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Pensions Have Tripled Their Investment in High-Risk Assets. Is It Paying Off?

A growing body of evidence shows that "alternative investments" may be lowering returns and costing state and local governments more.

Public pensions are more invested than ever before in high-risk and expensive assets like real estate and hedge funds. Yet research continues to show that this tactic is unlikely to improve their earnings.

According to Fitch Ratings, in the span of a decade, pensions tripled their average investment in these so-called alternative investments. In 2007, they averaged 9 percent of state and local public pension investment portfolios. By 2017, that number had risen to 27 percent.

During that period, median average returns on overall investments were 6.2 percent, according to Fitch. But during the longer period between 2001 and 2017, reflecting a time of less reliance on alternative investments, they were actually slightly better: 6.4 percent.

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