Pew: Illinois’ pension funds invested in risky, alternative investments

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A new report about public sector pensions says there’s an increase in the use of complex investments that are riskier and more expensive, putting taxpayers at risk. One economist says that’s a reason to get away from defined benefits plans.

Pew Charitable Trusts released their latest report reviewing 73 different state-sponsored public sector pension funds.

The report featured three Illinois funds: Illinois Teachers Retirement System (TRS), Illinois State Employees Retirement System (SERS), and Illinois State University Retirement System (SURS).

“Illinois looks quite a lot like the national average. I think collectively they hold about 80 percent of their assets in either public equities or alternative investments," Pew researcher Susan Banta said. "That's a little on the high side, but it’s not uncommon.”

The report found that alternative investments, such as real estate, private equity and hedge funds, might come with hidden fees.

“And that makes it very hard to measure the risk and the cost of the investment strategy being deployed by the fund,” Banta said.

Cato Institute Economist Chris Edwards said increasing risk increases the threat to taxpayers, who would have to plug the gaps.

“Politicians in the previous decades over promise the benefits, and when stock market returns don’t keep up then the pension plans run short of money and the politicians go to taxpayers to bail out these pension plans,” Edwards said.

Banta said another report finding was a lack of uniformity of reporting fees for fund managements across the country.

Edwards said that the lack of consistent and transparent fee reporting could lead to corruption and is a perfect example of why governments should ditch defined benefit plans.

“If we moved to defined contribution plans in the government sector like the private sector has, individuals would choose how much they want to save for their retirement and they would save and they would manage their own money,” he said.

Pew’s report said nearly 38 percent of TRS assets are in so-called alternative investments. SERS had a little more than 32 percent while the most healthy of the funds, SURS, had 14 percent in alternative investments.

The Illinois Commission on Government Forecasting and Accountability recently reported TRS is 39.8 percent funded, SERS is 34.3 percent funded and SURS is 43.2 percent funded.

All five of the state’s pension funds, including the Judges Retirement System (34.2 percent funded) and the General Assembly Retirement System (14 percent funded), combined are 39.2 percent funded.