

TABLE VI-2.—POSSIBLE FUTURE NET ACQUISITIONS OF FINANCIAL ASSETS BY STATE AND LOCAL GOVERNMENT RETIREMENT SYSTEMS, 1970, 1975, AND 1980

[In billions of dollars]

	1965 ¹	1970	1975	1980
Cash and deposits.....	(2)	(2)	(2)	(2)
U.S. Government securities.....	-0.1	(2)	0.2	0.4
State and local government securities.....	-3	-0.2	(2)	(2)
Corporate bonds.....	2.3	2.0	2.5	3.1
Mortgages.....	.6	1.0	1.3	2.0
Corporate stocks.....	.4	.9	1.4	2.5
Other assets, including real estate.....	.4	.5	.6	.9
Total.....	3.3	4.2	6.0	8.9

¹ Estimate for calendar year based on estimates and interpolation between fiscal year data.
² Negligible.

The general assumptions implicit in table VI-2 include: (1) Changes will come gradually as in the past. (2) The reduction in holdings of State and local government securities will continue for several years, but about two-fifths of present holdings will be retained indefinitely for special reasons. (3) The trend toward mortgage and real estate activity will continue strong, probably stimulated by a strong housing demand around 1970 and the subsequent years. (4) Common stock purchasing will continue to lag, but eventually it will exceed one-quarter of net flows, moderately stimulated by the adoption of variable annuity options in scattered instances. (5) Mortgages and corporate bonds may be considered interchangeable asset holdings with mortgages obtaining a somewhat larger share of the systems' investment flow. (6) At some point in the future, the Federal Government will offer securities to this type of investor which are relatively more attractive than at present.

There is no presumption that State and local government retirement systems, taken as a whole, will succeed in eliminating all of the archaic statutory, accounting, and institutional constraints on effective asset management. Some relaxation is expected, however, as the very size of outlays for retirement benefits creates a demand for the more productive employment of funds.

The pattern presented here is consistent with the conclusion expressed earlier that these retirement systems will lag behind developments in the pension programs for individuals in private employment and will not follow their lead in a number of respects. This can be illustrated by trying the 10-year test—that is, comparing the 1975 pattern of asset distribution, exclusive of holdings of State and local government securities, with the actual distribution of corporate trustee pension funds in 1965.

PERCENT OF TOTAL ASSETS AT BOOK VALUE

	Projected State and local government retirement systems, 1975	Corporate trustee pension funds, 1965
Cash and deposits.....	1	1
U.S. Government securities.....	10	5
Corporate bonds.....	49	39
Mortgages.....	18	5
Corporate stocks.....	14	45
Other assets, including real estate.....	8	5
Total.....	100	100