

Our projections, in short, presume that in the future State and local government retirement systems will not pursue the policies of corporate trustee funds because they will also be following, in part, the traditional practices of legal reserve life insurance companies. Even by 1980, our projections would produce an asset distribution only moderately closer to that of the corporate funds of 1965.

Percent of Total Assets at Book Value, 1980

Cash and deposits.....	1
U.S. Government securities.....	8
Corporate bonds.....	45
Mortgages	19
Corporate stocks.....	18
Other assets, including real estate.....	9
Total	100

Nevertheless, if these projections as to both the volume and distribution of fund flows through State and local government retirement systems are at all reasonable, a major financial institution will have emerged in another decade. Now managing assets equal to 57 percent of those of all mutual savings banks, these systems could be handling assets 75 percent as great by 1975. Just as growth to date has brought a material improvement in investment management, we can anticipate continued progress in the quality of personnel and sophistication in dealing in the securities market.

As investors in common stocks, however, it is not likely that the system portfolio managers will depart from the current pattern of dollar-cost-averaging a broad list of high quality issues. Our projections suggest the accumulation of more than \$10 billion at book value by 1975 and over \$20 billion by 1980. On the assumption of 5 percent per annum appreciation, the 1980 portfolio would be worth over \$28 billion, but might still represent only 23 percent of total assets at market value. If annual purchases reach the \$2.5 billion level by that date, however, these systems will be a factor in the stock market even if their turnover in existing holdings remains at a relatively low level.

Some variable annuity plans have been adopted by State and local governments, but other methods such as a fixed rate of increase in benefits to meet rising living costs have also been employed. At this time, it is difficult to tell whether equity funding, especially for teachers, will spread widely. If it should, of course, the effect upon the volume of projected net acquisitions of common stocks would be substantial.

The picture which emerges is of an eminently respectable, slow moving, conservatively oriented structure of financial institutions performing an important function with care and prudence. As competitive factors have encouraged risk-taking in other institutions, the question has frequently been asked: "But who is going to hold the really high quality investment securities?" Here is the answer: State and local government retirement systems. Their capacity to do so should be reassuring.

VII. CONCLUDING OBSERVATIONS

We have seen that the economic aspects of pensions are as broad as the flows of income, consumption and saving, and the network of