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Should Pensions Own Utilities? Congress Has Considered It Before.

The idea has advantages for pensions and is likely to be attractive to places with major pension funding issues.

Democrats are taking control of the U.S. House next month and have promised that infrastructure will be one of their top priorities. In what seems like an unlikely pairing, public pensions could play a role.

This year, a proposed House bill would have cleared the way for pensions to buy municipal assets, such as water and sewer authorities. The idea has advantages for pensions and is likely to be attractive to governments with major pension funding issues. Think: Chicago, Connecticut, Illinois, Kentucky and New Jersey.

For one, it would immediately boost the value of the pension fund because the utility's worth would be based on its future revenue expectations. New Jersey did something similar by transferring ownership of its lottery to the state pension fund in 2017. At the time, the lottery was valued at $13.5 billion, which helped reduce — on paper at least — the pension's unfunded liabilities. Proceeds from the lottery also helped lower how much the state had to annually contribute to pensions.

Another appealing aspect is the potential benefit to struggling municipalities. Offloading the asset to a pension fund would result in a one-time cash infusion for the local government. It could also help the municipal books because a utility is typically viewed as a net drain on public finances.

But those advantages might not result in the best fiscal policy.

Municipal Markets Analytics' Matt Fabian warns that the idea's attributes are largely based on accounting gimmicks. "It's only really the appearance of better funding on the assumption that the pension fund could sell the asset," he says.

The notion of transferring ownership of public assets directly to pension funds has been bandied about for several years. But it hasn't gained traction in part because it would require a change at the federal level in order for pension-owned utilities to continue issuing tax-free debt.

There are ways, however, to achieve something similar without Congress.

Connecticut, for example, recently established a committee to look at creating a state trust to hold some 7,000 public assets worth billions of dollars. In one scenario, the state's woefully underfunded pensions could be given shares in that trust in lieu of a pension contribution from the state.

Looking ahead, the concept's prospects remain uncertain. The municipal community has been mum, and a spokeswoman for the National Association of State Retirement Administrators says they are still looking into the pros and cons.

In addition, the proposal needs a new champion as the Republican author of this year's bill didn't win reelection. But with Democrats in charge of the House, the idea's benefits to struggling pension systems, which are in mostly blue states, may be tempting enough to keep it in play.

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