National Conference of State Legislatures
National Association of Counties
National League of Cities
United States Conference of Mayors
Government Finance Officers Association
National Association of State Retirement Administrators
National Council on Teacher Retirement
National Conference on Public Employee Retirement Systems

March 1, 1999

VIA FACSIMILE 225-2525

The Honorable John D. Dingell
United States House of Representatives
Washington, D.C. 20515

Dear Representative Dingell:

We understand the House Commerce Subcommittee on Finance and Hazardous Materials will be holding a hearing on the direct investment component of the President's Social Security reform proposal on Wednesday, March 3, 1999. We have also been advised that State and local government pension plans may be characterized in this hearing as allowing "political interference" in their investment decisions.

We have no position on the President's proposal. However, we strongly disagree with the current comments implying we earn a lower rate of return due to alleged politicization of investment decisions and policies that focus on social factors other than the best interests of the plan participants. We strongly believe that public pension plan assets are invested in a prudent manner that ensures that plan participants receive the benefits to which they are entitled and also in a manner that reduces the costs for taxpayer support of the plans.

Should the Subcommittee find it necessary to raise the issue of the investment performance of State and local government pension plans, we respectfully request the Subcommittee invite independent experts to testify on the rates of return obtained by public pension plans as compared to their private sector counterparts over the past several years. Such testimony will show that the rates of return achieved by public and private plans over these periods are quite similar. Furthermore, it will provide the Subcommittee with information based on current data.

In his recent appearances before Congress, Federal Reserve Board Chairman Alan Greenspan has provided several committees with information on the performance of state and local investments based on information from the 1960s through the 1980s. Chairman Greenspan has suggested that this information shows the rates of return for public sector plans trailing by two to three percentage points the return rates of private sector plans. Chairman Greenspan suggests that some of the disparity might be ascribed to political interference in the management of the State or local pension plans. This is incorrect. Even the Chairman has conceded in recent discussions that that much of this disparity would be eliminated were these returns adjusted for risk in light of the fact that State and local pension funds are often invested more conservatively than private plans.

We believe virtually all of this lag is attributable to the investment restrictions imposed on public funds but not on corporate plans. As these restrictions have gradually been lifted, public funds' performances have grown to become comparable with private pension funds. Current data shows that public retirement funds are efficiently managed financial institutions with well diversified portfolios that have achieved impressive rates of return.

If the Subcommittee does wish to pursue the issue of State and local government pension investment practices, we would appeal for a full, fair and complete hearing record. We respectfully request that the Subcommittee invite independent experts to testify on the rates of return obtained by public pension plans as compared to their private sector counterparts over the past several years.

We would suggest that you call Laurette Bryan and/or John Gruber, Senior Vice Presidents of State Street Bank. Their testimony will be factually rooted in the actual rates of return experienced and provided by scores of the nation's public and private pension plans to their institution as well as Chase Manhattan Bank, Citibank, Mellon Bank, Northern Trust Company, U.S. Trust, Bank of New York, NationsBank and 11 other banks. These banks support the Trust Universe Comparison Service (TUCS), which produces rates of return and other data that are used as the industry standard by which pensions measure their performance. (We have attached a summary of these independent findings for your review).

We appreciate your consideration. If you have any questions or would like additional information you may contact our legislative representatives:

Gerri Madrid/Sheri Steisel, NCSL, 202/624-8670, 8693
Neil Bomberg, NACo, 202/393-6226
Doug Peterson, NLC, 202/626-3020
Larry Jones, USCM, 202/861-6709
Tom Owens, GFOA, 202/429-2750
Jeannine Markoe Raymond, NASRA, 202/624-1417
Cindie Moore, NCTR, 703/243-3494
Ed Braman, NCPERS, 202/429-2230

Attachment

Corporate and Public Pension Plan Rates of Return

Trust Universe Comparison Service (TUCS)

A service of 19 of the nation's leading banks, including Chase Manhattan Bank, Citibank, Mellon Bank, Northern Trust Company, State Street Bank, U.S. Trust, Bank of New York and NationsBank

	Rates of Return for Periods Ending June 30, 1998				
	3-Month	1-Year	3-Year	5-Year	10-Year
Median Domestic Equity					
CORPORATE	**1.20%**	**25.82%**	**26.86%**	**20.91%**	**17.34%**
# of Funds Reporting	150	143	136	125	80
PUBLIC	**0.94%**	**25.63%**	**27.11%**	**21.20%**	**17.33%**
# of Funds Reporting	45	44	36	35	26
Public versus Corporate Fund Returns	-0.26%	-0.19%	0.25%	0.29%	-0.01%

This table shows the rates of return on only the equity or stock portions of both corporate and public funds, demonstrating that the return rates on similar investments are the same. Over the ten-year period, public funds' rate of return was only .01% less than corporate funds.

This table shows the rates of return on the entire portfolios, including equities, bonds and other investments. Note the greater percentage of assets in corporate funds allocated to equities, which are riskier. Public funds allocate less to equities in favor of bonds and other more conservative investments. Nevertheless, over the ten-year period, public funds' rate of return was only .8% less than corporate funds.

	Rates of Return for Periods Ending June 30, 1998				
	3-Month	1-Year	3-Year	5-Year	10-Year
Median Total Fund					
CORPORATE	**1.14%**	**18.25%**	**18.95%**	**15.12%**	**13.48%**
# of Funds Reporting	173	163	155	149	112
% Invested in Domestic Equities	56.70%	n/a	n/a	n/a	n/a
Total Market Value of Funds	$306.9 billion				
PUBLIC	**1.32%**	**17.60%**	**17.83%**	**14.30%**	**12.68%**
# of Funds Reporting	57	55	51	48	40
% Invested in Domestic Equities	47.20%	n/a	n/a	n/a	n/a
Total Market Value of Funds	$622.6 billion				
Public v. Corporate Funds Return Rates	0.18%	-0.65%	-1.12%	-0.82%	-0.80%