New York State Comptroller Thomas P. DiNapoli
Prepared Remarks
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Thank you for that kind introduction.

Let me begin by applauding CII for putting together another stellar conference.

I know the theme of this gathering is innovators, and there is no more innovative or visionary organization than CII.

Since the Council's founding in 1985, CII has transformed the discussion on corporate governance and shareowner rights.

From its fledging 21 members representing a "mere" $100 billion in assets, the Council now boasts combined assets of more than $3 trillion, and is truly a force to be reckoned with, helping shape policies that affect shareowners in Congress, the Courts and at the SEC.

Millions of investors – from the largest institutional funds, like the one I represent, to individual investors – have CII to thank for advocacy and commitment that has led to profound changes for the good on the corporate governance landscape.

The New York State Common Retirement Fund is proud to be part of the CII network.

I am particularly pleased to have the opportunity to join you today to share my thoughts on a topic that I know many of you are concerned about – one that continues to engender fervent discussion and debate in state capitols, union halls, corporate boardrooms and living rooms across this country:

The future of the defined benefit public pension.

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From coast to coast, state and local retirement systems are under attack.

Pick up the paper or scan the web almost any morning and you'll stumble upon yet another proposal to increase employee contributions, raise retirement age and service requirements or to do away with defined benefits altogether.

According to the National Conference of State Legislatures, 39 states have made significant revisions to their pension plans in the past 18 months – including my home state of New York.

And week after week, pension fund revisionists get more ammunition for their efforts in the form of misleading stories in the media that paint a dire picture of every state pension plan as troubled, unaffordable and unsustainable.

As trustee of the third largest State Pension Fund in America, I have to tell you, I take exception to many of those mischaracterizations.

The truth is, while a few well-publicized state plans are in precarious positions, the vast majority of state pension plans are sustainable for the long term.

And I'm proud to report that, as we mark our 90th year, the New York Common Retirement Fund is not only sustainable, it is strong and well positioned for the future.

Don't take my word for it. According to the Pew Center and Governing Magazine, the New York State Common Retirement Fund is among the best-funded and best run in America.

With a healthy annual return of 14.6% for our fiscal year 2010-11 that ended March 31st, and a 1.8% return for the first quarter of 2011, the Fund now has assets totaling $146.89 billion, the highest since the global meltdown of 2008-09.

The fact is, from the Great Depression through to the Great Recession, the New York State Common Retirement Fund has successfully weathered every economic storm it has faced over the last nine decades.

Today, we are strong and more than ready to meet our current and future obligations to retirees.

I believe the resiliency of the New York Common Retirement Fund and other well-funded state pension systems serves as a powerful counterweight to the relentless and misleading argument of unaffordable, unsustainable state retirement systems.

So, how has the New York State Pension Fund remained strong and sustainable through all of these years?

To borrow an old line: *The old fashioned way. We earned it.*

A number of key institutional factors have buoyed our system since its establishment.

Our conservative actuarial method continues to ensure that we will always be well-funded. Importantly, we follow this method scrupulously rather than take short cuts in difficult times.

Our investment expertise continues to enable us to take advantage of market opportunities, while our diversified and balanced portfolio allows us to minimize risk.

We're focused on long term, sustainable growth, and a key to that goal is integrating corporate governance considerations into our investment process.

I am very proud that during my tenure, the New York State Common Retirement Fund has been recognized as a national leader in Corporate Governance.

We have been pushing for increased disclosure on issues such as political spending, climate change and hydraulic fracturing and have reached agreements with many companies.

We have persuaded a number of companies to adopt non discrimination policies based on sexual orientation, and have pressured corporations to uphold human rights in their international operations. And, with so many of you in the room, we successfully wound up our campaign at Massey Energy culminating in a sale of the company at a generous premium.

Another reason our Fund is strong is that unlike some states that have skipped their annual payments - *sometimes for years* – New York State has never missed a payment. Decade after decade, we have required the state and local governments to make their payments to the Fund.

And, as a statewide elected official and trustee of the Fund, New York's Comptroller is not appointed by or beholden to the Governor or state legislature. He or she is accountable to the voters. And over the last 90 years, independently elected New York Comptrollers have consistently protected the Common Retirement Fund against political interference, specifically, raids on the Fund.

Clearly, ethics, transparency and accountability are crucial to the strength of any organization. We're no exception. And I'm happy to report that the Office of New York State Comptroller is more ethical, transparent and accountable than ever in its history.

As you know, I inherited a mess when I arrived in office in 2007. My predecessor is currently serving a prison sentence for corruption in connection with the management of the Pension Fund.

From my first day in office, I made it my top priority to restore ethics and integrity to the Pension Fund's management.

Over the past few years, we've instituted sweeping changes that have strengthened the Fund, including:

Banning the involvement of placement agents, paid intermediaries and lobbyists in any investment transaction and putting an end to pay-to-play campaign contributions;

Reporting investment performance results quarterly and releasing all Fund transactions to the public every month, and;

Creating the positions of Inspector General and Special Counsel for Ethics, and assembling a Pension Integrity Unit to identify and prevent pension errors, fraud and abuse.

These key reforms and others have transformed the Office of State Comptroller into a better, more accountable organization, with more eyes and more scrutiny on every transaction we make.

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A recurring theme in the attacks on public pension funds is that they're "unaffordable." Like in other states, we hear again and again in New York about how rising pension bills are eating up state and local budgets.

While pension rates are rising and placing pressure on budgets, we need to put it into perspective.

According to The Center for Retirement Research at Boston College, pension contributions from state and local employers amount to just 3.8% of state spending, on average. And, according to the National Association of State Retirement Administrators, the number is an even lower 2.9%

In New York, the number is 2.4% of state operating funds.

And it's important to note that over the past 20 years, 83 cents of every dollar in benefits paid to New York retirees have come from investment returns, not employee or employer contributions.

That's significantly higher than the national average of 68% for state plans.

Another well worn line of attack on public pension funds is that they are bloated with retirees making six figure pensions. Again, in New York State, the facts suggest otherwise.

In FY 2010-11, the New York State Retirement Fund paid out $8.5 billion in benefits to 385,000 retirees and beneficiaries.

Less than one-half of 1% of those retirees received pensions exceeding $100,000.

The average annual New York State pension, excluding police and fire, is $19,151.

76% of our retirees receive less than $30,000 a year.

One in five of New York retirees – nearly 70,000 - receive less than $5,000 a year.

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Even with one of the best-funded state retirement systems in the nation, there are still efforts in New York State to make the system even more affordable and sustainable.

In 2009, the legislature and Governor increased employee contributions, capped the amount of overtime included in the calculation of pensions, increased the penalty for early retirement, and doubled the time required for vesting.

Discussions on restructuring state pension funds continue in New York and other states. Most of these discussions revolve around what I consider to be acceptable areas for debate – things like the level of pension contributions and age requirements.

But there are some who continue to promote a more extreme change: moving away from defined benefit pensions to defined contribution or 401K-style savings accounts. From my point of view, this is unacceptable.

I've been making the case everywhere I go that moving to DC plans or 401k's is a bad idea.

The simple, undeniable fact is that 401k's were never intended to take the place of pensions. They were designed to be savings vehicles to supplement pensions and social security income. And overall, they have proven to be woefully inadequate for those who rely on them for their primary retirement income.

The financial crisis of 08-09 dramatically demonstrated how a collapse in equity prices can decimate 401k retirement savings.

According to Boston College's Center for Retirement Research, 401k plans lost a collective $1 trillion during the Great recession.

One trillion dollars of retirement security, gone.

The recent market volatility is yet another reminder of the inherent instability of 401k's and how daunting it can be for individuals with 401k's to navigate their way to a secure retirement.

If that's not enough of a reason to be wary of moving from pensions to 401k's - studies have also shown that defined benefit plans cost 46% less than individual
401k style savings accounts, for several reasons:

- Individuals investing their own 401k pay significantly higher fees, and earn significantly lower rates of return.
- Also, individuals must base their asset allocation on their age and whether they are nearing or in retirement, while a defined benefit plan bases its allocation on market conditions.
- And finally, individuals must save at a rate that ensures that their funds will last well into their nineties. In contrast, large institutional plans like ours must have assets based on the average mortality of its members.

Lastly, moving from defined benefit plans to 401k savings accounts hurts our economy.

Like many other states, New York's economy is driven largely by consumer spending. And there is no doubt that the money spent by retirees collecting pensions - and workers who have confidence they will receive a pension in the future - has a stabilizing impact on the economy.

In part because they receive secure state pensions, 77% of New York retirees continue to live in New York State – and the retirement benefits we pay out to them continue to be recycled into our state's economy, constituting an estimated $6.5 billion in spending, $9.5 billion in economic activity, and $1.3 billion in property taxes.

We can extrapolate the New York experience across the nation.

As CII member and Executive Director of the National Institute on Retirement Security (NIRS) Diane Oakley said in her July testimony before the Senate Health, Education, Labor & Pensions Committee:

"Pensions are a 'high five' for the U.S economy: investing $5.35 trillion in assets for the future, keeping some 5 million retired Americans out of poverty, supporting 5.3 million American jobs, and delivering retirement income at nearly 50% lower cost than individual defined contribution retirement accounts."

NIRS also estimates that every taxpayer dollar invested in state and local pensions supports $11.45 in total economic activity, while each dollar paid out in benefits supported $2.36 in economic activity.

The converse is also true. According to NIRS, without defined benefit pensions, spending on public assistance for the elderly would be about 40% higher.

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For all the focus on the current cost of public pensions, the erosion of basic retirement security for working Americans has the potential to be a far more significant long term problem for our nation.

Most people in this nation used to be in pension plans. If you grew up in a household with parents who were covered by a pension, you learned just how important it was to them in their old age.

That kind of retirement security is becoming a thing of the past for too many in America.

The number of private sector employees in large and medium sized businesses who have a defined pension benefit has declined from 84% in 1980 to 30% in 2010.

As a result, a rapidly growing number of Americans are at risk of retiring with a substantially degraded standard of living – or not retiring at all.

We've all heard the desperate stories over the past three years: Retirees, some 75, 80 years old, many frail with health problems, who lost their savings when their 401k savings accounts nosedived and were forced to find minimum wage jobs just to pay the rent and buy groceries.

Countless others had been planning to retire, but now will have to continue to work indefinitely to survive economically.

Not surprisingly, most Americans are stressed out about retirement.

In its recent report about Pensions and Retirement Security, NIRS found that 84% of Americans are concerned about their ability to achieve a secure retirement.

They are right to be concerned. NIRS found people without pensions are six times more likely to be living in poverty than those with pensions.

If we continue to move away from defined benefit pensions to 401ks, we can predict the outcome.

Twenty years from now, we risk having an entire generation of retirees who don't have enough money to get by – an aged underclass that increasingly depends on government for food, clothing and housing.

We've seen this story before. And we'd do well to remember our history here.

100 years ago – right here in Massachusetts – the first state law creating retirement benefits for public employees was passed.

Nine years later, New York State followed suit. In 1920, the newly created "New York State Commission on Pensions" issued a report which outlined, in their words "… the problem of retirement."

The problem they were referring to was dire. In 1920 New York, more than half of public employees didn't get a nickel in retirement. Far too many fell into desperate poverty.

The Commission recommended a pension plan that would ensure that no public employee would be poor in their retirement. And in 1920, legislation creating the New York State Retirement System was passed, taking effect in 1921.

Sadly, ninety years later, millions of New Yorkers and Americans across the nation are facing a new and growing "problem of retirement."

We can't afford to walk away from this problem or leave it for someone else to deal with.

We need to channel the interest being focused on public pensions into a broader discussion at the national level of retirement security.

Perhaps now is the time for a national commission to talk about ways to <u>maintain</u> existing defined benefit plans as well as to seek creative solutions to address the retirement security challenge facing those with inadequate retirement resources.

Potential questions for the commission's consideration could include:

Should we encourage consortiums of smaller pension plans with the goal of achieving the economies of larger scale pension plans?

Should federal law be amended so that public plans would be allowed to be open to private individuals and employers?

Should Social Security withholding be used to boost savings for Americans through voluntary individual accounts in addition to the existing benefit?

The growing problem of retirement security is too important an issue to kick down the road. We need to discuss and debate these and other critical questions and come up with solutions that will shore up retirement security across this country.

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To me, the issue is simple:

Maintaining strong defined benefit pensions is not only the right thing to do for our citizens – it's the best thing for our nation's economy now and into the future.

Guaranteed pensions from well-run defined benefit plans like New York State's have effectively provided economic security at a relatively low cost for millions of Americans over many decades.

Our first priority must be to continue to provide the secure retirements our members have earned.

No doubt, even with the recent strong performance of our Fund and others, near term increases in pension contributions for employers will continue to fuel calls for dramatic changes to pension systems across the country. So will the recent volatility in the stock market.

But we should remember that it's never wise to make policy at the extremes.

Back in 2000, at a time when investment returns were exceptionally high and contribution rates were historically low, benefits were increased in New York State with an expectation that the market would stay strong forever. That's not what happened.

Now, we're at the other extreme – a time of fiscal stress, slow recovery from the global financial crisis and spiking contribution rates caused largely by the market collapse of 2008-09.

It would be a mistake to over-react and further undermine state retirement systems that have served us so well for so long.

It's wrong to use the bad behavior on Wall Street that nearly drove the world economy into another Great Depression as an excuse to rob millions of middle-class Americans of the safe and secure retirement they've earned.

For our people, for our economy and for America's future, we need to protect retirement security.

And we all need to play a pro-active role in this debate.

Thank you.

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