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Pew: More Public Pension Fund Transparency Needed on Fees.

Public retirement systems need to do a better job making their investment costs more transparent, said a report issued Thursday by the Pew Charitable Trusts.

Pew's public-sector retirement systems project looked at reporting practices of the 73 largest state pension funds, which together have $2.9 trillion in assets, representing more than 95% of all state investment assets, according to the U.S. Census Bureau.

Looking at financial data collected from 2012 to 2014, Pew found a "wide variation" in asset allocation, performance disclosure and reporting of fees. "In many cases, current disclosure policies make it difficult for policymakers, stakeholders and the public to gauge the actual performance of these funds," the report said.

Pew suggested several steps that public pension funds should take to improve transparency, including:

- Adopt fee-reporting standards, such as ones proposed by the Institutional Limited Partners Association;
- Make investment policy statements transparent and accessible;
- Disclose bottom-line performance, both net and gross of fees;
- Include longer-term performance results; and
- Report results by asset class, before and after fees.

More transparency is important now, Pew said, because alternative investments have more than doubled in recent years, representing 25% of allocations in 2013, up from 11% in 2006. Pew defined alternatives to include private equity, hedge funds, real estate and some commodities. In private equity, the treatment of carried interest is "a significant contributor" to the wide variation in fees reported by the 73 pension funds, Pew said. For all investments, the 73 funds paid more than $10 billion in fees and expenses in 2014, which represents a 30% increase in the past decade, Pew found.

Some public pension funds are better than others in reporting more detailed fees, Pew found, noting that the $28.2 billion South Carolina Retirement Systems, Columbia, and the $9 billion Missouri State Employees' Retirement System, Jefferson City, reported more than just invoiced management fees, and included performance fees.

Among the 73 plans studied, 59 provide online access to investment policies, 27 report 10-year results gross of fees, 13 regularly provide 20-year returns and six provide it by asset class.

With investment returns accounting for an estimated 60% of public pension benefits, "boosting transparency is essential," said the report. "The first steps are to provide bottom line, net-of-fee results because ultimately that's the amount of money that's available for benefits," said Greg Mennis, director of the public sector project, in an interview.

Download the Report.

PENSIONS AND INVESTMENTS

BY HAZEL BRADFORD | FEBRUARY 18, 2016 3:31 PM | UPDATED 3:35 PM

— Contact Hazel Bradford at hbradford@pionline.com | @Bradford_PI

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