



THE PEW CHARITABLE TRUSTS

Transparency in Public Pension Plans

NCSL Southern Fiscal Leaders Meeting

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Public Sector Retirement Systems Project**

The Pew Charitable Trusts

- More than 40 active, evidence-based research projects
- Projects include public safety, immigration, elections, transportation, pensions, and state tax incentives
- All follow a common approach: data-driven, inclusive, and transparent

Pew's Public Sector Retirement Systems Project

- Research since 2007 includes 50-state trends on public pensions and retiree benefits relating to funding, investments, governance, and employee preferences
- Technical assistance for states and cities since 2011
 - No one-size-fits-all approach
 - Key principles for reform: fiscal sustainability for states and retirement security for workers

Investment Trends

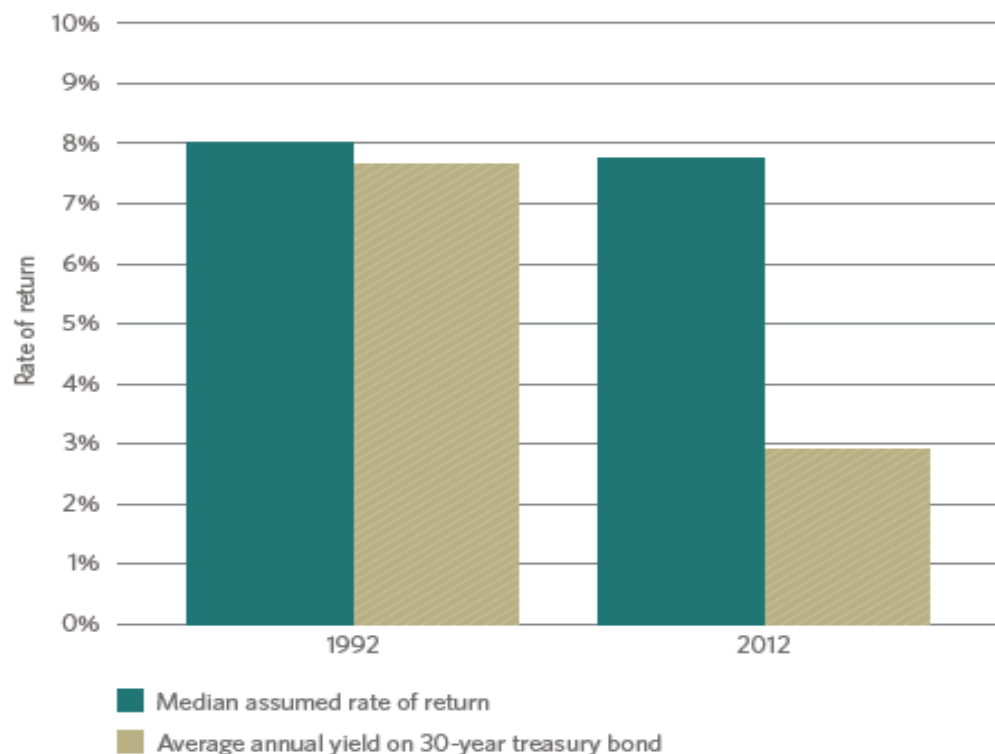
Investments – Key Trends:

Bond Yields Decrease

Figure 2

Public Pension Plan Median Assumed Rate of Return Versus U.S. Treasury Bond Yields in 1992 and 2012

Plans' anticipated risk premium has grown by 4.5 percentage points



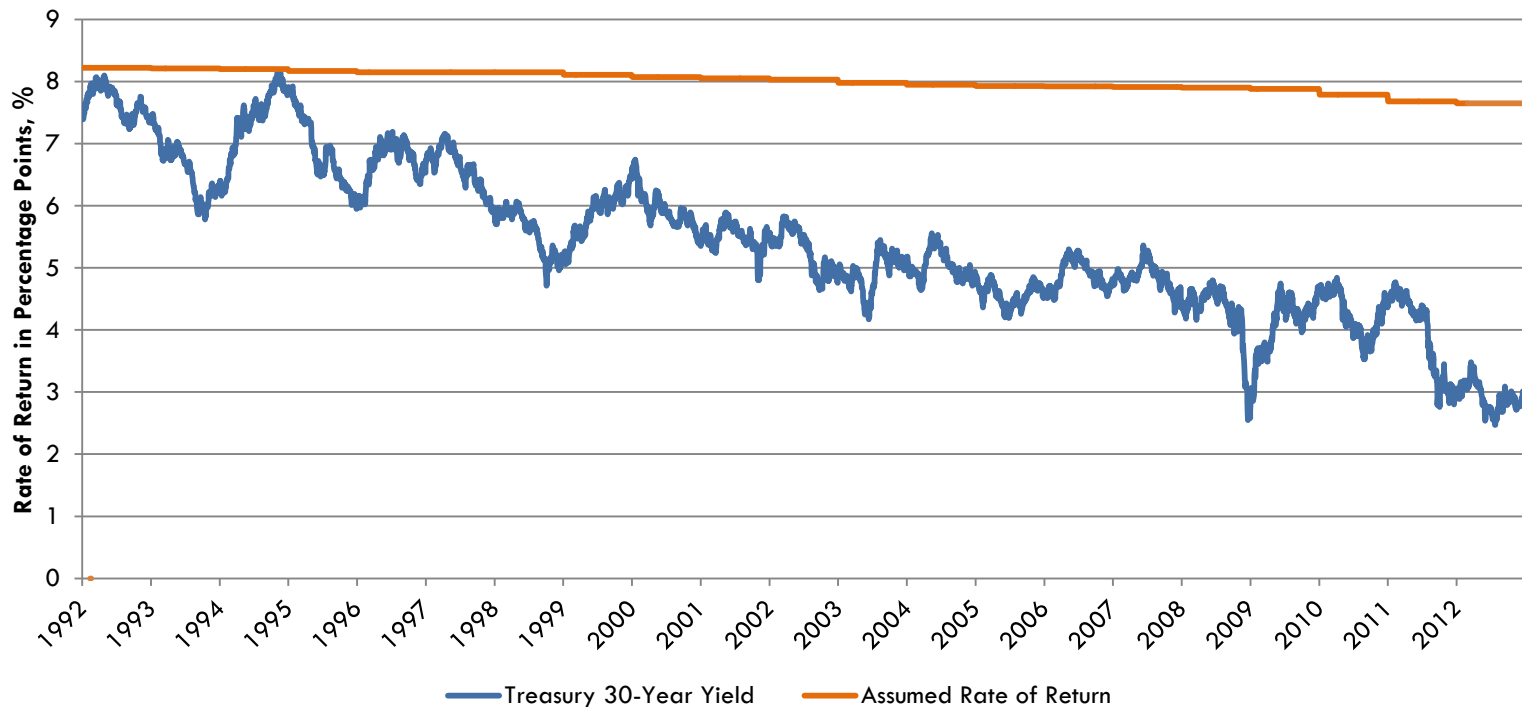
Between 1992 and 2012, the difference between the median pension fund's assumed rate of return and the yield on risk free 30-year Treasury bonds has increased from .33 percentage points to 4.83 percentage points.

Source: U.S. Treasury and Analysis by the Pew Charitable Trusts of Comprehensive Annual Financial Reports, actuarial valuations and related reports from states

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Investments – Key Trends: Increased Risk Premium

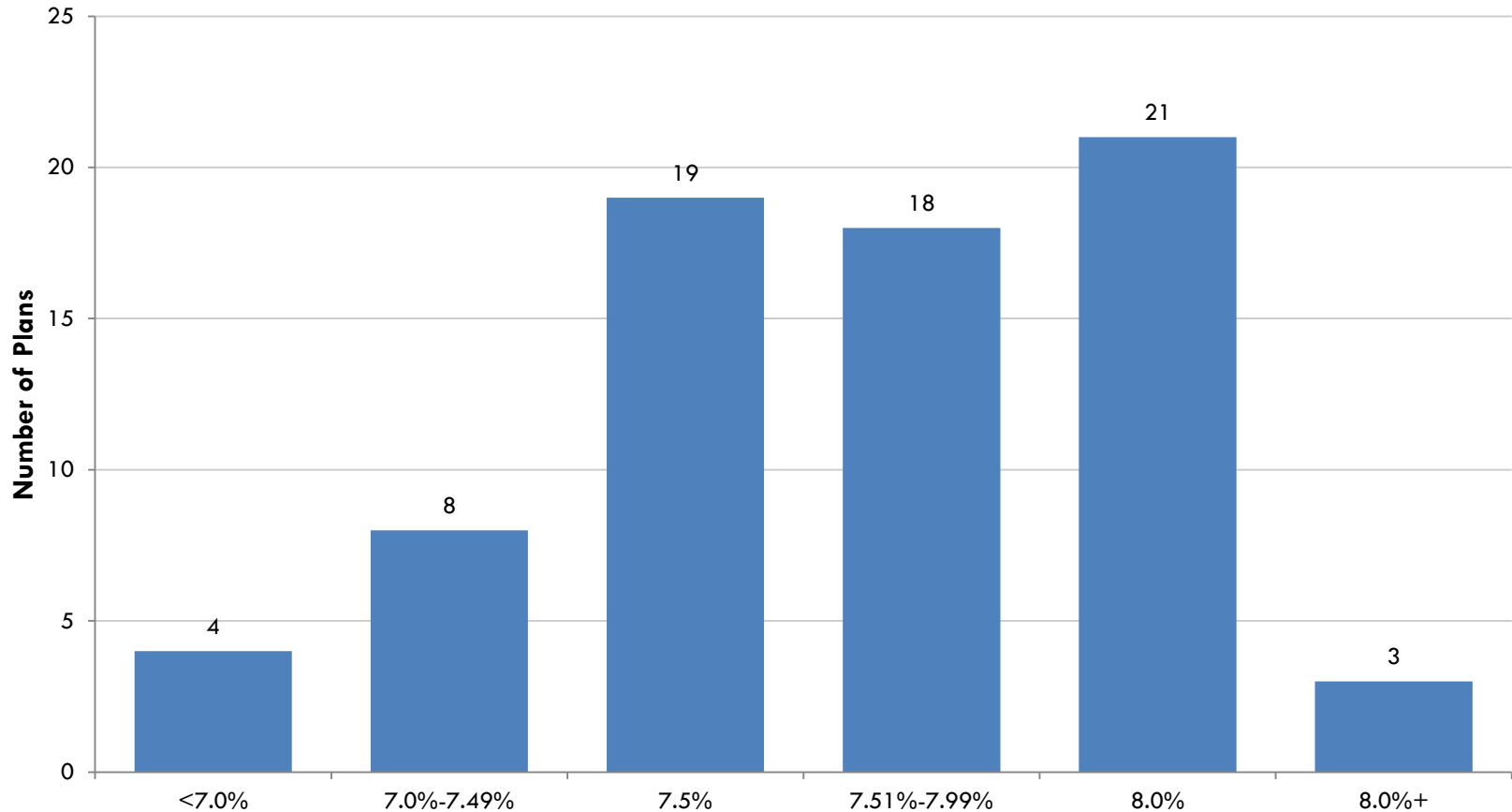
US Public Fund Average Increasing Risk Premium
Plan's assumed rate of return remains relatively stable, while bond yields have declined



Source: Analysis by the Pew Charitable Trusts of U.S. Treasury data and Comprehensive Annual Financial Reports.
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State Pension Fund Expected Rates of Return

Most public pensions target a long-term rate of return between 7 and 8 percent



Source: Analysis by the Pew Charitable Trusts of state Comprehensive Annual Financial Reports.
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Investments – Key Trends: More in Stocks and Less in Bonds

Public Pension Investments, 1954-2014

Allocations to equities and alternative investments have increased, while those to fixed-income investments have declined

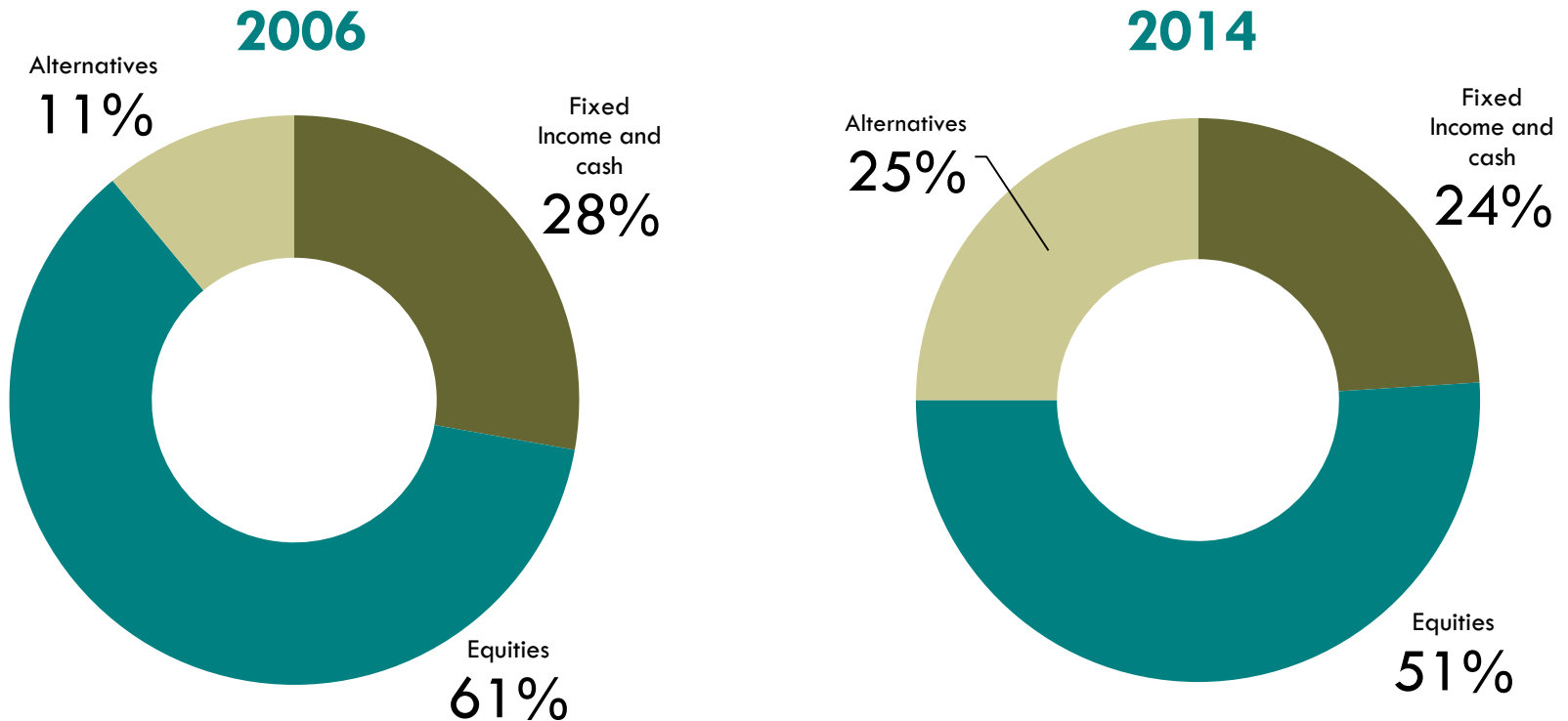


Source: U.S. Board Of Governors of the Federal Reserve System, *Financial Accounts of the United States*, 1954 to 2014; Pew Analysis of State Financial Reports

Investments – Key Trends: Increased Use of Alternatives

Public Pensions Include More Alternative Investments

Share of pension assets in alternatives has more than doubled

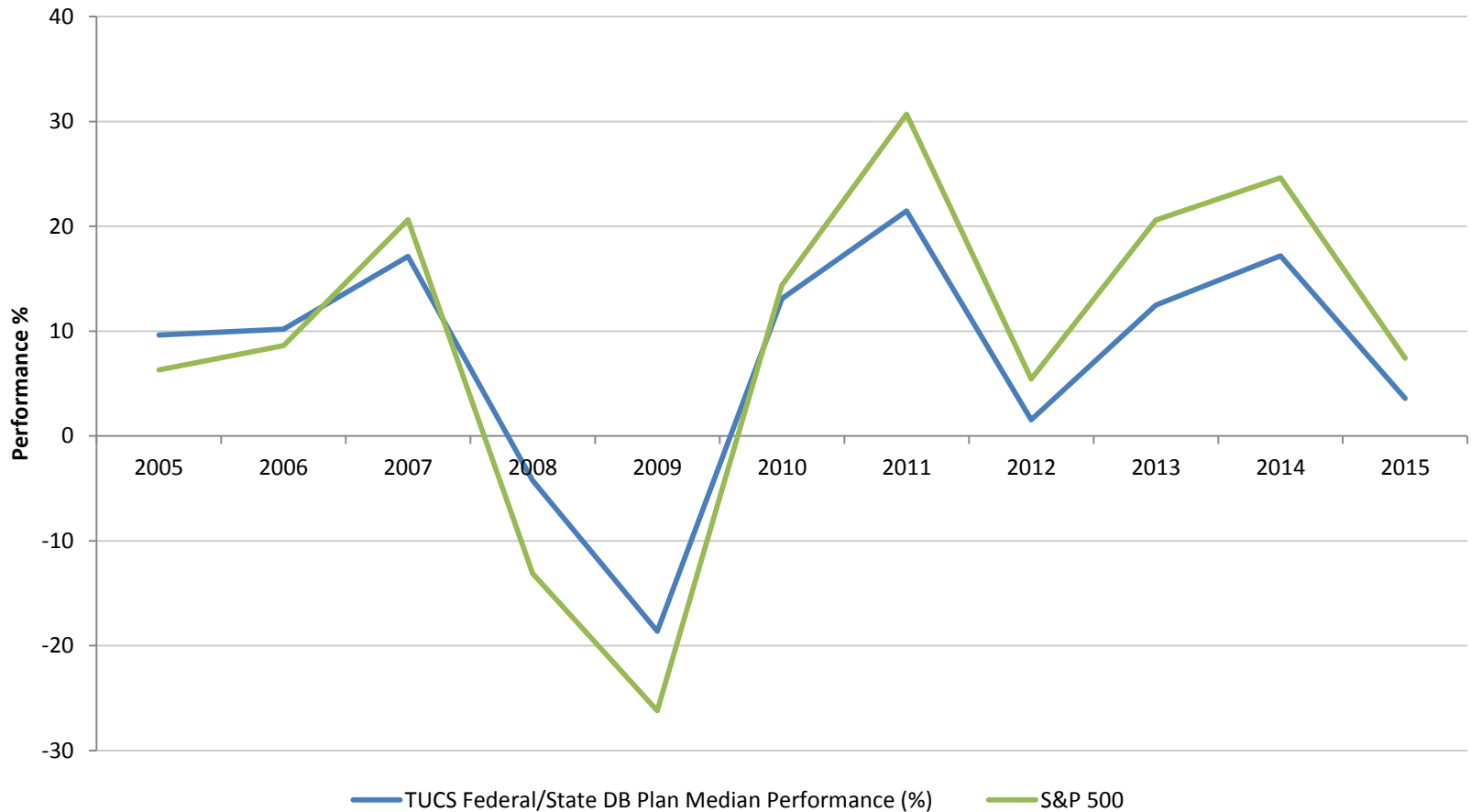


Source: Analysis by the Pew Charitable Trusts of State Comprehensive Annual Financial Reports, Public 100, and the Federal Reserve Financial Accounts of the United States.

Impact of Trends on Performance, Cost, and Risk

Volatility in Returns – S&P 500 and Pension Plan Returns

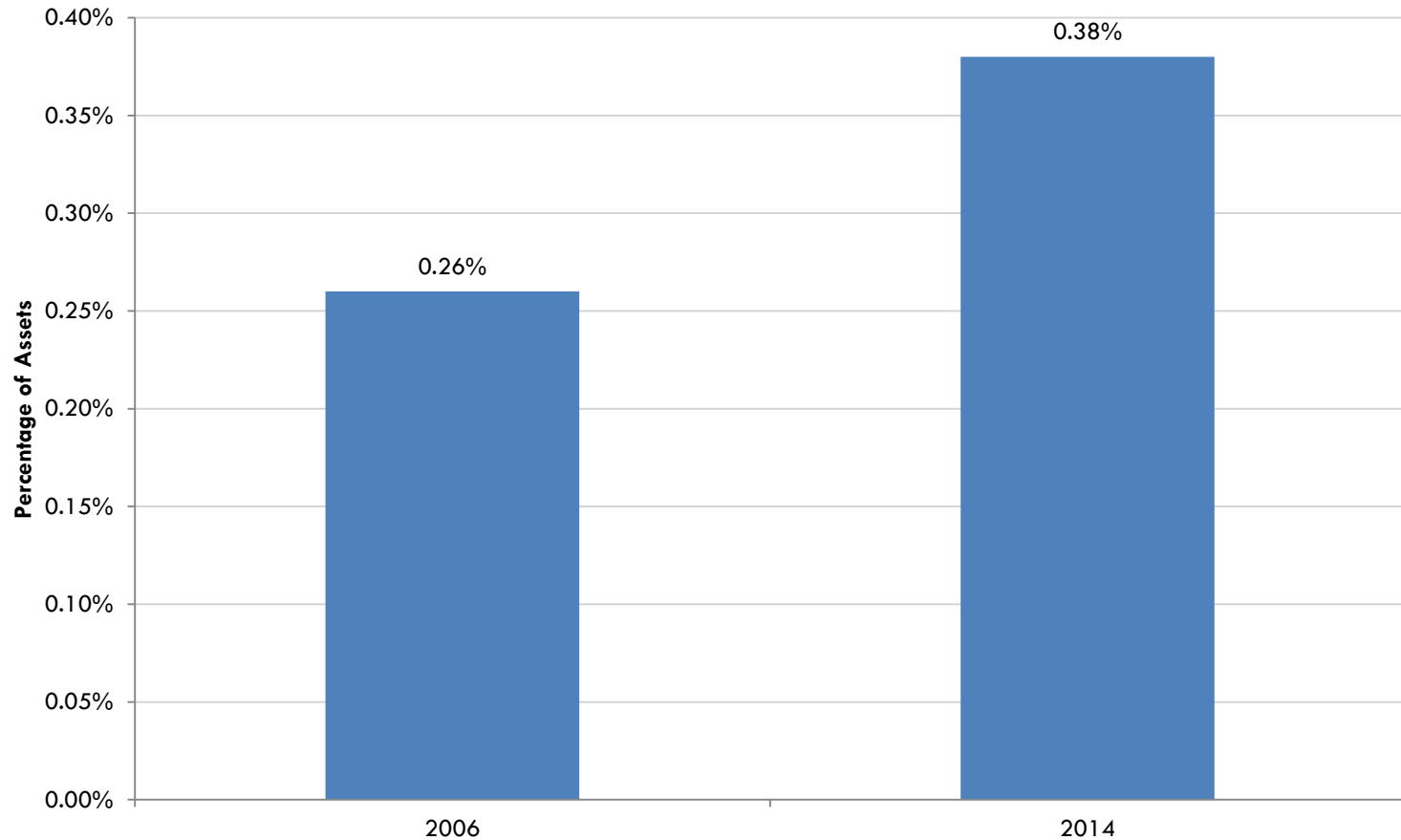
FY 2005-2015



Source: Wilshire®, Trust Universe Comparison Service®

External Management Fees as a Percent of Assets

Reported Fees increased by 30% as a percentage of assets from 2006 to 2014



Source: Analysis by the Pew Charitable Trusts of state Comprehensive Annual Financial Reports.
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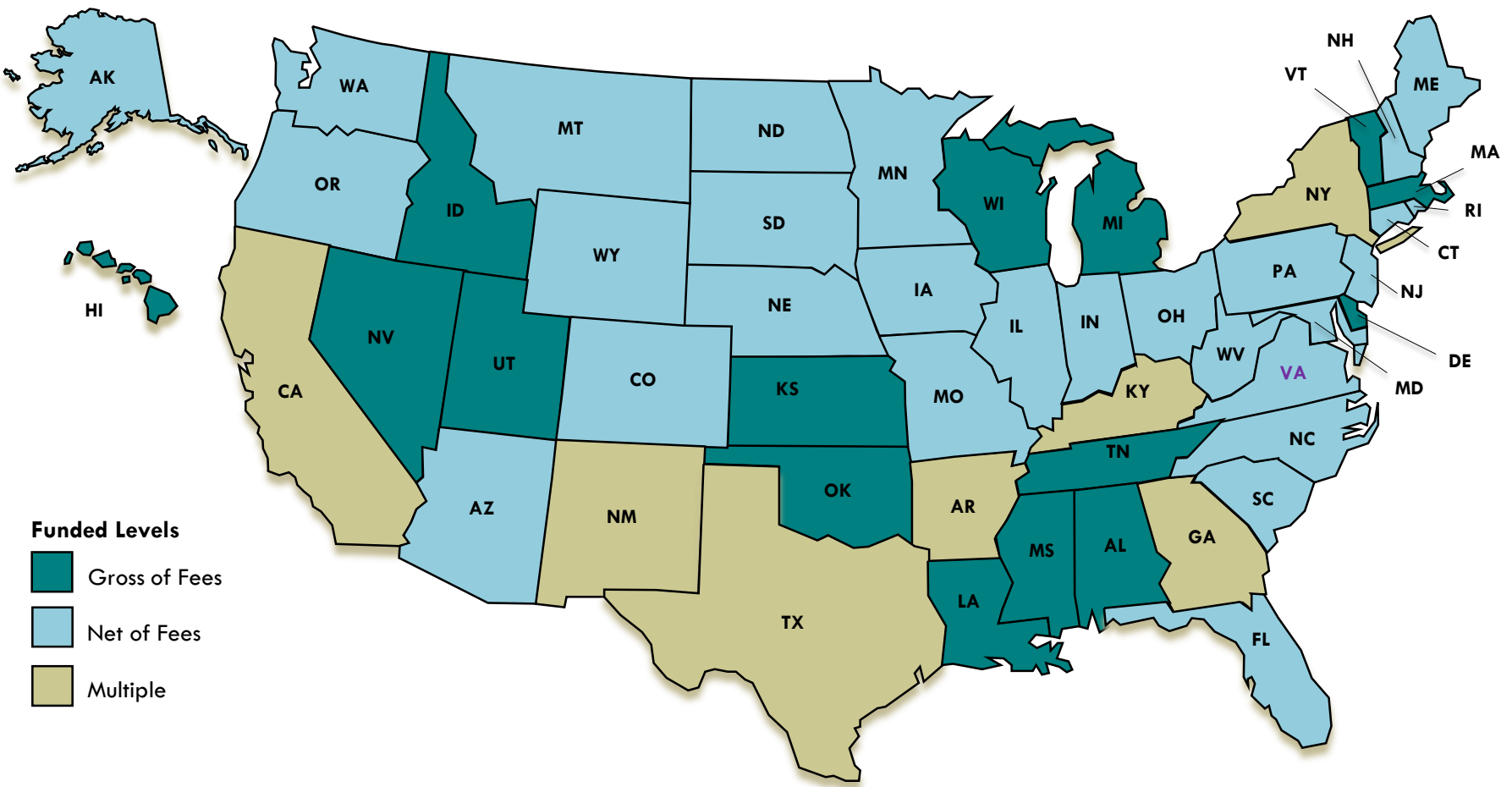
Reporting Standards Must Keep Pace with Changes in Investment Practices

- Make investment policy statements transparent and accessible
- **Disclose bottom-line performance, both net and gross of fees**
- Expand performance reporting to include 20-year results by investment type
- Include performance results by asset class – both net and gross of fees
- **Adopt comprehensive fee reporting standards (ILPA)**

Transparency and Bottom Line Performance

Performance Reporting Practices Vary Across the States

Thirty-seven percent of funds report returns “gross of fees”



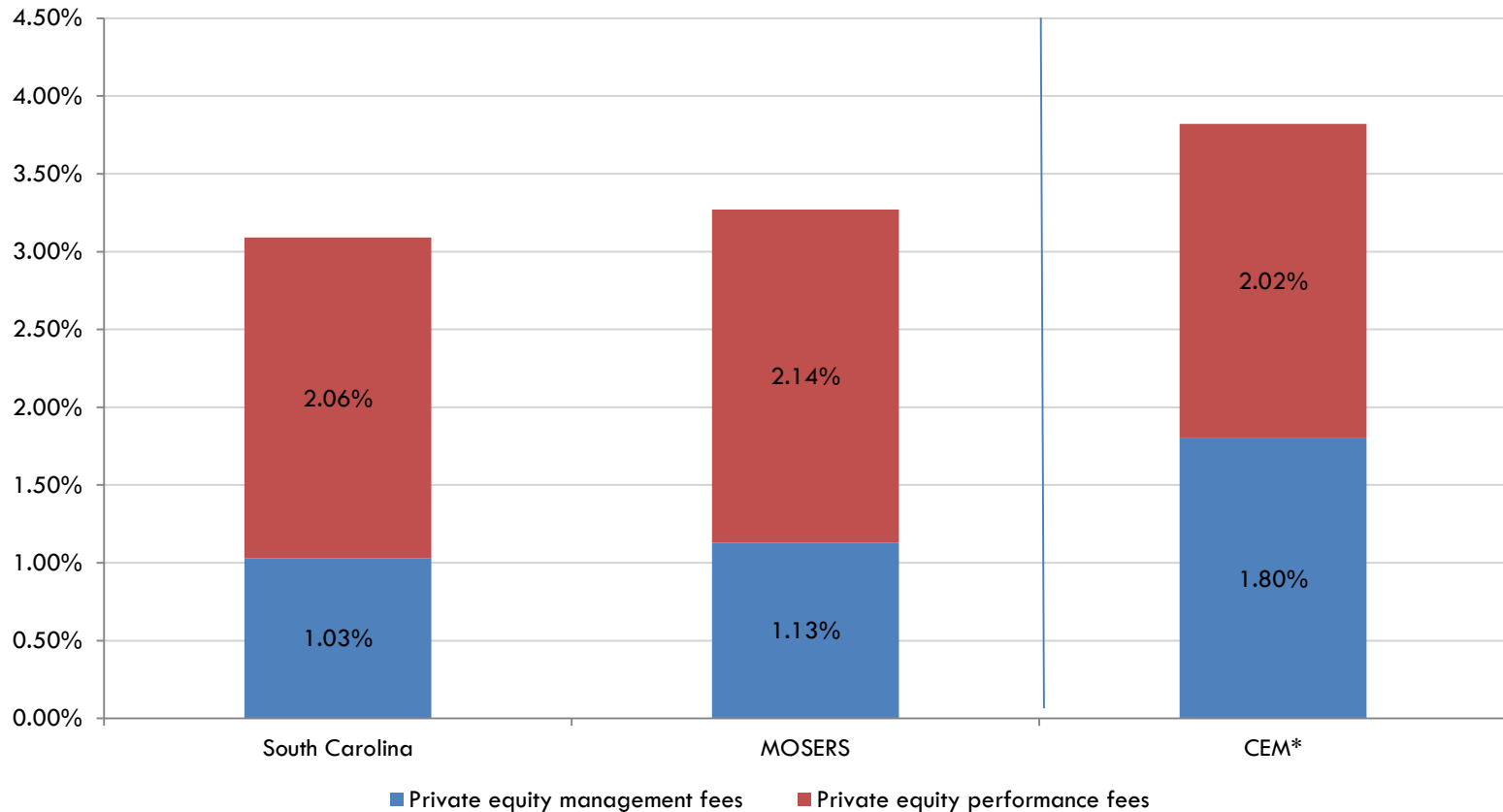
Note: South Dakota discloses performance as both net and gross of fees. The states marked as having multiple reporting methods have two funds included in our list of 73 that report performance differently from each other.

Source: Comprehensive Annual Financial Reports (CAFRs), state treasury reports, quarterly investment reports, and state responses to data inquiries.

Alternative Investments and Comprehensive Fee Disclosure

Reported Private Equity Fees by State Pension Fund

Performance fees substantially higher than invoiced management fees



*CEM figures for reported and estimated unreported PE fees, 2012 & 2013; SCRS & MOSERS figures reported in plan CAFRs

Source: Analysis by the Pew Charitable Trusts of SCRS and MOSERS Plan CAFRs and CEM Benchmarking
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CalPERS' recent supplemental disclosure of PE performance fees also equaled over 2% of assets

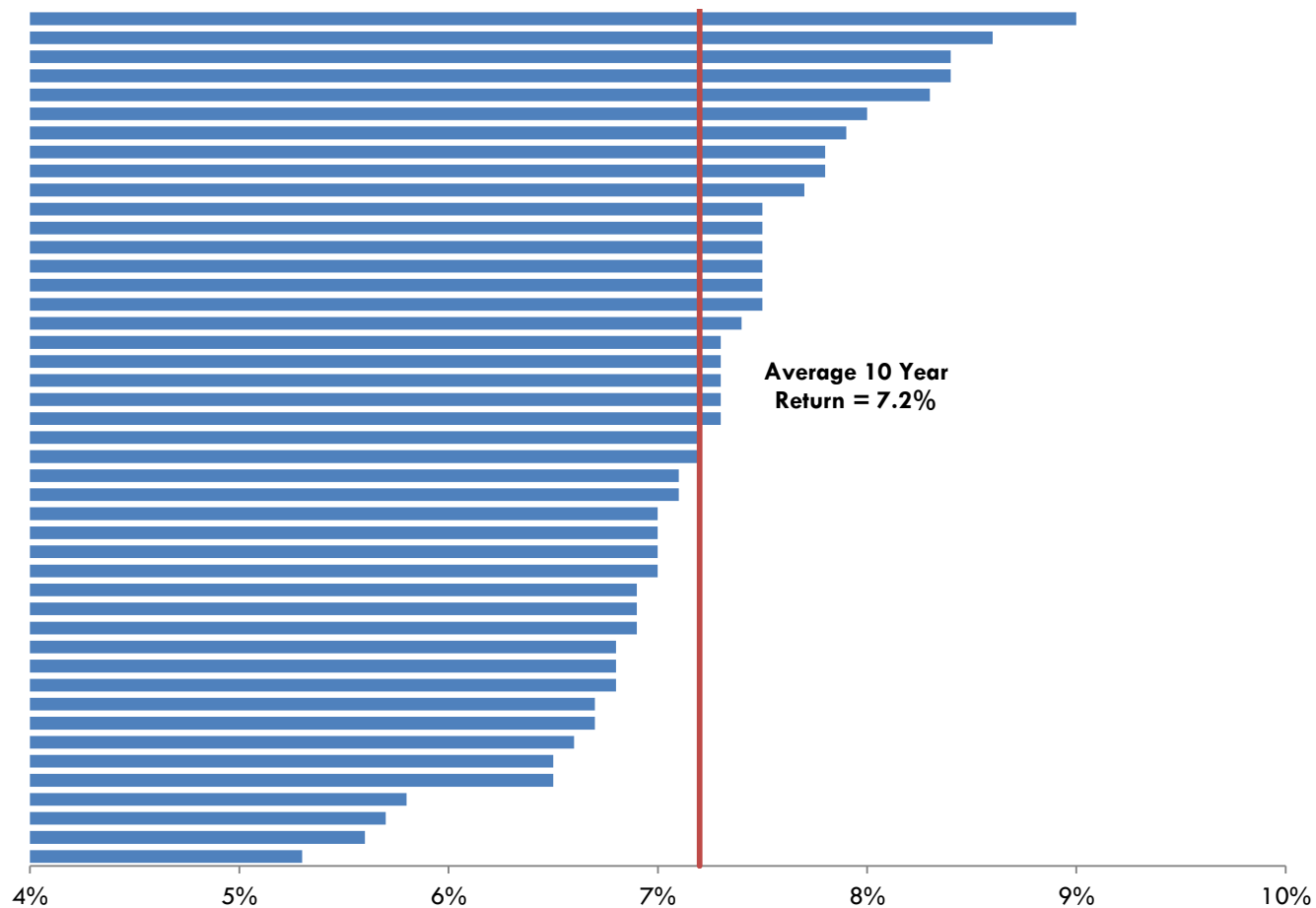
Just How Much in Private Equity Fees Go Unreported?

- In 2014, state-sponsored plans held more than \$250 billion in private equity (nearly 9 percent of assets).
- Estimated **\$4+ Billion** in undisclosed fees

Looking Forward: Measuring and Disclosing Risk

State-Sponsored Fund 10-Year Returns, 2014

Performance varies widely, from less than 6 percent to 9 percent

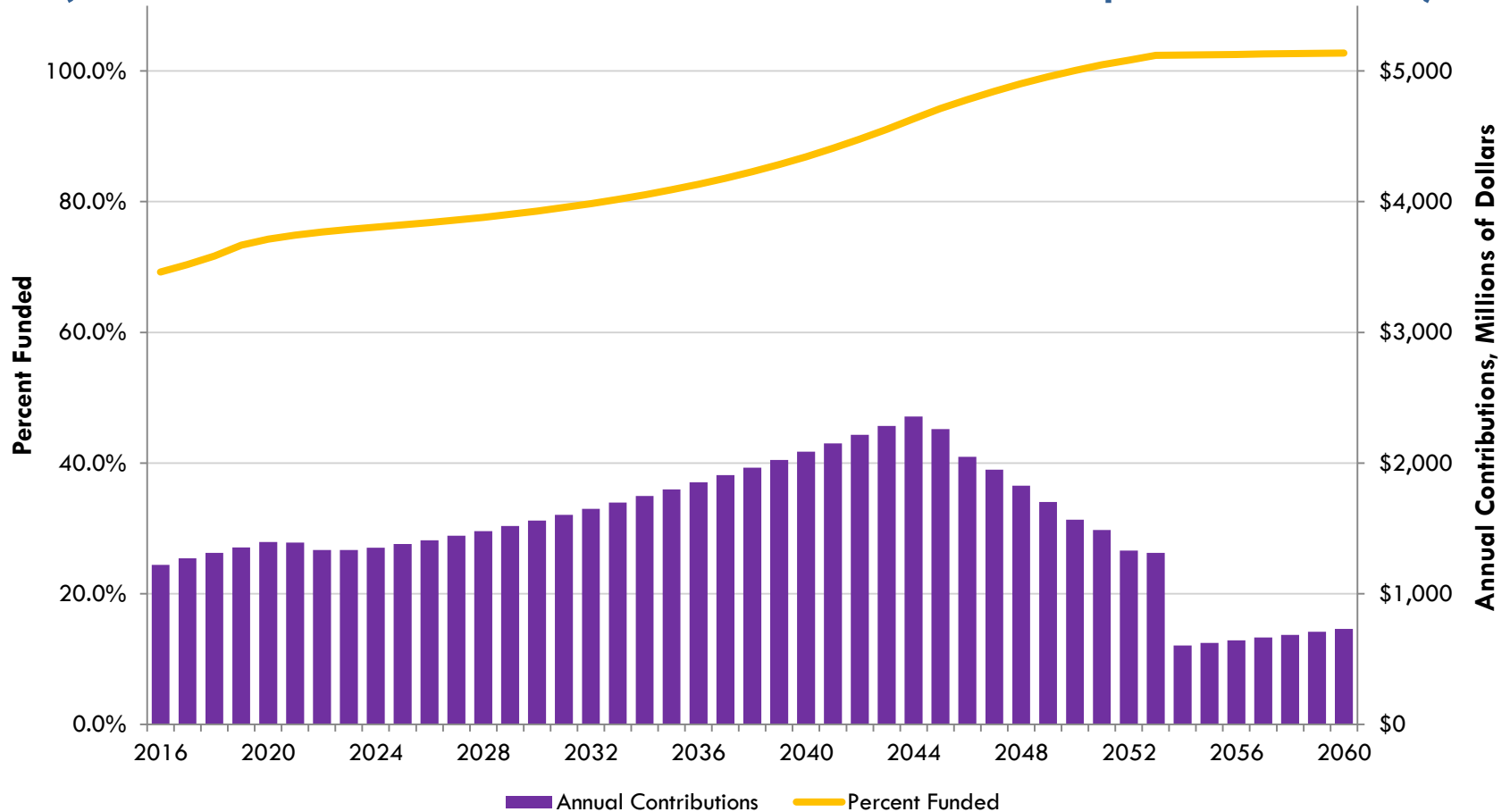


Average 10 Year
Return = 7.2%

Source: Analysis by the Pew Charitable Trusts of state Comprehensive Annual Financial Reports.
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Funding Projections Through 2060

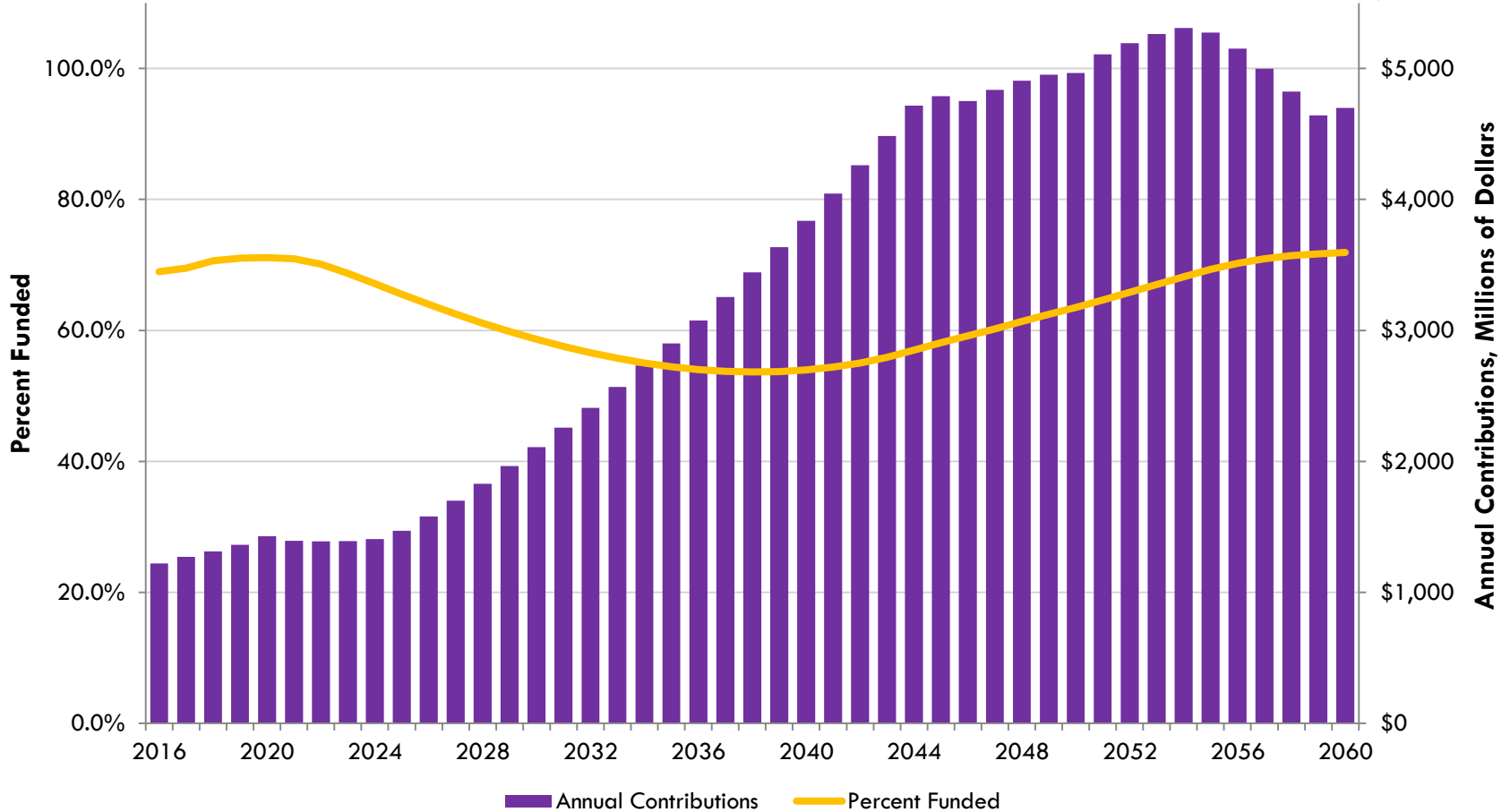
(Under Current Investment Return Assumption of 8%)



All dollar figures in millions
 Sources: The Terry Group

Funding Projections Through 2060

(Under Lower Investment Return Scenario of 6%)



All dollar figures in millions
Sources: The Terry Group

Public Sector Retirement Systems Project

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