Bond Case Briefs

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Market Rates of Return for Effective Financial Management.

The Pioneer Institute released a report this week that provided more evidence to conservative groups who say that U.S. pensions are over-valued. Most pension funds calculate their assets and unfunded liabilities using an assumed rate of investment return between 7 and 8 percent. The Pioneer Institute advocated using a market rate. Its report outlined how to create a rate of return for each individual plan based on the historical returns of each investment asset type. For example, for a portfolio with a mix of investments ranging from stocks, which historically average an 8.3 percent return rate, to real estate assets, which average a 3.4 percent rate of return, Pioneer would assume a rate of return around 6.6 percent.

With pension accounting changes being rolled out everywhere this year, the institute's paper provided a glimpse into what changes may be in store for many plans. In one of the starkest examples, the unfunded liability of the Illinois State Teachers Retirement fund, which assumes an 8 percent investment return, would increase by more than one-third to nearly $79 billion, according to the Pioneer Institute. (The institute's formula yielded a 6.3 percent investment return for the teachers' fund.)