



COUNCIL OF INSTITUTIONAL INVESTORS  
NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS  
NATIONAL COUNCIL ON TEACHER RETIREMENT

August 10, 2007

Editor  
*The New York Times*  
229 W 43rd Street  
New York, NY 10036

To the Editor:

The editorial (“Pensions and the Mortgage Mess,” 8/7/07) reflects a troubling misunderstanding of public pensions and their investment practices.

The retirement security of our nation’s public workforce is designed *not* to hinge on any one asset class. The \$3 trillion in public pension holdings are diversified to reduce risk while ensuring pension funds’ long-term performance.

Experienced financial professionals typically allocate pension fund assets among a mix of stocks, bonds, cash, and alternative investments. Based on the latest available data, state and local government employee retirement systems collectively hold five percent of their assets in real estate; 60 percent in global equities; 30 percent in government and corporate bonds; and the rest in cash and alternatives such as private equities and commodities. Only about one percent of public pension assets is invested in hedge funds.

The diversified pension portfolios have generated strong investment earnings over every measurable timeframe. Public pensions, on average, assume an investment return of less than eight percent. Actual public pension investment returns over the past 10- and 20-year periods have exceeded that benchmark. In fact, public fund investment returns have averaged about 14 percent annualized returns for the five-year period ended June 30, 2007. Alternative assets, including hedge funds, have been a contributor to this performance.

Pension fund fiduciaries are responsible for making decisions solely in the best interests of their plan’s participants. Conducting due diligence is a key component of fiduciary duty, which means rigorously monitoring investments, investment managers, and related processes. Public pension trustees and other decision makers also are subject to laws, regulations, comprehensive public oversight, and audits that ensure fiduciary duties are carried out prudently.

The public pension plans covering the vast majority of participants are financially sound and have pre-funded more than 86 percent of their future liabilities. This pre-funding strategy significantly lowers retirement costs to taxpayers by funding the bulk of the costs – about 63 percent on a national basis – with investment earnings.

Public retirement funds provide a regular stream of retirement income for seven million Americans. In doing so, these systems contribute to the economy and retirement security of a large segment of the nation’s aging population. These funds will continue to do so unless they are undermined by policymakers who rely on incomplete and misleading information.

**Jack Ehnes**  
Chair, Council of Institutional Investors

**William P. Hanes**  
President, National Association of State Retirement Administrators

**Meredith Williams**  
President, National Council on Teacher Retirement