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**My view: Teresa Ghilarducci
Troubled by Toll Road investments**

Recently, we learned that \$1 billion of Indiana Toll Road lease proceeds was invested in corporate junk bonds and mortgage-backed securities. Since then, the Daniels administration has scrambled to convince Hoosiers that this is perfectly normal. As a former trustee of Indiana's public employee pension fund, an economics professor, and a trustee of national multibillion-dollar long-term funds, I take exception to the administration's attempt to paint its investment decisions in the best possible light.

At least four of the things I have heard from the administration are troubling. First, I do not agree that investing 22 percent of a major fund in a single type of security – specifically, residential mortgage-backed securities issued by Fannie Mae and Freddie Mac – represents a prudent balance of risk and return. To place this many of the state's funds in one basket is inconsistent with good practice in public finance.

Secondly, I am surprised that State Treasurer Richard Mourdock defended the state's holdings in corporate junk bonds – worth about \$300 million – as a low-risk investment. Junk bonds are investments on par with stocks. In a press conference, he characterized the default rate on these bonds as less than 3 percent. This is no longer true in today's market. Many experts expect corporate junk bonds to default at rates several times those cited by the treasurer. Worse, the state holds more than \$42 million in bonds rated CCC or below – the riskiest kind of speculative bond – which one analysis recently predicted to default at a rate of more than 50 percent. If the labor and corporate trust funds I work with were seen investing in this way, it would raise red flags for possible policy violations.

Third, as a trustee of major pension and retiree health funds, I was surprised to learn that the Investment Policy Statement for the funds was not made accessible to the public until questions were raised. For a public fund this big, standard practice is to publish an extensive policy. The state's Public Employees' Retirement Fund, in contrast, is guided by a lengthy document, readily available on the Internet.

Last, Gov. Mitch Daniels has claimed that this is a technical matter housed completely within the treasurer's office. In my experience, any entity – be it a government, a union or a corporation – entrusted with a long-term fund this size, will regard that trust as one of its most important responsibilities. Accountability for its prudent management goes right to the top of the organization. That is the intent of the Sarbanes-Oxley legislation passed after the Enron debacle. CEOs take responsibility for management decisions. The governor advanced Major Moves asking for a great deal of trust by the legislature and voters. He appealed to his experience as a corporate executive. The investment practices here were messy and should be fixed.

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