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U.S. Treasury to Put Public Pensions Under Scrutiny.

Aug 4 (Reuters) – The Treasury Department's new office on state and local finance will scrutinize public pensions, appointing a specialist in the area and becoming a resource for retirement planning, its inaugural director said in a speech on Monday.

State and Local Finance Office Director Kent Hiteshew told a meeting of the Council of State Governments that he had appointed the chief investment officer of Maryland's pension fund as a policy adviser who "will substantially strengthen our office's understanding of the critical challenges facing a system upon which approximately 23 million Americans depend … for their retirement security."

Saying that state and local pensions now have enough money to cover only 72 percent of their costs, in comparison to nearly 100 percent in 2000, Hiteshew added that very few pensions are well-funded.

"While the current underfunding started prior to the Great Recession, this was exacerbated by both market forces and trying fiscal times during the last few years," he added.

Public pensions had $4.89 trillion in assets in the first quarter of 2014, the highest on record, according to data from the U.S. Federal Reserve. But they also had the largest liabilities on record going back to 1945 – $5.03 trillion – and their funding gap has widened since the 2007-2009 recession.

That recession devastated investment returns, which are the chief revenue source for pensions, while simultaneously forcing states to cut retirement contributions. While investments are gaining and many states have increased contributions, public pensions face a bulge of retirees from the "Baby Boom" generation.

Hiteshew's office will study the state of public pensions and help retirement systems evaluate their financial conditions, and it will look into the growing costs of retiree healthcare.

Also on the office's agenda are President Barack Obama's push for more infrastructure financing, including creating a program akin to Build America Bonds, and continued monitoring of the financial situation in Detroit and Puerto Rico.

Build America Bonds were created by the 2009 economic stimulus plan, and the program expired in 2011.

The once popular bonds, which were taxable and paid issuers a hefty rebate, lost their appeal when the rebates were cut during congressional budget battles. Issuers have been slow to warm to Obama's proposal of "America Fast Forward" bonds that follow the same model, and which the administration says would be protected from spending cuts.

Hiteshew, formerly J.P. Morgan's managing director for public finance in its northeast region, also intends to help improve liquidity, pricing transparency and financial disclosure in the $3.7 trillion

U.S. municipal bond market.

The Treasury Department announced the creation of the office in April, nearly two years after John Cross left his position as associate tax legislative counsel at Treasury, where he had spearheaded major municipal bond initiatives.

The federal government’s heightened interest in the market is apparent across many agencies, including the Securities and Exchange Commission. On Friday, Republican Commissioner Michael Piwowar called for better municipal bond pricing information in the market.

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(Reporting By Lisa Lambert; Editing by Paul Simao)

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