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## GOLDEN YEARS LOSE A LOT OF THEIR GLITTER

By: By Clea Benson

The magnitude of U.S. pension-fund losses over the past year is staggering. Mostly suffering from a collapse in stock prices, the funds that are intended to guarantee income for tens of millions of American retirees have lost an estimated \$1.9 trillion. That's very close to the amount of potential write-downs faced by banks worldwide on the "toxic" securities that sparked the global financial crisis in the first place. Many large pension funds have declined in value by almost a third.

With numbers like those, it's little wonder that some experts fear retirement funds will be next in line for a taxpayer bailout. The threat to the public purse comes from defined-benefit pensions, plans that provide retired workers steady checks for life. Both public and private employers that run such plans are on the hook to cover their obligations even if the pool of money they have set aside shrinks. When they can't pay, the federal government may be the only backstop.

Pension experts say a combination of public policies and an emerging consensus on how much latitude funds had to manage their investment choices is responsible for the shift into riskier instruments that promised higher returns.

There is no federal rule governing investment allocations for public or private plans. Before enactment of the Employee Retirement Income Security Act (ERISA) in 1974, private employers weren't required to set aside money for pensions at all. Although ERISA requires employers to ensure they have enough to make good on their promises, it only stipulates that the money be invested prudently.

Pensions for state and local government employees are governed by state laws rather than by ERISA. And although many states previously imposed limits on investments, those restrictions have largely disappeared as public funds pressed for higher returns.

In the early 1950s, public pension funds primarily stashed their holdings in bonds and other generally safe, low-return investments, and kept less than 2 percent of their holdings in stocks. But with the relaxation of the rules, public pensions now have about 60 percent of their money in stocks, equal to the allocation in private funds.

And, while many public plans have become underfunded as their sponsoring governments siphoned dollars into other needs, federal policies have also discouraged private employers from putting aside enough money, said **Teresa Ghilarducci**, a retirement-policy expert at **the New School for Social Research**.

"Tax laws over the past 20 years have prevented companies from building up surpluses when profits are high and have actually required companies to put more money in when they can least afford it," Ghilarducci said.

In particular, she blames Reagan-era efforts to reduce the federal budget that limited the amount companies could contribute tax-free to pensions. She is also concerned that funds have been allowed to hire their own actuaries to project future liabilities. Those analysts have been pressured to present rosy

projections of future investment returns so companies can put in less – or in some cases take holidays from contributing altogether.

Ghilarducci said an impartial government body, such as the PBGC, should estimate returns. "What you need is independent professionals to make assumptions," she said.

Of course, even the PBGC hasn't been immune to the pressure to overestimate returns. Just last February, the agency instituted a new policy shifting more of the money it manages for pensioners of bankrupt companies into the stock market. That move drew criticism from the GAO.

PBGC-managed funds lost 6.5 percent of their value over the last fiscal year. The losses would have been far greater, the agency's director said in his annual report, if the agency had moved more quickly to implement its new investment strategy.

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