Comments By: Dr. Joseph S. Maresca CPA, CISA

Colleagues,

Thank you for the opportunity to review the #Amendment 25.

Background
The amendment concerns defined benefit pensions for income or beneficiaries that members vest over the years and receive at retirement.

The financial statements of the plan consist of the net position on plan assets. A Statement of Changes in Plan Net Position shows the net increases or decreases for the period. Purchases and sales are reported on the trade date basis. p. 5

The Total plan assets + deferred resource outflows- total plan liabilities - deferred inflows of resources= Net Position

The time weighted and money weighted rates of return on the plan investments is described. pp. 8

The annual time weighted return is shown on pp. 38.

Monetary weight x rate of return from the timing of cash flows (in/out) of the portfolio + weight of the cash flows by proportion of time that they earn interest is shown on pp. 39.

Critique

Generally, there is concurrence with the amendment as stated. The total plan assets may be impacted substantially by market factors and indicators; such as, the VIX index of variability. Instability in European markets and more recently Greece has impacted the stock market adversely.

By extension, pension investments may vary greatly. For instance, the NYC Pension Fund declined to 77% of its former value at the height of the Great Recession.

These gyrations in the markets mean that additional contributions may be required by government entities and municipalities even in a recessionary cycle. The application of statistical smoothing techniques postpones incremental contributions to the outer years. The increased life expectancy of workers is another complicating factor.

This decade, the baby boom generation will retire. For several decades to come, federal, state and municipal governments will be paying out larger and larger amounts to beneficiaries. On the positive side, retiring workers must be replaced and the unemployment rate should come down in response to the need for replacement workers.