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Infrastructure Spending in Stimulus Bill May Aid Large Pension Funds

The \$787 billion federal economic stimulus bill contains about \$150 billion for infrastructure projects, money that could provide large pension funds with investment opportunities for new infrastructure allocations.

The California Public Employees' Retirement System (CalPERS) and other pension funds have already been in talks with the Obama administration about the role that pension funds can play in infrastructure and other public works projects.

The Dallas Police and Fire Pension System has sent a letter to Obama asking that his administration consider the role that public pension funds can play. The fund discussed its investment partnership with the North Tarrant Express Mobility Partners to build a major toll-road infrastructure project.

The pension system also has joined with developer LBJ Development Partners to finance, design, construct, operate and maintain the 13-mile LBJ-635 corridor.

CalPERS has provided the Obama administration with information on its Infrastructure Policy and Program and its desire to be part of the rebuilding effort. It's also reaching out to other public funds to pursue a "common approach" on the matter.

"Staff has learned that the new administration is proposing legislation for a National Infrastructure Reinvestment Corporation with a scope to provide grants and loans to eligible or qualified infrastructure projects as well as a program for tax-advantaged financing through Build America Bonds," according to a Feb. 17 CalPERS memo to the members of its investment committee. "This may provide some scope for engagement in Public Private Partnerships."

Additional funding will be necessary, as the \$150 billion for infrastructure projects contained in the economic stimulus is nowhere near the roughly \$2.2 trillion that will be needed

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for this purpose in the U.S. alone over the next five years, according to an estimate the American Society of Civil Engineers released in January.

In its Feb. 2 letter to Obama, Dallas Police & Fire officials said they had committed more than \$100 million for road infrastructure projects, and were willing to do more. "Private investment is the future model for infrastructure construction in this country," said the letter, signed by chairman Gerald Brown and Administrator Richard Tettamant.

The CalPERS memo to members of its investment committee is available at: <http://www.calpers.ca.gov/eip-docs/about/board-cal-agenda/agendas/invest/200902/item07a-00.pdf>. Information on the efforts of the Dallas Police and Fire Pension System is available at: <http://www.dpfp.org>. 

Pension Plans Seek Government Action on Infrastructure Investing

Pension funds are becoming increasingly attracted to investing in infrastructure, but governments should do more to encourage them, according to the latest report published by the Organization for Economic Cooperation and Development (OECD).

More pension funds are considering investing in the asset class because infrastructure has the potential to protect pension funds against market volatility, inflation and interest rate risks, while also providing socially responsible investment characteristics, according to the OECD report, entitled "Pension fund investment in infrastructure" and produced by independent consultant Georg Inderst.

Infrastructure's long-term, stable income streams, along with relatively low default rates and the potential to provide diversification within portfolios are also attracting pension funds' interest, Inderst suggested.

The California Public Employees' Retirement System (CalPERS), for example, adopted a new investment policy in 2008 that targeted 3% of its allocation (\$7.2 billion) for infrastructure. The Dutch pension fund ABP also is targeting 2% (\$6 billion) for infrastructure through its Strategic Investment Plan 2007-2009. Other European pension funds invested in or considering infrastructure include the Netherlands' PFZW, Danish funds ATP and PKA, Finnish VER and British BT.

Some pension funds have even allocated a percentage toward infrastructure investments in their


countries' pension reserve plans, such as the Canadian Pension Plan (CPP) or Swedish AP3.

The Inderst report predicted a 3% allocation of pension fund assets would generate roughly \$500 billion for infrastructure investments.

Analysts are still unsure, however, what the risk return profile or benchmarks are for infrastructure and expect returns to fall to single digits as a result of the financial crisis, which is making some pension funds cautious about investing in the asset class.

According to the report, exposure to leverage, environmental risks, political challenges and legal and ownership issues are also making pension funds wary.

Governments that want to help infrastructure developers raise capital from pension funds should offer a stable institutional and regulatory environment for infrastructure investing, the OECD claimed, while also deciding whether to use private sector investment.

The report recommended governments secure public and institutional support and promote transparency and contractual arrangements to ensure cooperation between public and private sectors. On the Web at: <http://www.oecd.org/dataoecd/41/9/42052208.pdf>. 


Study: Americans Plan to Delay Retirement Up to Five Years Due to Economic Crisis

More people approaching retirement age are postponing leaving the workforce because of the economic downturn, a survey by the American Institute of Certified Public Accountants (AICPA) has found.

Nearly 35% of the clients of CPA financial planners said they planned to delay their retirement, up 3% from last year. Most of those who are postponing retirement (67%) plan to delay it no more than five years. Only 9.6% are postponing for six years or more.

"What this suggests is that 70 is the new 65," AICPA Vice President James Metzler said.

In addition, 60% of the clients of CPA financial planners are postponing vacations, 52% are postponing car purchases and/or the buying or selling of a home, and 42% have canceled home renovations. Only 11% of CPAs have clients who have no plans to change their current spending.

The full study is on the Web at: http://www.aicpa.org/download/news/2009/NEW_STUDY_SHOWS_MANY_AMERICANS_PLANNING_TO_DELAY_RETIREMENT.pdf. 

Mercer to Acquire Callan, Creating One of the World's Largest Investment Consultancies

Two of the biggest names in the investment consulting world, Mercer LLC and Callan Associates Inc., have announced a merger. The merger, expected to close near the end of the first quarter of this year, would create one of the largest investment consulting businesses in the United States.


Mercer will acquire Callan and merge the investment consulting businesses of the two firms. Terms of the deal weren't disclosed.

"We can offer clients a wider range of tools and resources, top-notch professional advice and enhanced research, educational and quantitative services," said Ronald D. Peyton, chairman and chief executive officer of Callan Associates.

"In the current challenging investment environment, we believe combining our resources will significantly improve our ability to help clients make informed, sound and strategic investment decisions," said Jeff Schutes, Mercer's U.S. investment consulting leader.

When asked if the combination would entail layoffs, a Mercer spokesman said the deal wasn't motivated by cost cutting. But both firms already have offices in cities such as San Francisco, Atlanta and Chicago.

The merger will combine the corporate defined-benefit, defined-contribution and public fund consulting firms to provide research, consulting and software. It will expand the investment consulting firm's outreach beyond the U.S.


On the Web at: <http://www.callan.com/about/newsroom/files/newsrelease/PR021709.pdf>. 

Oregon Public Fund Reports on Its Economic Impact

The Oregon Public Employees Retirement System has posted a study on its Web site highlighting the economic impact of the system on the state's economy.

It assesses the full financial impact of the annual benefit payments on local communities. It puts in real terms the impact of the benefit payments on local jobs and wages, income taxes, and investment income.

The study will help local officials and lawmakers ascertain the full impact of the fund on the economy.

The study is available at: <http://www.nasra.org/resources/economic/OR.pdf>. 

CalPERS Seeks to Drive Market Reforms

The California Public Employees Retirement System (CalPERS), the biggest U.S. public pension fund, wants to work with other state pension funds and retirement systems to bring changes to the way Wall Street is run, its new chief executive, Anne Stausboll, told the Los Angeles Times in an interview.

CalPERS plans to insist on greater openness in the way companies operate, tougher regulation by federal agencies, stricter rules on investment-rating agencies and better international financial oversight, Stausboll told the paper.

The pension fund, which has lost more than a quarter of its value in the last seven months, has lined up the California State Teachers Retirement System and pension funds in New York state and Connecticut as partners, the paper cited Stausboll as saying.

The review "is designed to look at whether we want to make any adjustment based on what's going on in the market," the paper quoted Stausboll as saying.

CalPERS also plans a thorough review of its investments in May, she said.

On the Web at: <http://articles.latimes.com/2009/feb/09/business/fi-calpers9>. 

Milliman Updates Analysis of Public Employees and Plan Choice

Milliman actuary Mark Olleman has updated his analysis of public employees who are given a choice of retirement plan types.

Of the new hires given the choice between participating in a defined benefit (DB) or a defined contribution (DC) plan, most prefer DB plans.

The percentage of new employees electing DC plans ranges from 3% in the Ohio Public Employee Retirement System to 26% in Florida.

"Public employees are choosing plans that provide lifetime distributions," the report says. "There is not yet much experience on how many DC members have been able to make their assets last a lifetime."

The full article is available at: http://www.nasra.org/resources/Milliman_DBDC_Choice.pdf. 

Legislation Offers Public Funds Guaranteed Rate of Return in Exchange for Bank Support

Public employee pension plans across the U.S. that choose to invest in troubled banks and financial institutions would earn a guaranteed rate of interest of 8.5% per year, fully backed by the U.S. Treasury, under proposed House legislation.

U.S. Rep. Gary Ackerman (D-N.Y.), a senior member of the House Financial Services Committee, introduced H.R. 710, the “Public Retiree’s Investment Act of 2009,” in February.

The goal of the legislation is to increase the capitalization of U.S. banks by authorizing the Secretary of the Treasury to guarantee the investments made by public pension funds in certain bank preferred stocks. Ackerman hopes that this guarantee will encourage public plans to invest in the preferred stock of troubled banks, strengthen the banks’ balance sheets, and increase bank lending without using additional federal funds.

The legislation would open the door for banks and financial institutions to initially receive up to \$50 billion in private capital for loans and mortgages, while public pension funds simultaneously would secure an acceptable and guaranteed return on their investments, even in the current down market.

“Initial enthusiasm on the part of public employee pension funds suggests their willingness to put significantly more money into the program,” Ackerman said in a prepared statement.

Under the bill, money from public pension funds would only be invested with banks and financial institutions that are currently on the federal government’s Troubled Asset Relief Program (TARP) list and that intend to use the funds in order to expedite making credit available to consumers.

The legislation would also help offset losses suffered by public pension funds whose portfolios have plummeted during the economic crisis. Without the bill, many of these plans would look to elsewhere – perhaps to local governments and taxpayers – to cover their obligations to millions of public employees.

In addition to guaranteeing the interest rate, the principal amount of the investments would also be backed by the Treasury Department.

The bill specifies that the investments would be made through “public pension bank capital infusion funds,” defined as “any investment vehicle mutually owned by public pension plans for the sole purpose of

investing in preferred stocks of U.S. banking institutions, subject to certain guarantees provided by the Secretary of the Treasury or other appropriate Federal Government officer or agency... .”


The guarantee would apply to investments of up to \$50 billion per capital infusion fund. To be eligible for the guarantee, the capital infusion fund would have to invest in certain preferred stock issued by qualified financial institutions under the Troubled Asset Relief Program’s Capital Purchase Program.

The preferred stock would pay dividends at an initial rate of 8.5%, and then be adjusted annually based on prevailing 10-year Treasury note yields plus the difference between 8.5% and the 10-year Treasury note yield on the date of enactment, according to an analysis by the consulting firm of Gabriel, Roeder, Smith & Co.

This means that if the 10-year Treasury note yield is 2.5% on the date of enactment and rises to 3.5% one year later, the capital infusion fund that bought preferred stock on the date of enactment would see dividends rising to 9.5% in the second year (i.e., 3.5% + (8.5% - 2.5%)), GRS says. If the 10-year Treasury note yield declines over the period, dividends would also decline. Generally, the investments would be held for three years.

Ackerman has been circulating a draft of the bill and a Dear Colleague letter to assess support. As of the end of February, the legislation had no cosponsors.

The text of bill is available at: <http://www.govtrack.us/congress/billtext.xpd?bill=h111-710>.

Ackerman’s statement is available at: http://www.house.gov/list/press/ny05_ackerman/PR_021009.html. 

SEC to Electronically Monitor Hedge Funds and Other Alternatives


The Securities and Exchange Commission (SEC) plans to use a sophisticated electronic monitoring system to keep closer tabs on hedge funds and other alternatives. The action comes amid the embarrassment the agency faced over missing the Ponzi scheme run by Bernard Madoff.

The SEC intends to award the surveillance contract to Morningstar, which will give SEC personnel access to a database that tracks trading activity across more than 8,000 hedge funds, according to InformationWeek, which first reported the story.

The software, which pulls information from the Altvest database in the PerTrac format, provides tools that

the SEC is lacking, such as daily updates on hedge fund activity, analytical charts and other tools.

“Morningstar is the only vendor capable of delivering the data from the Altvest database in the PerTrac format that is required by the commission,” the SEC said in a document dated Feb. 5 and obtained by InformationWeek.

The SEC document did not disclose financial details of the contract, nor did the agency respond to a request for more information on the initiative, InformationWeek reports. 

SEC Advises Investors to Investigate Purported Fund Affiliations

Investors need to thoroughly scrutinize any affiliations that a firm claims it has with funds, especially claims of associations with reputable investment firms and the government’s TARP program, the U.S. Securities and Exchange Commission (SEC) warns.

Katherine Addleman, regional director of the SEC’s Atlanta Regional Office, drove the point home in comments following the SEC’s announcement that it had charged a Tennessee-based investment advisor, Gordon Grigg and his company ProTrust Management, with securities fraud.


The SEC alleges that Grigg and ProTrust defrauded clients out of at least \$6.5 million and misrepresented that their money was invested in the federal government’s Troubled Asset Relief Program (TARP) and other securities that, in reality, do not exist.

ProTrust and other disreputable firms are preying upon investors’ desire for safety by claiming such associations, Addleman said.

“Investors should carefully check any purported affiliations,” she said. “In this [Grigg] case, not only were such claims false, but there is in fact no program in which investors can buy debt guaranteed by the TARP program.”

The SEC alleges that Grigg falsely claimed to have invested his clients’ money in securities described as “Private Placements.” Grigg created fraudulent account statements reflecting his clients’ ownership of these non-existent securities, according to the complaint. The SEC further alleges that Grigg began falsely claiming in December that ProTrust had the ability to invest client funds in government-guaranteed commercial paper

and bank debt as part of the TARP program. Grigg also falsely claimed to have partnerships and other business relationships with several of the nation’s top investment firms, according to the complaint.

On the Web at: <http://www.sec.gov/news/press/2009/2009-12.htm>. 

Foundations’ Assets Decline, Many Change Investment Managers

In response to the market downturn, many family, independent and public foundations are firing their managers and consultants, but for the time being they’re keeping their investment policies the same, a survey by the Council on Foundations finds.

The moves are in direct response to the foundations’ performance during the crisis. The 127 foundations queried for the survey lost 28% of their value last year, on average – about three percentage points worse than the average loss suffered by other institutional investors, according to the council’s findings. In real numbers, that’s a collective \$200 billion loss, and many are responding by changing their portfolio managers.

Nearly half had already changed managers or were considering making a change, according to a council report on the survey results, “Asset Declines and Investment Strategy Changes by Family, Independent, and Public Foundations.” In fact, more than half of the larger foundations – those with \$100 million or more in assets – had already made a change.

They’re also changing their investment consultants. Of the two-thirds of foundations that use investment consultants, a quarter had either already changed consultants or were considering changing them.

In terms of target allocations, more than 60% of the foundations surveyed said they had not changed since June 30, 2008, but one-quarter said they reduced their target allocations for equities and increased them for fixed-income securities and cash.

Roughly 75% of the respondents indicated that they would maintain their current investment strategy, but those making changes generally are becoming more conservative in their investments.

The full report can be downloaded at: <http://www.cof.org/files/Documents/Conferences/09FamPhilConf/EconSurvey4.pdf>. 

Survey Finds 'Strong Institutional Demand' for Investment-Grade Corporate Bond Issues

There is "strong institutional demand" for investment-grade corporate bond issues, which could provide a lift to global credit markets in the first half of this year, according to new research by Greenwich Associates.

Of the 229 institutional investors polled as part of the Greenwich Market Pulse survey, more than three-quarters said they intend to invest in fixed-income new issues during the first six months of 2009.

Additionally, a "significant number of additional investors" may be tempted into the market for investment-grade credit products as a result of current historically wide spreads, according to the research, released in January.

The survey revealed that any recovery in global bond markets this year will begin with investment-grade securities. Institutions ranked investment-grade corporate bonds at the top of the list of best performers in 2009, followed "at some distance" by high yield, according to Greenwich. Also getting a significant number of votes were mortgage-backed securities, government bonds and agency securities.

Even so, the fragile state of global credit markets is still keeping large numbers of institutions on the sidelines. More than one-fifth of all U.K. institutions said they would not invest in new investment grade corporate bond issues unless spreads topped 500 basis points, and almost 15% said they would have no appetite for new issues in the first half of 2009 at any price. In North America, 10% of institutions said they would not participate in new investment-grade corporate bond issues in the next six months, regardless of spreads.

"We are still a long way from a recovery in global credit markets and there is still the potential for significant setbacks," says Greenwich Associates consultant Tim Sangston. "But these results show that most institutional investors are prepared to re-enter the market for investment-grade corporate bonds in the next six months, and many more could be enticed to participate at what they see as once-in-a-lifetime prices if markets were to find their footing for a period of time."

The picture is less focused when it comes to high yield. Spreads on below-investment grade corporate bonds have climbed to an average of almost 1,700 basis points – nearly unprecedented levels, according to the Merrill Lynch U.S. High Yield Master II Index.

Even so, 23% of institutions participating in the Greenwich survey said they would have no appetite for high-yield new issues in the next six months at any price. Included in that worldwide average are 28% of U.S. institutions that said they would not invest in any new high-yield bond issues in the first half of 2009.

Among investors who said that they would not invest in new bond issues in the first half of 2009, almost 60% said they would only be lured back into the market by a broad decrease in the rate of expected credit defaults and downgrades.

However, 40% said the inclusion of stronger covenants would increase their new issue appetite, and 30% said greater transparency in new issues would make them more likely to invest. "More than a quarter say they would be more willing to invest in new issues if dealers stepped up their capital commitments," says Greenwich Associates consultant Andrew Awad.


About three-quarters of institutions said they reduced the amount of trading business they did with a specific fixed-income dealer last year because the firm failed to provide continuous liquidity or adequate capital commitment.

Conversely, almost 80% of institutions said they increased trading allocations to dealers that did come through with consistent liquidity and capital. Another big driver of changes in institutional trade allocations over the past six months was dealer consolidation. Almost 40% of institutions around the world said they increased the amount of trading business they did with a dealer because one or more of their other fixed-income dealers had merged with another firm or otherwise ceased to exist.

Two thirds of fixed-income investors around the world said credit ratings agencies have become less relevant to the new issue business due to their role in the global credit crisis.

"It's interesting to note that ratings agencies appear to have suffered the biggest blow to reputation among investors in short-term fixed income products, many of which took unexpected hits on asset-backed commercial paper and other AAA-rated securities last year," says Greenwich Associates consultant Woody Canaday.

Rating agency reform was one of the topics suggested by survey participants when asked to name the top-priority issues for regulators to address in 2009.

However, even the high-profile missteps of ratings agencies took a backseat to the more pressing concerns of liquidity, overall market oversight and enforcement and the need for a centralized clearinghouse for credit-default swaps – the three items most commonly cited as most important concerns for regulators to tackle. 

Endowments Not Immune from Large Losses in Weak Economy

Higher education endowments reported an average rate of return of -3.0% for the fiscal year ending June 30, 2008, according to a survey released by the National Association of College and University Business Officers (NACUBO) in conjunction with TIAA-CREF Asset Management.


A follow-up survey covering the first five months of FY09 – July to November 2008 – show that endowments' investment returns fell an additional 23%.

The results have endowments across the country rethinking their asset allocations to better diversify their portfolios – and what it means to achieve diversification. They're also reexamining the rush toward investments in alternatives as a way of achieving alpha, often at the expense of a liquid portfolio that can be more actively managed during an economic crisis.

The 2008 NACUBO Endowment Study (NES) and the follow-up survey detail a year of great challenges for college and university endowment managers. The declines undoubtedly will have adverse effects on endowment spending rates and, ultimately, on institutional budgets. However, it is also important to take a long-term view in assessing endowment performance.

"This year's results remind us of the importance of taking a long-term view in assessing endowment performance," said John Walda, president and CEO of NACUBO. "Past NES reports show that endowments fell 3.5% in FY01 and 6.2% in FY02 before enjoying several years of double-digit average returns prior to FY08. Further, it is a testament to the skill of campus managers that colleges and universities have fared better than the 13.1% decline that occurred in the Standard and Poor's 500 Index in FY08."

The study shows that college and university endowments continue to realize a 6.5% average 10-year rate of return, outperforming market indices.

"The results of this year's study continue to illustrate the importance of a well-diversified investment portfolio," said Brett Hammond, Chief Investment Strategist, TIAA-CREF. "Although they had to navigate through the most turbulent market waters since World War II, the best diversified endowments continued to outperform both the S&P 500 and Lehman Aggregate Bond indices over a three-, five-, and ten-year period. While initial data shows losses in the first part of the 2009 fiscal year, we expect that most endowments will maintain their investment philosophies and spending rates in order to provide for their organization's longer term needs." 

Credit Crisis Has Created 'Complex World' for Money Managers

The global economic downturn has resulted in the creation of a "complex world" for money managers to navigate, with risk aversion and quality of credit high on their list of concerns.

Kathleen Hughes, head of Global Liquidity EMEA at J.P. Morgan Asset Management, made that point as the financial services provider published its 10th annual Global Cash Management Survey, and added that, as a result, money managers foresee an increased reliance on outside assistance.


Given the credit crisis and its effect on risk, most money managers believe the main development in cash management over the next five years will be an increased trend toward outsourcing. This was the most popular response by a significant margin, according to the survey.

Treasurers have also increased their focus on liquidity and managing cash positions, reflected in the fact that they are expanding the overall number of banking relationships they maintain. This trend was likely caused by the number of high-profile bank collapses which have prompted cash managers to spread their net wider to diversify risk.

Foreign exchange risk was identified as a key concern for 2009 by nearly half (43%) of the survey's respondents.

"This is clearly a reflection of the dramatic currency movements witnessed in recent months and also the extreme uncertainty over global interest rates seen in the summer of 2008, when central banks seemed to be treading the finest of paths between the devil of higher inflation on one side and the deep blue sea of slowing growth on the other," Hughes said.

Nearly half of the respondents said they had significantly changed their approach to credit ratings and counterparty risk in 2008, in response to the credit crisis. While 32% of respondents in 2007 monitored credit ratings only at the point of investment, 81% of respondents now perform regular scheduled reviews, according to the survey. The number of managers able to use sub-investment grade assets has also dwindled to almost zero.

Despite big concerns over risk, the survey showed money managers were continuing to target high yields, and were more willing to take on additional duration risk to reach those targets. The full Survey findings are available at: www.jpmgloballiquidity.com/pdfs/other/SURVEY-2008.pdf. 

Mercer Predicts Management Fees Will Shift Downward

Under pressure from the economic downturn, asset managers worldwide will show greater willingness to negotiate fees downward this year and beyond, pension consultant Mercer predicts.

While asset management fees remained stable in 2008, they are likely to be under pressure this year, according to the consultant's 2008 Asset Manager Fee Survey, which analyzed fee data on 19,000 asset management products from 3,400 investment management firms around the world.


It found that alternative investment strategies had the highest fees for each dollar of investor capital allocated. Alternative product fees are expected to come under scrutiny given their mixed results in 2008. Fund of fund providers, in particular, will in many cases "have their work cut out to defend the scale of fees being charged," the survey said.

"One needs to take care before passing judgment on this evidence, as return and risk considerations should take priority over fees," said Divyesh Hindocha, Mercer investment consulting business worldwide partner. "It is fair to conclude, however, that fund of fund approaches extract a heavy premium from the alpha generation process, and we would expect this to be under challenge in the new financial environment."

The report found the most expensive mainstream asset category is global emerging markets equity, with median fees in the sector averaging around 0.9%. Median fees for Eastern European equity and Chinese equity were at similar levels.

Other findings of the study include: there will be significant median fee increases in segregated UK small cap and UK equity (all cap) to reflect greater alpha generation potential.

Moreover, pension funds will see a small decrease in median fees for U.S. all/large cap equity commingled products.

Mercer's 2008 Asset Manager Fee Survey is available for purchase at: http://co.mercer.com/summary.htm?sessionId=s2kVe-mtnE4w9Qql@fiMQ**.mercero4?idContent=1336440&siteLanguage=102. 

Institutional Ownership of Corporations Boosts Industrial Innovation, Study Finds

The growing dominance of institutional investors in the U.S. and UK, including hedge funds and pension funds, has been positive for industrial development and innovation over the last 30 years, according to a new study.


The research, conducted by the Centre for Economic Performance (CEP), suggests that publicly traded companies in which institutional investors have increased their equity

stake are better positioned to enhance their innovation.

The authors find that the more involved role of institutional investors is followed up by a burst of innovation at the companies in future years, as indicated by the number of patents applied for and received.

John Van Reenen, one of the researchers, said: "Since innovation is the engine of growth, the institutional ownership that characterizes the Anglo-American financial system clearly has long-run benefits, which should not be regulated away in the current [economic] backlash."

The study is based on the companies' patenting activity and covers 803 publicly traded firms in the U.S. from the mid 1970s to the early 2000s. The CEP was founded in 1990 by the Economic and Social Research Council.

The paper, "Innovation and Institutional Ownership," by Philippe Aghion, John Van Reenen and Luigi Zingales, can be downloaded at: <http://cep.lse.ac.uk/pubs/download/dp0911.pdf>. 

Minneapolis City Pension Fund Seeks Merger with State Employees' Fund

A closed Minneapolis pension fund with thousands of retired city employees is considering merging with a statewide public employees pension fund as its numbers suggest it could go broke in six years, the Minneapolis Star Tribune reports.

City Council endorsed the merger, saying it also wants other closed funds for city police and firefighters to merge with their state plan as well.

The Minneapolis Employees Retirement Fund (MERF) covers city employees who were hired before 1979, so it has 4,600 people drawing pensions while fewer than 200 are still working and contributing to the plan, according to the paper.

The fund is paying retirees about \$155 million annually, with assets of just under \$800 million, plus any investment gain, to finance those benefits. The economic downturn and subsequent crash in the investment markets has cut MERF assets almost in half.

The advantage for MERF of merging into the statewide Public Employees Retirement Association (PERA) is that most members of that fund are still working and contributing to the fund rather than drawing benefits. That means that PERA could finance the pensions of Minneapolis employees until investment earnings recover. But statewide funds sometimes resist absorbing poorer-performing local pension funds, the paper reported.

PERA may be receptive because the two plans have similar ratios of assets to liabilities, said State Rep. Paul Thissen, who is having MERF-PERA merger legislation drawn up.

A fact sheet on other local pension plans the City Council would like to see merged with the state's is available at: http://www.ci.minneapolis.mn.us/Council/ward1/docs/2009-pension_reform_final.pdf. 