

A Member of PERS?

In a recent "LookingForward" from PERS of Mississippi (Summer 2012), Executive Director Pat Robertson recommends:

With increased scrutiny of the Public Employees' Retirement System of Mississippi (PERS) and public pensions nationwide in recent years, I encourage all of our members, retirees, and employers to take time to understand how pensions work...

Good advice. Here's a primer from the [Wall Street Journal](#): "Pension Accounting for Dummies."

If you have difficulty accessing the Wall Street Journal article, [click here](#).

A sound pension depends on the plan's "expected rate of return," sometimes referred to as the "discount rate." PERS calls it the "actuarial assumed rate of return." (The terminology, if not intentionally confusing, is not going to intentionally be disambiguated, made easier, for you.) Here's a simple way to think about a rate of return: the greater the "actuarial assumed rate of return," the less you have to invest/contribute today to meet future goals. If you're wrong about the assumed rate of return, however, the consequences can be disastrous. If your actual rate of return turns out to be less than assumed, you won't have the money on you expected to retire, maybe by a lot less.

PERS reports its "actuarial assumed rate of return" has been 8%. (www.pers.state.ms.us, "The most up-to-date source of PERS news...") Eight percent is much higher than is safe to assume. Here's what the WSJ says:

Governments have resisted climbing down from Fantasyland [of excessively high "actuarial assumed rates of return"] because using lower discount rates would explode their liabilities.

In what world does PERS get a safe, perennial and reliable 8% return on your retirement money? (If you find out, let me know.) The truth is they don't. Why the obviously inaccurate "actuarially assumed rate of return"?

As the WSJ suggests, government would have to report higher liabilities, probably much higher. Or, increase taxes to provide assurance that there would be enough to cover the promises it made to retirees. The day of reckoning is in the future, so our politicians are, in effect, saying, "Shhhh, nobody will notice, and if they do, they won't understand it anyway." Too complicated for the, in the vernacular of the 1060s, "masses of asses."

The bottom line? You may not want to assume PERS will be able to keep its promise.

Sleep tight...