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Two Riverway, Suite 630
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713/622-8018
Fax 713/622-7022
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U.S. Municipal Pension Plans Setting Investment Return Projections Too High

Municipal pension plan sponsors say they expect their investment portfolios to outperform the market by 146 basis points on an annual basis over the next five years, according to a new study by Greenwich Associates. But these expectations may not be realistic.

"Few individual investment managers have ever generated 100 [basis points] of annual alpha on a consistent basis," says Rodger Smith, a Greenwich Associates consultant. "Without shifting a big chunk of assets to alternative investments that are largely uncorrelated with other holdings and have the potential to generate significant levels of alpha, it is unlikely that many municipal funds will approach that 146 [basis point] mark."

Municipalities relying on this type of performance to fund pension plan liabilities should look closely at historic investment results and consider if other, non-investment actions will be required to meet future obligations, the Greenwich study says.

On an overall basis, the average solvency ratio of public pension funds in the United States increased modestly to 87 percent in 2007 from 86 percent in 2006, according to the U.S. Investment Management Research Study. However, those gains are attributable entirely to advances made by state funds, which saw average solvency ratios increase to 85 percent from 79 percent year-over-year.

Municipal fund solvency ratios declined to 87 percent from 89 percent over the same period. In addition, a sizable share—more than 30 percent—of municipal pensions have solvency ratios of 79 percent or less.

These solvency ratios reflect the status of public pensions following several years of relatively strong investment performance. The blended rate of return on investments held in public defined benefit and cash balance portfolios increased to 14.8 percent in 2007 from 10.1 percent in 2006. Those figures include the 15.8 percent blended return reported by state funds in 2007 and the 14.5 percent reported by municipal funds.

In some ways, municipal funds' out-performance expectations might reflect political realities more than market fundamentals, the study added.

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“Municipal pension plans—and indeed many public pensions—have a serious problem,” said Greenwich Associates consultant Chris McNickle. “There are real questions about the ability of many municipal plan sponsors to fund their pension liabilities. However, admitting to these problems would require politicians to address shortfalls through some combination of benefit reductions and tax increases.

“Because many of the politicians currently responsible for these funds will not be in office to deal with the future consequences of under-funded plans, they have little incentive to take the political hit, and plan sponsors in general have little incentive to question projections that seem to suggest that the status quo is working,” McNickle added.

“The stewards of the country’s municipal pension funds have a responsibility to ensure that decisions affecting a plan’s ability to make the payments promised to public workers are firmly rooted in reality.” 

SEC Charges Five Former San Diego Officials with Securities Fraud

The Securities and Exchange Commission on April 7 filed securities fraud charges against five former San Diego city officials who played key roles in the city’s inadequate municipal securities disclosures in 2002 and 2003. The SEC charged the former officials for failing to disclose to bond investors buying the city’s municipal bonds that there were funding problems with its pension and retiree health care obligations and those liabilities had placed the city in serious financial jeopardy.

The SEC’s complaint, filed in federal district court in San Diego, charges former City Manager Michael Uberuaga, former City Treasurer Mary Vattimo, former Auditor & Comptroller Edward Ryan, former Deputy City Manager of Finance Patricia Frazier, and former Assistant Auditor & Comptroller Teresa Webster.

The five former officials knew that the city had been intentionally under-funding its pension obligations so that it could increase pension benefits but defer the costs, according to the SEC’s complaint. They were aware that the city would face severe difficulty funding its future pension and retiree health care obligations unless new revenues were obtained, pension and health care benefits were reduced, or city services were cut.

They also knew that the city’s unfunded liability to its pension plan was projected to dramatically increase, growing from \$284 million at the beginning of fiscal year 2002 to an estimated \$2 billion by 2009, and that the city’s liability for retiree health care was another estimated \$1.1 billion, the SEC alleges. But the officials failed to disclose these and other material facts to rating agencies or to investors in bond offering documents and continuing disclosures.

The SEC’s complaint alleges that Uberuaga signed the closing letter for one of the bond offerings, falsely certifying that it was accurate and did not contain any misleading statements. Ryan signed letters falsely representing that the city’s audited financial statements included in the securities offerings were accurate, the SEC alleges. Frazier regularly reviewed and revised the false and misleading disclosure documents, and signed the closing letter for two of the five bond offerings, the complaint states. She falsely certified the disclosures as accurate and did not contain any misleading statements, and she reviewed and made presentations to the rating agencies.

Webster reviewed the city’s financial statements that contained some of the false and misleading disclosures, and Vattimo participated in drafting the city’s false and misleading disclosures, the SEC alleges. Additionally, Vattimo and Webster both knew that in 2003, the rating agencies had concerns about the city’s growing pension obligations and that those obligations could negatively affect the city’s credit rating. Nevertheless, they withheld material facts from the rating agencies, the complaint states.

The SEC previously entered an order sanctioning the City of San Diego for committing securities fraud by failing to disclose to the investors important information about its pension and retiree health care obligations in the sale of its municipal bonds in 2002 and 2003. To settle the action, the city agreed to cease and desist from future securities fraud violations and to retain an independent consultant for three years to foster compliance with its disclosure obligations under the federal securities laws.


The SEC also previously filed a settled civil injunctive action for fraud against the outside auditors for the city and its pension system: Thomas J. Saiz and Calderon, Jaham & Osborn, an accountancy corporation. Saiz and Calderon, Jaham & Osborn consented to the entry of a final judgment permanently enjoining them from violating the antifraud provisions of federal securities laws. Saiz also paid a civil penalty of \$15,000.

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“Municipal officials responsible for municipal bond disclosure play a key gatekeeper role in protecting investors,” said Linda Chatman Thomsen, director of the SEC’s Division of Enforcement. “It is therefore imperative that they honor the public’s trust by ensuring that investors are provided with accurate, material information about the issuer’s fiscal health.”

Rosalind Tyson, acting regional director of the SEC’s Los Angeles Regional Office, added, “Despite knowing of the city’s substantial pension and retiree health care liabilities, these five former San Diego officials failed to disclose what they knew to municipal securities investors. Their actions not only jeopardized the investors, but also compromised the interests of the city’s citizens and its current and future retirees.”

Litigation Release No. 20522 is available at: <http://www.sec.gov/litigation/litreleases/2008/lr20522.htm>, while the SEC’s complaint (18 pp.) can be viewed at: <http://www.sec.gov/litigation/complaints/2008/comp20522.pdf>. 

Committees Release Best Practices for Hedge Fund Participants

Two blue-ribbon private-sector committees established by the President’s Working Group (PWG) released separate yet complementary sets of best practices for hedge fund asset managers and investors. They represent the most comprehensive public-private effort to increase accountability for participants in this industry.

The committees proposed no new regulations. Instead, they said voluntary and market-driven due diligence and ramped-up disclosure would bring improvements.

The best practices for asset managers call on hedge funds to adopt comprehensive best practices in all aspects of their business, including the critical areas of disclosure, valuation of assets, risk management, business operations, compliance and conflicts of interest. Eric Mindich, CEO of Eton Park Capital Management, chairs the Asset Managers’ Committee.

The best practices for investors include a Fiduciary’s Guide and an Investor’s Guide. The Fiduciary’s Guide provides recommendations to individuals charged with evaluating the appropriateness of hedge funds as a component of an investment portfolio. The Investor’s Guide provides recommendations to those charged with

executing and administering a hedge fund program once a hedge fund has been added to the investment portfolio. Russell Read, Chief Investment Officer of the California Public Employees’ Retirement System, leads the Investors’ Committee.

Both best practices documents recommend innovative and far-reaching practices that exceed existing industry standards. The recommendations complement each other by encouraging both types of market participants to hold the other more accountable. Given the global nature of financial markets, the best practices were designed to be consistent with work that has been done in the United Kingdom to improve hedge fund oversight.

The PWG Principles and Guidelines Regarding Private Pools of Capital issued in early 2007 provided a clear but flexible approach to address issues presented by the growth and dynamism of hedge funds. The PWG designed the principles to endure as financial markets evolved and identified four stakeholders who contribute to hedge fund vigilance: asset managers, creditors, investors and regulators.

Regulators moved to implement these principles and worked to encourage the industry to adopt the principles. Treasury Secretary Henry M. Paulson, Jr. in June 2007 said that the PWG would call upon experienced industry participants who could lead the charge to raise standards for improving transparency and accountability. The group selected chairmen to lead two private-sector committees to develop the best practices.


The committees’ recommendations will be open for public comment for 60 days. The committees then will review and, as necessary, revise these best practices and standards. Comments may be submitted at the committees’ Web site <http://www.amaicmte.org>. The committees will continue to meet to discuss raising the standards for industry participants after the best practices are complete.

“As we said when announcing these committees—we want the world’s highest investor protection standards; we want to guard against systemic risk and keep the United States the most competitive financial marketplace in the world,” said Paulson, who chairs the PWC. “As these committees were formed, their chairmen and the PWG believed that markets benefit when experienced and respected participants develop best practices and new accountability standards. These are important issues, and these recommendations represent tangible steps towards our goals.”

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The PWG tasked the committees, selected in September 2007 and comprised of well-respected asset managers and investors, with collaborating on industry issues and developing a set of best practices for their respective groups of stakeholders. Their work was based on the PWG's Principles and Guidelines Regarding Private Pools of Capital issued in February 2007, which sought to enhance investor protections and systemic risk safeguards.

The PWG includes the heads of the U.S. Treasury Department, the Federal Reserve, the Securities and Exchange Commission and the Commodity Futures Trading Commission. 

Social Security Trustees: Deficits Continue, But Long-Range Outlook Improves

The Social Security Board of Trustees' annual report on the financial health of the Social Security Trust Funds sounds a familiar alarm. As it has in past years, the report makes it clear that Social Security and Medicare are on an unsustainable path. Both programs will shortly go into the red, paying out more in benefits than they receive in payroll taxes.


While the key dates for program costs exceeding tax revenues and Trust Fund exhaustion remain unchanged, the 2008 Trustees Report shows improvement in the projected long-term financial status of the Social Security program from last year—particularly in the latter half of the long-range projection period. This improvement is principally the result of methodological changes for projecting certain aspects of immigration.

In the 2008 Annual Report to Congress, the Trustees announced:

- The projected point at which tax revenues will fall below program costs comes in 2017—the same as the estimate in last year's report.
- The projected point at which the Trust Funds will be exhausted comes in 2041—the same as the estimate in last year's report.
- The projected actuarial deficit over the 75-year long-range period is 1.70 percent of taxable payroll—down from 1.95 percent in last year's report.
- Over the 75-year period, the Trust Funds would require additional revenue equivalent to \$4.3 trillion in today's dollars to pay all scheduled benefits.

“Social Security is at a crossroads. We face enormous challenges to shore up the system,” said Michael J. Astrue, Commissioner of Social Security. “I will continue to work with President Bush, Congress and our stakeholders to develop policy solutions. I also look forward to working with the next administration, since the challenges that face the Social Security system will undoubtedly require a bipartisan and multi-year effort.”

“This year's Social Security Report again demonstrates that the Social Security program is financially unsustainable and requires reform,” Treasury Secretary Henry M. Paulson, Jr. said in a statement. “In fewer than 10 years, cash flows are projected to turn negative—meaning that we will draw upon general revenues to support withdrawals from the Trust Funds in order to pay current benefits.”

The Medicare Report (242 pp.) is available at: <http://www.treas.gov/offices/economic-policy/reports/medicare-report-2008.pdf>. The Social Security Report (235 pp.) is available at: <http://www.treas.gov/offices/economic-policy/reports/social-security-report-2008.pdf>. And the Summary of Reports (24 pp.) is available at <http://www.treas.gov/offices/economic-policy/reports/summary-of-reports-2008.pdf>. They're also available at: www.socialsecurity.gov/OACT/TR/TR08. 

A Credit Crunch Casualty: States Back Off Divestment Laws

More and more state legislatures are either reconsidering or rejecting bills that force state pension funds to divest themselves of companies doing business with Iran, Sudan or other states deemed sponsors of terror, The Wall Street Journal reports.

Lawmakers are opting for less-stringent bills, offering fund managers more flexibility or simply rejecting new divestment measures.

“These bills limit a pension fund's scope for investing and adds to their administrative costs,” Mark Ruloff, a Watson Wyatt consultant, told the Journal. “That isn't necessarily what beneficiaries want to hear at a time when markets are down and their fund's liabilities are poised to rise.”

More than 20 states have passed laws that could compel public pensions to divest from companies doing business in one or more of the offending countries. Several other bills are pending and may still pass.

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Barrie Tabin Berger, Assistant Director, Federal Liaison Center, Government Finance Officers Association (GFOA) provided the following information as a result of her attendance at the roundtable discussion held by the IRS on April 22, 2008

IRS Held Roundtable to Discuss Governmental Plan section 401(a) Compliance

The IRS held a roundtable discussion on April 22, 2008 with approximately 50 representatives from governmental plans and national associations to discuss the agency's new initiative to take significant steps to focus more closely on governmental plan section 401(a) compliance. According to IRS presenters, the roundtable was intended to make governmental plans aware of the new IRS initiative and discuss how the IRS could partner with governmental plans to learn more about, and ultimately help address their compliance problems.

IRS staff and officials made clear over the course of the day that there will be “significant increase in enforcement presence” surrounding state and local government employee benefit plans. Press articles on instances of abuse were cited, as was the need for further information and closer examination of governmental plans. Another message was the IRS' strong desire to have all governmental plans obtain a favorable determination letter from the IRS on their tax-qualified status during the Cycle C remedial amendment period.

According to IRS officials, the first step in this new initiative will be a questionnaire sent to a random sample of governmental plans to learn more about what types of compliance issues the government sector may be facing. The IRS maintains that it will be soliciting input from plan practitioners in developing the survey questions. IRS representatives noted that that plans would not be penalized for information disclosed in responding to the survey, but did state that a failure to respond could result in a compliance check.

Other topics discussed during the roundtable included: the new staggered remedial amendment program; voluntary compliance programs; and technical and compliance issues.

The information presented at the roundtable, including power points and questions and answers, can be found at: <http://www.irs.gov/retirement/article/0,,id=181779,00.html>.

GASB Approves Project to Examine Pension and OPEB Reporting Issues and to Consider Possible Amendments to Statements 25 and 27

At its meeting in mid-April, the Governmental Accounting Standards Board (GASB) approved a project to re-examine standards for accounting for and reporting postemployment benefits, including pension and retiree health care benefits. This decision is the latest step in a process that included a research project in 2006 and 2007 to assess the effectiveness of Statements 25 and 27. This research project included a series of meetings held with stakeholders around the country and reviews of retirement system financial and actuarial information.

GASB's projected timeline for this next project culminates in the issuance of final statements in December 2013.

More information about the project, including a GASB staff memo and additional material can be found at: http://www.gasb.org/task_force_materials_pension_accounting_research/tfm_pension_accounting_research.html

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Treasury Examines ‘Pre-Funding’ of Social Security in Latest Paper

The U.S. Treasury Department’s fourth in a series of papers on Social Security expands on a point the agency introduced in the second issue brief: Making Social Security reform fair to future generations requires building up and safeguarding resources in the near term that can be used to fund future benefits as the number of retirees per worker increases.


The institutional reforms considered in the paper, including several variants of personal accounts, are discussed solely in terms of the contribution they make to ensuring that attempts to “pre-fund” Social Security actually result in an accumulation of resources to fund future benefits.

Accordingly, elements of these reforms that do not directly bear on the question of pre-funding—for example, the inheritability of personal accounts—are not discussed. In addition, none of the mechanisms for pre-funding considered in the paper involve the privatization of any function of Social Security.

The paper reviews the need for true pre-funding and its implications for reforms that achieve a financially sustainable Social Security system. It then analyzes possible mechanisms to help ensure that attempted pre-funding is in fact real pre-funding.

Making Social Security fair to future generations will require reforms that involve substantial true pre-funding of future Social Security benefits, the paper concludes. But attempting such pre-funding through the trust fund runs a significant risk that it would be offset by higher non-Social Security deficits, in which case a Social Security policy that is more fair to future generations will be offset by a non-Social Security fiscal policy that is less fair.

Large dividends would be realized if a mechanism could be found to increase the odds that attempted Social Security pre-funding would represent true pre-funding, the paper concludes. Nearly all analysts agree that personal account assets owned by participants would constitute true pre-funding. Moreover, if account investments were conservative and pooled (i.e., if no investment choices were permitted), then accounts would be relatively inexpensive to administer and would have very little effect on the level and certainty of total Social Security benefits.

Issue Brief No. 4, “Social Security Reform: Mechanisms for Achieving True Pre-Funding,” is available for download at: http://www.treas.gov/press/releases/reports/ss_issuebrief_no.4.pdf. 

Bill Seeks to Halt Illegal Garnishment of Social Security Benefits

U.S. Sens. Herb Kohl (D-Wis.) and Claire McCaskill (D-Mo.) on April 14 introduced legislation that would prevent the U.S. Department of Treasury from promoting the use of direct deposit for Social Security beneficiaries until the agency puts a stop to “the illegal garnishment of government benefits” from the bank accounts of private citizens, the senators said in a statement.

With increasing frequency, financial institutions are garnishing or freezing funds on behalf of creditors from bank accounts into which Social Security, Supplemental Security Income (SSI), and Veterans benefits are electronically deposited, despite clear protections in federal law against the garnishment of such benefits, the senators said.

In most cases, the protected funds are taken not only by the creditor, but also by the bank through the collection of additional fees levied for “processing” the garnishment. These can include overdraft charges or insufficient fund charges, which occur as the result of the garnishment.

Some banks have also been found to dip into these protected funds to cover other debts owed to the bank, such as a car loan, the senators said. Many older Americans rely on Social Security benefits to pay their rent, buy groceries, and afford prescription drugs. For 20 percent percent of seniors over 65 years old, Social Security is their only source of income and for two-thirds it is the major source of income.

“When financial institutions and creditors illegally withhold these benefit checks, they are putting the lives of our most vulnerable segment of the population at risk. We need to know how widespread this practice has become and find a way to make it stop,” said Kohl, chairman of the Senate Special Committee on Aging, in introducing the Illegal Garnishment Prevention Act.

In August 2007, Kohl, McCaskill, and Sen. Max Baucus (D-Mont.) sent a letter to the Social Security Administration’s Inspector General asking him to investigate the increasingly frequent but prohibited method of collecting debt from senior citizens, veterans and the disabled.

The senators requested that the Inspector General report to them the degree to which large and small banks are engaged in these practices and the extent to which the resulting fees are eating up the safety-net funds upon which seniors, veterans and the disabled rely. It is anticipated that the results of the SSA OIG’s investigation will be released in the coming weeks.

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“In recent months, several newspapers have published articles describing how financial institutions have been freezing and assessing fees on accounts in which Social Security and Veterans’ benefits are electronically deposited,” the letter read. “Sadly, the majority of the individuals to whom this is occurring are those who can least afford it.”

In November 2007, Kohl, McCaskill and Baucus were joined by Sens. Chuck Grassley (R-Iowa), Gordon Smith (R-Ore.), Christopher Dodd (D-Conn.), Richard Shelby (R-Ala.), and John Kerry (D-Mass.) in urging the Director of the Office of Management and Budget, Jim Nussle, to play a role in resolving the matter. The letter requested that Nussle implore one or more of the five federal agencies with jurisdiction over America’s financial institutions to issue a necessary rule clarification.

The August 2007 letter can be downloaded at: <http://www.aging.senate.gov/letters/ssgarnishmentssaog.pdf>, while the November 2007 letter can be found at: <http://www.aging.senate.gov/letters/ssgarnishmentomb.pdf>. 

U.S. Pension Funding Ratios Fall for Third Straight Quarter

The funding ratios of typical U.S. defined benefit pension plans fell 11 percent in the first quarter of 2008, according to a new estimate by UBS Global Asset Management. This follows a painful second half of 2007, when pension funding ratios dropped 12 percent, according to UBS’ U.S. Pension Fund Fitness Tracker. Overall, pension funding ratios have fallen by almost 24 percent over the past three quarters.

According to the study, the typical U.S. pension fund started the year with a funding ratio of approximately 101 percent and ended the quarter substantially weaker at approximately 90 percent. This decrease is mostly attributable to an 8 percent drop in January. The quarter’s funding ratio performance was driven by two factors: volatile equity markets that ended the quarter down, thus decreasing the value of the asset pool from which plan participants’ benefits are paid, and lower interest rates which increased the present value of pension liabilities. These two themes have remained constant over the past three quarters and have been the primary cause of the steady decline in plan funded status.

Funding ratios measure a pension fund’s ability to meet future payout obligations to plan participants. The main factors impacting the funding ratio of a typical U.S. defined benefit plan are equity market returns, which grow or shrink the asset pool from which plan participants’ benefits are paid, and liability returns, which move inversely to interest rates.


“Market volatility was the dominant theme for the first quarter of 2008 as investors fretted over the U.S. credit crisis and the increasing probability of a U.S. recession,” said Aaron Meder, UBS Global Asset Management’s Head of Asset Liability Investment Solutions in the Americas. “Since mid-2007, corporate pension plans felt dramatic swings in the equity markets coupled with vola-

tility in the fixed income markets. The month of January dealt a massive blow to funding ratios, a decline of nearly 8 percent, which was the sharpest, single-month decline in funded status since December of 2002.”

Investor risk aversion drove both equity markets and bond yields lower in the first quarter, which, in turn, drove funding ratios lower for corporate plan sponsors. The U.S. equity market, as measured by the S&P 500 Index, was down by as much as 13 percent during the quarter, but later recouped some of the losses during the last two weeks of March and finished the quarter down 10 percent. On average, global equity markets, as measured by the MSCI EAFE Index, were down about 9 percent for the quarter.

“Investors reallocated assets out of equities and into fixed income in a flight to safety, based on fears of a possible recession in the U.S. and continued concerns over the credit crisis,” added Meder.

The 10-year U.S. LIBOR swap rate hit an intraquarter low of 3.94 percent on March 19th as investors sought safety in the bond market. For the quarter, interest rates (10-year U.S. LIBOR swap rate) fell 60 basis points to 4.07 percent causing the present value of liabilities to increase by almost 8 percent.

While many plans are currently exposed to interest rate risk, there are alternative investment approaches that can help to better align assets and liabilities, UBS says. Plans can implement liability-driven strategies that significantly reduce the uncertainty in their future pension contributions, often without reducing expected plan returns. UBS believes that the volatility experienced throughout 2007 and early 2008 should encourage plan sponsors to develop both a hedging strategy that reduces liability risk and a well diversified return generation strategy with less equity benchmark orientation. 

Survey of Workers Shows Record Drop in Retirement Confidence

Reflecting the growing concern over health care costs and economic issues, American workers' confidence in being able to afford a comfortable retirement decreased over the past year by a rate unmatched in the 18 years of the Retirement Confidence Survey, according to results released April 9.

The percentage of workers very confident about having enough money for a comfortable retirement decreased sharply, from 27 percent in 2007 to 18 percent in 2008, the biggest one-year drop in the 18-year history of the survey. Retiree confidence in having a financially secure retirement also decreased, from 41 percent to 29 percent, a drop of 12 percentage points.

Decreases in confidence occurred across all age groups and income levels but were particularly acute among younger workers and those with lower income.


The results of the Retirement Confidence Survey (RCS) indicated that health costs in particular have become a big concern for retirees: Among retirees who left the work force earlier than planned, more than half (54 percent) said they did so because of health problems or disability. Almost half of retirees (44 percent) said they have spent more than expected on health care expenses. More than half of retirees (54 percent) said they are now more concerned about their financial future than they were right after they retired, a 14 percentage point increase from a year ago (40 percent in 2007).

"In the nearly two decades we have been conducting the RCS, this year's results show a very dramatic reduction in the public's confidence about having a comfortable retirement. The economy and health costs are major concerns," said Dallas Salisbury, president of the nonpartisan Employee Benefit Research Institute (EBRI), which conducted the survey with Mathew Greenwald & Associates. "If there is a silver lining, it's that Americans finally may be waking up to the realities of being able to afford retirement."

The survey found that about half of workers (47 percent) said they and/or their spouse have tried to calculate how much money they will need for a comfortable retirement, up considerably from the low point of 29 percent measured in 1996. As before, the 2008 survey found that doing a retirement savings calculation is particularly effective at changing worker behavior: 44 percent who calculated a goal changed their retirement planning, and of those almost two-thirds (59 percent) started saving or investing more.

The RCS is the country's longest-running and most comprehensive study of the attitudes and behavior

of American workers and retirees toward all aspects of saving, retirement planning, and long-term financial security.

The full results of the survey are available at: http://www.ebri.org/pdf/briefspdf/EBRI_IB_04-2008.pdf. Five RCS Fact Sheets provide additional detail on health costs, saving for retirement, gender issues, age issues, and attitudes on Social Security and Medicare, available at: http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3903 

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The New York Comptroller, which announced a plan in November to examine the state's \$155 billion pension fund for offending companies in the energy and defense sectors that could lead to eventual divestment, said the fund won't act in a way that would compromise its fiduciary duty.

In Tennessee, a group of Senate and House members rejected the proposed "Terror Free Investment Act" and the "No Investment in Iran Act," instead recommending a bipartisan bill that would merely require the state's \$32 billion pension fund to identify certain overseas investments.

Arizona passed a law that forces the state retirement system to divest within 18 months holdings in companies doing business with Sudan. But the law exempts any pension fund managers who can show that the dumping of securities would cost them the equivalent of a quarter-percentage point.

All across the country, the trend was the same, the Journal reports. The Maine House of Representatives, for example, voted down a bill that would have forced pension funds to divest from companies doing business with Iran. An Idaho Senate committee rejected a bill that could have forced the state's retirement fund to withdraw money from companies doing business with Sudan. A California assemblyman withdrew his bill that would have prevented the California Public Employees Retirement System and the California State Teachers' Retirement System—the nation's two biggest pension funds—from investing in private-equity firms that are owned by so-called sovereign-wealth funds.

Pension funds have long argued that such divestment legislation costs them untold billions of dollars in administrative costs and potential future returns, not to mention making it more difficult to invest in a smaller universe of funds. 