

In past years pressures have oftentimes been exerted on public retirement funds to help local areas to market their bonds at low interest rates. This was based on the premise that there was some obligation to support the community financial needs. Some retirement funds holding local municipal issues have suffered from lack of geographical diversification. In the event of a regional recession which curtailed tax collections, the retirement fund might have run into financial difficulty collecting interest on its local obligations. However, the growing realization that investment earnings are of paramount importance in the financing of pensions has resulted in significant changes in investment policy in recent years.

In the case of New York City, for example, in 1959 under former investment policies, the several retirement funds of the city had 73 percent of their assets invested in New York City bonds. By mid-1965, following a change of policy, their investment in New York City bonds had been reduced to 35 percent of total investments. This came about as the result of sales of these bonds and by a replacement of matured bonds by corporate issues. As a result of this program investment earnings increased from 3.07 percent in 1959 to 3.93 percent in 1965.

#### POSSIBLE FUTURE TRENDS

Present indications are that further decreases will occur in State and municipal securities held by these funds. These decreases will be due to the cessation of additional investments in these bonds and by a conversion of municipal securities into other types and higher yielding securities, a continuation of the trend in effect during the last 10 years. The larger funds particularly have engaged in this process and have converted large amounts of their State and municipal bonds. During the past several years, the funds have looked to corporate bonds as the main outlet for their cash. For example, funds in the States of California, Kansas, and Tennessee have more than 75 percent of their assets invested in corporate bonds. State and local retirement funds seem to have been the main prop of the corporate bond market during recent years.

Most of the State and municipal bonds purchased by the public retirement funds have been general obligations. Revenue bonds comprise a small proportion of these securities, probably about 15 percent thereof. Few special assessment bonds have been acquired. The relative proportions have not varied materially over the years since a highly restrictive policy has been in effect with the emphasis on security and safety of principal regardless of the rate of return.

Most of the State and municipal bond issues in prior years have been of long term. The more discriminating funds have confined themselves to medium-term bonds, wherever available, during periods of low interest rates when State and municipal bonds could be had at reasonable rates. In times of high interest rates, the policy was to concentrate on long-term securities.

#### BOND RATINGS—PURPOSE OF ISSUES

Bond ratings by municipal security rating services have not been a material factor in the selection of State and municipal bonds for investment. The great majority of bonds acquired in prior years were