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Newly Flush With Cash, Retirement Funds Struggle to Find Appealing Investments.

Long-underfunded pension systems share bittersweet challenge with other investors that see hazards in many asset classes

State and local pension funds are reaping a historic windfall thanks to billions of dollars in record market gains and surplus tax revenues. Now they need to decide what to do with the money.

It is a bittersweet dilemma that the chronically underfunded retirement systems share with many household and institutional investors around the country. Just when they finally have cash to play around with, every investment opportunity seems perilous.

Leave the money in stocks, and a pension fund becomes more vulnerable to the type of losses suffered in the 2008-09 financial crisis. Move the money into bonds for safekeeping, and the fund risks losing even minimal gains to inflation. Seek out alternative assets to help diversify and drive up returns, and the fund enters a crowded competition for private equity and real estate where it can take years for money to be put to work.

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By Heather Gillers

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