Six Pension Myths (continued)

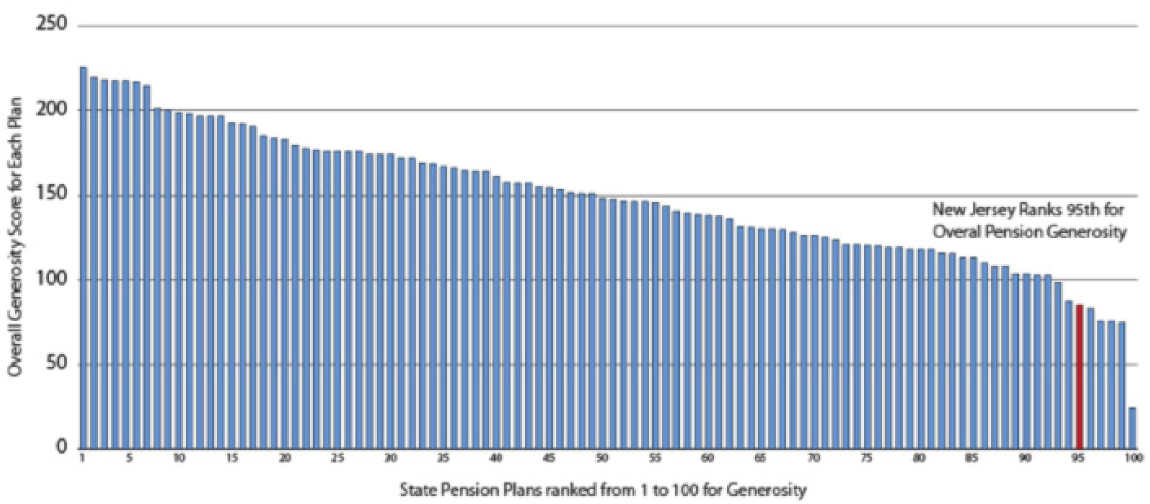
Myth #4: New Jersey cannot afford to continue offering defined benefit pensions. *Reality: Defined benefit pensions, which have fixed monthly payments, offer retirement with a measure of dignity and security. The state benefits from having retirees who maintain independence without overreliance on state services.*

Myth #5: It's in the media: Public union worker pensions are overinflated. *Reality: Media reports often highlight the politically connected and high-level administrators such as school superintendents, city department heads or police and fire chiefs who earn big salaries and subsequently generous pensions. The average teacher pension in New Jersey is approximately $40,000 per year. The average public worker pension is $26,000.*

Myth #6: Myth: The Governor says we simply don't have the money to put into the system without closing hospitals and schools and compromising public safety.

Reality: The Governor's budget reflects his priorities—tax breaks for millionaire cronies, corporate welfare for big business and excessive fees for the Wall Street firms who donate to the Republican Governors' Association. It has been this Governor who has vetoed responsible budgeting to stimulate the economy through investing in infrastructure, creating public jobs and instituting fair taxes.

Figure 1. New Jersey Ranks 95th Out of Top 100 State Pension Plans for Overall Generosity



Source. Keystone Research Center based on National Association of State Retirement Administrator (NASRA) Pulic Plan Database; online at http://www.publicfundsurvey.org/publicfundsurvey/index.htm

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Pension Action Bulletin

Issue 3, Oct. 26, 2015

The Attack on Public Workers

Donna M. Chiera
AFTNJ President

I taught for 33 years in the Perth Amboy Public Schools, the last 22 also serving as Federation president. I worked closely with many who were on shaky financial ground, but were trying to make household budgets work for a secure retirement. Some had changed careers so they lacked many years in the system, some were single parents with all the associated expenses and debt. Others were support staff who made overall lower salaries.

My perception of these dedicated workers who safeguard our children stands in stark contrast to the caricature of the "greedy, selfish villains" portrayed by Gov. Christie. Their careful calculations of monthly income included some potential for growth in cost-of-living-adjustments, wrenched away by a chief executive more concerned with highly-paid hedge fund managers than lower-income public workers.

Christie's household income hit $720,699 in 2014 yet he said he does not consider himself rich. He is wrong on that count and wrong for attacking the pension system. We will continue to fight against his policies by demanding funding for the pension system and dignity for public workers. They deserve that and do not deserve the abuse aimed at them by Gov. Christie and his deep-pocketed allies.

Pensions An Issue in Nov. 3 Election

"If you give me the leverage of the governorship and Speaker Jon Bramnick, we're going to be able to do something that'll put the senate and the senate president in a very difficult position," said Governor Chris Christie. Between Presidential election events, the Governor is calling on residents to elect a Republican-majority to the state Assembly.

Considering Christie's declining popularity Republican's "flipping" eight seats does not seem realistic, according to AFTNJ political organizer Seth Anderson-Oberman. Instead, Anderson-Oberman is working with our AFL-CIO allies on behalf of candidates who *could* provide a super-majority and override Christie vetoes in the future.

AFTNJ Committee on Political Education (COPE) chair Kay Schechter identified two goals for this year's November 3 election, where only the legislative districts' Assembly seats are at stake. "We must defend our friends running for re-election in the competitive districts, and possibly win a few seats in challenge districts," she said. "This would put us in a much better position to pass legislation to tax millionaires and close corporate loopholes to fund budgets with support for education, women's health clinics, and full pension payments."

For the next few weeks COPE members will be working on NJ AFL-CIO labor walks and phone banks to talk to union members about the importance of voting. To join the effort contact AFTNJ at 732-661-9393 or Anderson-Oberman at soberman@aftnj.org.

Pension Board: 'Show Me the Money'

The Public Employees Retirement System's (PERS) board ordered an audit of state money spent on fees for alternative investments and a cost/benefit analysis. But the Governor's appointed attorney general claimed they lack the authority to conduct such an audit.

The state has expanded so-called "alternative" investments such as hedge funds, and fees associated with managing the funds have increased from $140 million in 2010 to $600 million last year. What is not clear is whether the pension system is benefiting, since revenues generated by the funds lag behind traditional investments managed in-house with existing staff.

"This is Robin Hood in reverse – taking retirement money from police officers, firefighters, educators and public employees to reward Wall Street financiers," said NJ AFL-CIO President Charles Wowkanech. "If the system had stuck with the Standard & Poor's 500 instead of private equity, and a 60–40 stock/bond mix instead of hedge funds, it would be $2.4 billion richer."

The money spent to manage these funds comes from both up-front fees (typically in the two percent range) and "incentives" paid out when the funds exceed benchmarks. For example, when an individual fund surpasses an eight percent return during a year, the investment manager (an external contracted firm) receives another percentage of those revenues.

Many AFT members are enrolled in the Teachers' Pension and Annuity Fund (TPAF) or PERS. The boards for these funds are elected by members on an annual rotating basis, so having union representative leadership is important in accessing information and the ability to approve or reject policies. AFTNJ will make members aware when candidates are announced for next year's elections.

Six Pension Myths

Myth #1: The state will save money by converting the defined benefit pension plans into defined contribution 401(k)-style plans.
Reality: Shifting from the current pension plan to a 401(k) would cost state taxpayers an estimated $42 billion — nearly half the current value of New Jersey's pension system, according to a study from New Jersey Policy Perspective and Keystone Research Center.

myth
: an idea or story that is believed by many people but that is not true

Myth #2: If we don't eliminate public worker pensions, New Jersey will go bankrupt like Detroit.
Reality: A U.S. state has never gone bankrupt. Although the state has undergone nine credit downgrades under Governor Chris Christie, an actual bankruptcy is not a legal option. The state Supreme Court has affirmed that public workers are constitutionally entitled to pensions. The problem is that Christie's mismanagement of the economy has caused the underfunding of the system.

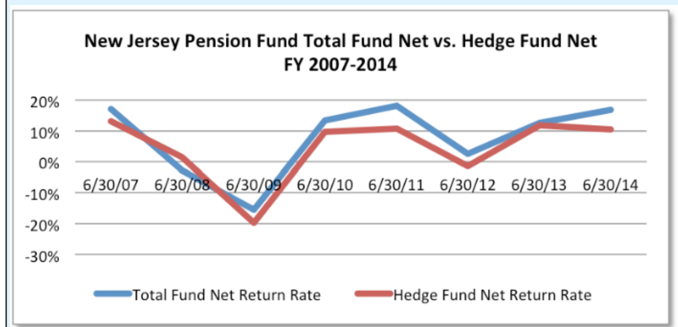
Myth #3: Defined benefit pensions are relics of a bygone era that should be eliminated because we live longer now.
Reality: Longer life spans and better health care means that security into retirement is all the more important.

(Continued on back page)

AFT and NJ Hedgeclippers Find Billions Wasted

Findings

- The NJ pension fund paid more than $1.33 billion (nearly eight times as much) in fees to hedge fund managers, in comparison to a little over $150 million in all other external and internal investment costs combined.
- Net returns over this period were $2.3 billion for hedge funds compared to $3.6 billion for the total fund (same-sized portfolio); taking fees into account, hedge fund managers captured nearly 59 cents for every net dollar returned to the total fund.



Traditional investments yielded better returns with a fraction of the management fees in comparison with hedge funds.

Recommendations For Reform

The estimated $1.27 billion drag on total fund performance, $1.33 billion in fees, and worse than zero protection from market downturns should prompt fiduciaries and legislators to question whether the state pension system would be better off having never invested in hedge funds. As the state struggles with meeting its pension funding obligations, replacing hedge funds with less costly alternatives that actually provide meaningful diversification should be seen as a necessary course of action.

Considering the failure of the eight-year hedge fund experiment, and ethical concerns regarding Governor Christie's relationships with hedge fund donors, we recommend the following:

- NJ should end its experiment with hedge funds by divesting as soon as possible.
- All fees—management, incentive and otherwise —paid by the pension system should be made public.
- The NJ State Investment Council should demand political contribution disclosure and immediately divest from all investment and advisory firms that contributed directly or indirectly to Governor Christie and other elected officials. Ethics law should be strengthened to prevent such conflicts of interest in the future.

Source: #Hedgepapers No. 18 – Diminishing Returns: How Chris Christie Is Wasting Billions On Bad Hedge Fund Investments