



**THE NELSON A.  
ROCKEFELLER INSTITUTE OF GOVERNMENT**

*The public policy research arm of the State University of New York*



**NEWS**

**January 10, 2017**

**For Immediate Release  
Contact for Rockefeller Institute:**

Robert Bullock  
Deputy Director for Operations  
(518) 443-5837

or by email at [robert.bullock@rockinst.suny.edu](mailto:robert.bullock@rockinst.suny.edu)

## **Public Pension Investment Risk-Taking May Result in Future Challenges**

Albany, NY — The latest report from the Rockefeller Institute of Government's Pension Simulation Project examines the difficult choices public pension funds faced as interest rates fell over the last 25 years. Public plans generally increased investment risk in an effort to avoid lowering expected investment returns. This strategy allowed plans to keep government contributions much lower than they otherwise would have been (lower, even after the large increases of recent years), but created substantial risks that plans will become severely underfunded and that contributions will rise significantly in the future. Current taxpayers and stakeholders in government were protected in exchange for risks to future pension fund finances and future taxpayers and stakeholders.

Using a simulation model to project the finances of a prototypical pension fund over 30 years, the report compares "the good old days," when interest rates were higher and investment risk-taking was lower, to two alternative scenarios reflecting lower interest rates: (1) a scenario in which the plan increases its investment risk and maintains its expected return (similar to what plans actually did), and (2) a scenario in which the plan maintains its risk profile but lowers its expected investment returns (the path not taken). In the second scenario, with lower-expected returns, the pension fund had almost no risk of severe underfunding over the 30-year period, but it had to triple the contributions from government. In the higher-investment-risk scenario, government contributions generally were much lower but the plan had a 17 percent chance of falling below 40 percent funding (a level often associated with severe crises) and the government faced a risk of sharp contribution increases.

Plans and governments are now in a very difficult position. Government contributions have gone up substantially in recent years, but because public pension plans generally have about two-thirds of their investments in equity-like assets (such as stocks and alternative investments), pension funds and governments continue to have substantial risk. Reducing investment risk, as some plans are beginning to do, remains an option but only at the expense of raising employer contributions. Given the relatively large risk of funding crises at today's level of investment risk-taking, further moves in this direction may be advisable. This will make public pension funding safer, but unfortunately will increase stresses on already-strained state and local governments.

This is the fourth report of the Pension Simulation Project at the Rockefeller Institute of Government. In addition to the authors, Donald J. Boyd, the Rockefeller Institute's director of fiscal policy, and Yimeng Yin, programmer and research analyst, the project team includes Kathleen Tempel, researcher and project manager, and Lucy Dadayan, senior policy researcher. The project is supported by the Laura and John Arnold Foundation and The Pew Charitable Trusts.

To read the report, go to [www.rockinst.org/pdf/government\\_finance/2017-01-10-Pension\\_Investment\\_Risks.pdf](http://www.rockinst.org/pdf/government_finance/2017-01-10-Pension_Investment_Risks.pdf). To read the policy brief, go to [www.rockinst.org/pdf/government\\_finance/2017-01-10-Investment\\_Policy\\_Brief.pdf](http://www.rockinst.org/pdf/government_finance/2017-01-10-Investment_Policy_Brief.pdf).

# # #

### **About the Rockefeller Institute of Government**

The Nelson A. Rockefeller Institute of Government is the public policy research arm of the State University of New York. The Institute conducts fiscal and programmatic research on American state and local governments. Journalists can find useful information on the Newsroom page of our Web site, [www.rockinst.org](http://www.rockinst.org).

In addition, you can sign up to follow us on  [Facebook](#) or  [Twitter](#).