SMI Responds to PSRS on Teacher Pension Fund Risk

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One of the core purposes of the Show-Me Institute is to promote transparency at all levels of government. We think this is critically important for Missouri's public employee pension systems, and in recent years we have committed substantial time and effort to exploring the issues confronting these systems.

Most recently, Michael Rathbone and I [pointed out] that Missouri's teacher pension systems have shifted to riskier assets. From this study, we concluded that lawmakers "should be aware that these pension plan returns are based on increasingly risky assets and acknowledge that fact when planning for the future." In particular, we suggested that the plans should forecast assets based on various expected rates of return.

On August 7, PSRS Executive Director M. Steve Yoakum issued a [three-page response] to the paper. Mr. Yoakum claims that our study "provides a limited and somewhat biased view of PSRS/PEERS and the Systems investment strategy," but in the rest of his response he acknowledges several of the points we made.

Mr. Yoakum acknowledges the shift away from fixed-income investments and toward higher-risk investments, and goes on to justify this shift by citing lower returns on the former and greater opportunities "in other areas of the investment universe." This is essentially the point we were making: equities and alternative investments have historically delivered higher returns than fixed-income investments, *but they also carry greater risk*.

Our paper states that current teacher and school district contributions do not cover the existing obligations, meaning that pension plans must rely on investment returns in order to meet their obligations to members. Mr. Yoakum's response: "Only if we exclude income from investments is this true." It is difficult to describe this as anything but a restatement of our point.

We stated, and Mr. Yoakum's response acknowledges, that public employee pension systems have moved toward riskier assets than they held in the past. Much of Mr. Yoakum's response is devoted to explaining this change—which is important— but the point of our paper was not to question the reasons behind the shift. Our goals were instead to document this trend and to endorse the recommendations of the Pew report that we cited repeatedly in our own study, namely that "Government sponsors can demand better reporting of future expected costs and the associated downside risks, and then use this information to make decisions about ways to deal with poor outcomes, should they occur."

We remain committed to these recommendations, and we stand behind every word in our study.

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