

While the investment objectives of private pension funds and public pension funds are basically the same; namely, the realization of the maximum amount of earnings consistent with safety of principal, certain factors exist in public administration which influence in some degree the investment policies of public retirement funds and tend to restrict their operations.

By their very nature, these funds cannot maintain the same freedom and flexibility as funds operating for private enterprise. Legislative controls and statutory regulations, and the rigid screening of the operations of public agencies, impose some restrictions in this regard.

Public retirement funds are frequently subjected to pressures from local agencies to divert a part of their investable assets toward local projects within areas served by the retirement funds even though the investment may be of dubious quality or may call for a lower rate of income. A public sale of bonds for the financing of municipal projects may not bring as favorable a price to the governmental agency as the rate stipulated for the acquisition of these securities by the retirement funds.

Liabilities of retirement funds are of long-term character maturing many years after they have been initiated. The investment objective, therefore, should give emphasis to this factor. The period of accumulation may extend anywhere from 20 to 40 years, followed by a period for the payment of the retirement annuity which may range from 10 to 20 years. The investment policy, therefore, is generally formulated with this factor in mind.

Because of the basic characteristics of retirement fund operations, a continuous flow of revenue to the fund is assured from employee and employer contributions, and interest on investments. This assumes that the employer is currently meeting his funded obligations in a full or partial measure. Whether funding is total or partial, the revenues accruing to the fund are substantially in excess of outgo for benefit payments. The need for emphasis on short-time securities, therefore, or for liquidating securities to meet benefit payments generally does not exist.

The public retirement funds as public agencies are exempt from direct Federal taxation. They have nothing to gain, therefore, from investments in State or municipal bonds. Those who advocate these investments claim that the acquisition of these bonds by public retirement funds is a factor in making a market for these securities, thus facilitating the financing operations of the State and its political subdivisions. This may have some merit in the case of small governmental units involving unknown credits of low quality. Notwithstanding the objections to these investments, conditions have existed in former years, for a relatively short period, where bonds of this type were obtainable at higher yields than U.S. Government bonds or high quality corporate bonds. Under such circumstances, substantial investments in these securities were made.

Interest income is a basic factor in any insurance plan and particularly so in the operation of a retirement fund. Costs are based upon the theory that the reserves of the retirement fund will be continuously invested at an assumed rate of interest. The mortality tables forming the basis of pension cost and used in the calculation of liabilities and reserves reflect the factor of interest. A retirement fund