New York Times pension reporter ignores inconvenient truths

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Just once, I wish Mary Williams Walsh would write a story about public employee pensions that included key information that isn't convenient to an agenda of doing away with or greatly reducing public employee pensions. Every story she writes, including **her most recent**, seems designed to scare the public, make public employees look bad, their unions look greedy, and government administrators seem weak or stupid.

In her most recent piece, Walsh lends great support to those claiming that public pension plans are erring (or even dissembling) in using assumptions about annual rates of return for their assets that are unrealistically high. The further claim is that using more "reasonable" rates of return (i.e., lower ones) will show the "true" crisis in public pensions.

Walsh writes: "The typical public pension plan assumes its investments will earn average annual returns of 8 percent over the long term, according to the **Center for Retirement Research at Boston College**. Actual experience since 2000 has been much less, 5.7 percent over the last 10 years, according to the **National Association of State Retirement Administrators**."

This may seem like bloodless analysis, but it's not—it's giving great aid to a bogus argument forwarded by ideologues that are deeply hostile to public pension plans *on principle*. Because most plans look to be in decent shape based on current actuarial standards that justify assuming 8 percent rates of return, these ideologues have to claim that these assumptions are somehow wrong. But pointing to returns over the past 10 years as evidence of this is ridiculous because it completely ignores the fact that the U.S. and world economies experienced the biggest financial downturn in 80 years! How can Walsh be surprised that returns over a period that included two recessions have been subpar? This isn't front-page news or news at all. It would be news if returns over that period *had* met expectations.

Even more serious is Walsh's distortion of the **National Association of State Retirement Administrators' report**, which was a very positive statement about the returns public employee plans have achieved:

> Although public pension funds, along with most other investors, have experienced sub-par returns over the past decade, median public pension fund returns over longer periods exceed the assumed rates used by most plans. As shown in Figure 1, median annualized investment returns for the 20- and 25-year periods ended June 30, 2011, exceed the most-used investment return assumption of 8.0 percent. For example, for the 25-year period ended June 30, 2011, the median annualized return was 8.5 percent.

Walsh quotes the professed doubts of Edward McMahon, a fellow at the anti-government Empire Center for New York State Policy, that even a 7 percent return on investment can be safely assumed. But McMahon is not a neutral observer; he's a right-wing, anti-union ideologue with an **agenda to do away with public employee defined benefit pensions** altogether. It is not news to me that the Empire Center has long wanted to cut public employee benefits and compensation, but Walsh would have done most readers a service by mentioning that to her readers.

Just once I wish Walsh would cite **Dean Baker's opposing analysis**, which is based on the fact that the stock market is currently priced low enough, as measured by the ratio of prices to earnings, to justify expected returns of 8 percent or more. As Baker, the co-director of the Center for Economic and Policy Research, **points out**, individuals who sold Social Security privatization with visions of never-ending 8-10 percent stock market returns back when price-to-earnings ratios were at historic highs (hence making inflated returns hugely unlikely) now have the gall to attack pension plans that expect returns of 7.5 percent when price-to-earnings ratios have returned to historic norms (norms generally consistent with long-run returns of 8 percent).

What does this detour into what people claimed during fights over Social Security privatization have to do with the attack on public pensions? Earlier, I referred to ideologues like McMahon pushing the claim that projected returns of 8 percent for public pension plans are unrealistically high. How do I know this claim is ideology instead of professional judgment? Well, because in 2003 McMahon claimed that replacing public pensions with 401(k) plans would be fair for employees because they could expect returns of 9.75 percent.

In short, what at first seem like wonky debates over appropriate rates of return have actually degenerated into misinformation campaigns waged by committed opponents of public pensions. The rates these plans are assuming today are in line with actuarial practice and (much more importantly) economically reasonable. I'm sorry that this view doesn't advance the much juicier story of a fiscal crisis coming, but it's based on the facts.