Are you a member of PERS?

Part 4

In this series—Are you a member of PERS?—we've ignored PERS' 8% investment return assumption. What does it mean? Where does this 8% come from? Who chooses it? Why?

Let's take a look at it. You need to understand the tomfoolery—no, let's not be cute, let's use accurate terminology—you need to understand the deception 8% investment return assumption perpetrates on retirees and taxpayers. According to a recent report, Public pensions face $2 trillion hole: Moody's

> "States and cities have … used rosy scenarios to inflate their estimated investment returns. Unlike corporate accounting rules, the rules for government accounting let pension fund managers just pick a return number that makes their future liabilities look smaller.
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> As a result, a common practice has been to use a relatively high discount rate [8%] that mathematically understates plan liabilities … relative to other approaches, such as those supported by financial economists," Moody's said in its report."

In other words, pension fund managers choose 8% to make themselves look good and hide the shortfall funding of PERS. Consider Frederick E. Rowe's Editorial in a September 27, 2014 *Barrons*:

> Defined-benefit public-employee retirement systems [like PERS] … No. 1 problem … is that nobody is accountable to the taxpayers, who

> must pay the benefits that have been promised on their behalf, without discussion or explanation.
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> Those promises very often don't line up with the resources available to satisfy them. The No. 1 reason for that is inflated return assumptions: The average actuarially assumed rate of investment return for public pensions is 8%.
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> Eight percent! No well-informed business person would consider guaranteeing benefits that required an investment to grow at a compounded rate of 8% over decades.
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> For perspective, consider that the "risk free" 10-year U.S. government bond currently yields 2.6%. If that's the risk-free rate, how much risk are pension-fund managers taking with taxpayers' money to earn 8%?
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> Most of the time, assumed rates of return are too high and estimated future costs are too low. This is a message that nobody involved in managing the money wants to hear. Nor do future recipients of pension checks want to be told that there is a problem. And certainly, no politician willingly serves as the bearer of bad news to voters. Successful politicians must focus on making the present situation look good, letting the future take care of itself.

An 8% return on investment was selected to understate how much PERS is underfunded. In other words, if the administrative self-selected 8% were less, i.e., more accurate and realistic, PERS would report an even larger unfunded pension fund than 42%. How much is PERS really underfunded? Ask PERS for the formula it uses to calculate its liability, then factor in a variety of discount rates one at a time to see a range of realistic amounts PERS is underfunded. See what the underfunding is at 3%, 4%, 5% and you will get a notion of just how much trouble PERS and your retirement is in. You can bet the underfunded status is much greater than 42%. Then ask your lawmakers what's going on and to repair the underfunding.