASE

FAULTY ANALYSIS FOUND BEHIND DOOMSDAY PROJECTIONS FOR PUBLIC PENSIONS

October 19, 2010, Washington, D.C. – The National Association of State Retirement Administrators (NASRA) today issued a critique of a paper published recently by Robert Novy-Marx and Joshua Rauh, which the association said uses flawed methods to draw improbable conclusions regarding the funding condition of municipal pension plans. (A link to the critique is available online here: http://www.nasra.org/resources/RauhNovyMarxMuniStateCritique.pdf).

"Their assumptions are unsupported by current practice or documented experience," said Michael Williamson, NASRA's president. "Further, they use inappropriate accounting methods for the government sector and conveniently base their projections on asset values at a market low point, when the S&P 500 had a 12-month return of -26.2%, and prior to much of the market increase that took place the following year."

"Indeed, the authors' valuations of current assets and future liabilities both are questionable," said Keith Brainard, NASRA's research director. "Pension fund asset values have been growing since March 2009. Their actual investment returns in both the short-term, as well as the very long-term, still exceed their assumptions for investment growth. As for the authors' method used to value future liabilities, the Governmental Accounting Standards Board last June specifically 'considered but rejected' an interest rate-based method for valuing future liabilities, such as the one used in the Novy-Marx-Rauh paper, instead retaining the long-term rate at which plan net assets are expected to grow," Brainard added.

For the year ended June 30, 2010, median public pension fund investment returns were 12.8 percent, well above plans' typical assumed investment return of eight percent. Recent analysis has also shown that historical investment experience over 20-, 25- and 30-year time periods, a more appropriate measure of the long-term investment horizon of public funds, also exceed this assumed rate of return.

Another issue highlighted in NASRA's critique is that the authors' assumption that public employers will contribute nothing to pay down their unfunded liabilities – which is critical to their dramatic conclusions – contradicts years of actual pension plan experience. With certain exceptions, states and local governments have made their required pension contributions. According to the Public Fund Survey, public employers have contributed, on average, 91percent of their required contribution over the last decade. In fact, many state and city statutes require payment of the full contribution each year. Although rising costs and sluggish revenue growth are challenging the ability of states and cities to make pension contributions, the assumption used by the authors of this paper is implausible and but helps produce their surprising findings.

"Dramatic projections like those found in this study may make headlines," Brainard added, "but the real news is that most states and cities continue to examine and make modifications to public pension plan designs and financing structures necessary to restore assets and plan sustainability. These too are not accounted for in the analysis."

"Unfortunately, many recent reports have used unrealistic assumptions to justify the need for overly dramatic modifications to public plans," said Mr. Brainard. "Further," he added, "the changes they proffer often serve only to exacerbate the financial condition of these retirement systems, and ignore reforms already underway in the states that will restore fiscal health to a far greater degree, and with fewer costs and disruptions."

"Retirement security is a critical public policy issue that has enormous fiscal implications on employers, taxpayers and our economy," said Brainard, "but the 'underfunding crisis' about which we should all be concerned is not public and private pensions (whose funding levels are still hovering around 80% even after the Great Recession), but rather the vast majority of our population that has no pension and little to nothing set aside for future retirement needs."

As a June 11, 2010 *Wall Street Journal* editorial aptly noted, **"The biggest, but most underreported, financial story in America is the looming retirement disaster. Eighty million baby boomers are approaching retirement, and most have absolutely no idea what's going to hit them. For them the financial crisis isn't over. It's just about to begin."**

About NASRA
NASRA members are the executive directors of the nation's State, territorial, and largest statewide public retirement systems. Together, these systems hold more than $2 trillion in assets and provide pension and other benefits to more than two-thirds of all state and local government employees. More information is available at www.nasra.org

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