

relies on interest income to meet a substantial portion of its required revenues. Interest has a pronounced effect on pension cost. A differential of one-fourth of 1 percent in the investment income may be considered the equivalent of 5 to 6 percent in contributions, or in the amount of benefits to be provided. Translated into other proportions, any large increase in interest earnings has a market impact on financing the requirements of the retirement fund.

The primary objectives of a realistic investment authority for public retirement funds are the preservation of principal and the realization of a reasonable rate of income. The governing policies are the same as those which reflect prudent management of any investment account except that recognition must be given to prescribed statutory regulations and the factors that are characteristic to the operations of government. The investment base should be such as to bring about a diversified investment account well balanced as to the several types of securities that may be considered appropriate for a public retirement fund in the light of the applicable factors and conditions.

One important principle inherent in the formulation of an investment policy is that a public retirement fund must protect itself to the extent possible against any impairment of principal. Because of the rigid budgeting of governmental revenues and expenditures, and the limitations on revenue sources for government, any loss of principal is not readily recoverable. Conservatism, therefore, dictates all areas of investment operations and constitutes a guiding and predominant policy.

Problems of valuation of investments do not exist for public retirement funds as with banking or insurance institutions, except for a periodic appraisal for purposes of determining changes in the status of the investment credits or in the market value of equity securities.

Conditions in the securities markets during recent years have afforded an excellent opportunity to make conversions of municipal bonds for the purpose of increasing income and upgrading the quality of the investment account. With yields on long-term U.S. Treasury bonds of 40 to 100 basis points higher than the best quality municipal issues, a sale of municipal bonds and the purchase of governments has been advantageous. An even larger rate of income was realized by conversions into corporate securities.

The impetus for an extension of the investment authority into higher yielding corporate bonds has stemmed from the ever increasing tax requirements of the funds and inadequate funding. It also has been due to the recognition that maximum income on invested assets must be a primary objective and that the funds should seek as large an income on investments as is prudent and feasible. The relaxation of limitations and the greater investment latitude for the funds have also been due to their explosive growth in the last decade in terms of memberships and assets.

ANNUAL DOLLAR VOLUME

For the period from 1946 to 1965, the annual dollar volume of new moneys available for investment, that is, total revenues from all sources less benefit and administration expense payments, has been \$30 billion. This is at an annual dollar volume of \$1.5 billion.