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Unlike many, New York mostly avoids risky pension gambles

By Robert Downen

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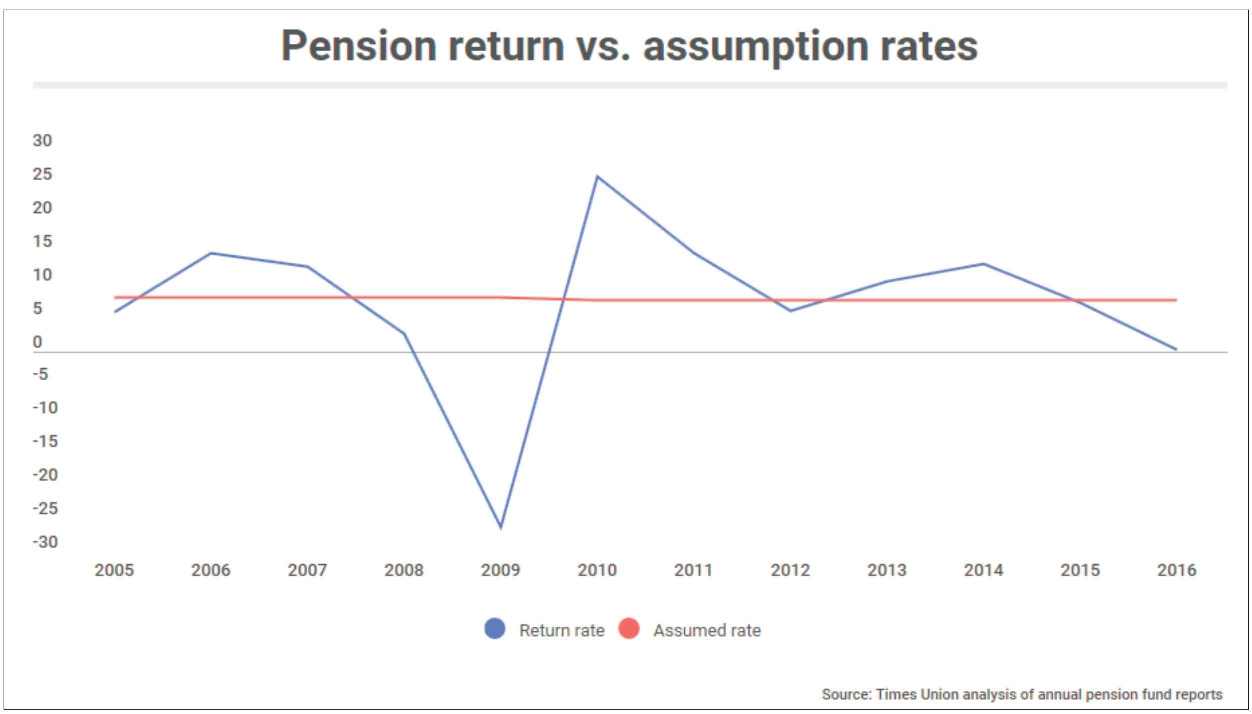
ALBANY - Comptrollers and pension managers across the nation may be blinded by nostalgia, but the funds they oversee aren't.

With the high-interest days of the 1990s having long passed, pension fund managers have generally failed to adjust expectations, instead steering taxpayer-funded investments — and their states' future fiscal health — into riskier global markets.

"The risk taking has increased substantially," said Donald Boyd, director of fiscal studies at the Rockefeller Institute. In a new report, Boyd and others note a growing trend of pension managers chasing volatile investment returns that, if ill-fated, are shouldered by taxpayers.

"There's a much better chance that things could go wrong," he told the Times Union. "And the money has to come from somewhere." That leaves many states with two options: Cut services or increase taxes.

New York, meanwhile, has mostly managed to buck those trends. Funded at about 90 percent, and with a funding gap that hovers around $20 billion, the state Common Retirement Fund is considered one of the healthiest pensions in the nation. (America's worst-off funds, in Illinois and New Jersey, faced $119



billion and $135 billion shortfalls in 2015, respectively, according to Bloomberg).

The office of State Comptroller Tom DiNapoli, who oversees New York's 1.1 million-member system, attributed the fund's health to a move in the last decade away from many of the volatile investments cited in the Rockefeller report.

DiNapoli, who has decreased the fund's assumed rate from 8 to 7 percent since taking over in 2007, "has maintained a conservative, long-term approach to investments," his office said in an email Thursday. The pension "doesn't have the problems and funding liabilities that some others do, who may feel pressure to chase higher returns through greater risk."

Still, New York's fund is not without detractors. Last year, DiNapoli came under fire from the state Department of Financial Services, which said his decision to invest with hedge funds cost the fund $3.8 billion. DiNapoli's office defended his hedge fund strategy, noting New York's exposure is much lower than many other states. The same year, and as so-called "Brexit" and instability in China roiled international markets, New York's fund returns lagged assumptions by 6.98 percent. .

The fund appears to be recovering through the third quarter of fiscal year 2017, topping $186 billion for the first time. Still — and as evinced by the New York fund's $46 billion swing in the wake of the 2008 recession — even healthier funds using lower return rates are not immune to market chaos.

Pension system investments "are all in danger of veering off the road, just at different speeds," the Empire Center's E.J. McMahon said in October.