

**THE CLOSING BELL**  
**Report of Jim Marketti, Public Employee Committee, AFL-CIO**  
**Representative on the State Investment Council**  
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The State Investment Council meeting for June, 2009 was canceled. This is a two month report – for May, 2009 and June 2009. In the last four months, only two Council meetings have been held. I'm beginning to think this is a strategy to avoid public controversy on a monthly basis.

For the month of May, 2009, the pension fund was up 5.25%. Total pension fund assets as of May 31, 2009 were \$62.9 billion, up from \$60.5 billion as of April 30, 2009 an increase of \$2.4 billion. For the month of June, 2009, the fund was up 1.11%. Total pension fund assets as of June 30, 2009 were \$63.2 billion – an increase of \$300 million over the previous month. This makes four consecutive months of increases in pension fund assets since the end of February, 2009 (when the assets had a value of \$56.4 billion).

To put it into perspective, the pension funds ended the fiscal year (June 30, 2009) down \$19.5 billion from the \$82.5 billion they were worth on June 30, 2007 (-23.4%). The accrued liabilities of the various New Jersey public employee pension funds are \$124 billion as of June 30, 2008. Using the current market value of assets on hand (\$63.2 billion), the pensions are 51% funded (\$63.2 divided by \$124). Those are the numbers for the regular pension benefits (including COLA) only. Add to that, an unfunded liability of \$59.7 billion for post retirement health benefits (Schedule 1, NJ Pensions and Benefits Comprehensive Annual Financial Report for FY ended June 30, 2008, p. 82), and you can see that the state and local governments have dug a pretty deep pension hole for themselves.

Underlying the pension funding problem in New Jersey are two causes. First, public employers have failed to make their annual required contributions to the funds. In the past twelve years, NJ public employers have only made 53.2% of their annual required contributions (Schedule 2, Annual Financial Report FY 2008, pp. 86-88) Just because they don't pay their bills doesn't make their pension liabilities go away. It just gets them rolled over into the unfunded liability which in turn, increases the required annual total pension contribution.

Second, the actuarial model used by state pension planners assumes an annual rate of return on investments of 8.25%. In the past five years, the pension fund annualized returns have been 3.16%; in the past ten years, 2.34% (Exhibit 2, Preliminary Report on Performance, Investment Report of the Director, July 16, 2009). These dismal returns raise the required employer normal pension contributions since there are only three sources of pension funds: employer contributions, employee contributions and investment returns. Over the long term, they will also result in increased pressure to raise employee pension contributions or to cut pension benefits.

I would be derelict in my obligations to the PEC if I did not point out that due to the actuarial model used, this year's investment losses will not be fully recognized for five years (20% of any one year's investment results are added in to the actuarial value of assets over a five year period). The real damage of the current losses will become apparent to legislators and the public next year and the year following especially as the annual total pension obligation of public employers approaches \$5 billion. It is \$3.9 billion for FY 2010 and rising (from less than \$2 billion for FY 2005). The shit is going to hit the fan next year and the year after and we should think carefully about who we want in office over this period. Elections do matter.