Is PERS underfunding greater than (worse than) its administrators admit?

We've run several reports about Mississippi PERS recently. PERS' underfunded status is troubling. It seems to be underfunded by approximately 40%. So PERS has reported. And, its magnitude of underfunding may be more troubling and even greater than previously reported or publicly understood.

Ask yourself a question you should ask whenever accountants are involved (especially given our experience with WorldCom, Enron, and hundreds of other instances where accountants played a significant role in "managing" the numbers in financial statements, up to and including outright fraud): Are accountants "managing" the numbers in PERS financial statements?

Let's start by asking a seemingly unrelated question: have you ever wondered why PERS insists on claiming an unrealistically high expected rate of return on its assets? Currently, 8%. There's an explanation and it does not bode well for the funding status of PERS.

Here's why:

> **This Accounting Quirk Is Setting Up Public Pensions For Disaster**
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> The Economist has an interesting piece in Buttonwood this week about how U.S. public pensions do their accounting. Basically, they discount their liabilities using the expected return on their assets.
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> It results in some curious outcomes. For example, since holding cash typically drags down return expectations, if a pension fund simply gave away its cash (or burned it as The Economist posits) by raising its expected return on assets (no longer burdened by the cash drag) they would reduce the value of their liabilities. Their funded status might appear better even with fewer assets.
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> This perverse accounting treatment got me thinking about why pension funds continue to invest in hedge funds seeking 8% returns, even though it's been many years since hedge funds made 8% and it's not likely they will in the near future either. Certainly not with over $2 trillion competing for opportunities.
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> Based on the accounting, including an asset with an 8% return target helps reduce the value of their liabilities even if the 8% return expectation is an unreasonable expectation. So the motivation for a pension fund trustee could be to include hedge funds because of their helpful impact on the discount rate on their liabilities even while their continued failure to achieve that

target doesn't cause huge immediate problems.

Far better than lowering the discount rate to a more appropriate level and revealing the true shortfall with all its political consequences.

This is how the $3 trillion underfunded position is growing. Sometimes accountants can cause a lot of damage.

So, is the reported underfunding at PERS worse than its administrators admit? Just how bad is the underfunding and will you actually learn only when drastic measures have to be taken (e.g., reducing benefits, eliminating benefits, means testing benefits) for which you and your family have not planned?

Given the level of secrecy, short falls are likely to be disclosed only when required by law.