NEWS

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Gov. Wolf Proposes Montco Plan as a Way to Help Solve Pennsylvania Budget Woes

Norristown, PA (March 3, 2015) – In his budget address today, Gov. Tom Wolf proposed that the Commonwealth adopt the Montgomery County plan for investing pension funds, which includes shedding high-priced money managers in favor of investing pension assets in a "passive" portfolio that mimics the market.

Gov. Wolf outlined several steps he would take to improve the financial health of the state's struggling pension funds, and among them was the Montgomery County model.

"Believe it or not, as I mentioned earlier, our state has been wasting hundreds of millions of taxpayer dollars on Wall Street managers to handle state pension accounts," the Governor said. "But studies have shown that simply investing this money in a safe, conservative account would produce a similar return over the long term while eliminating these excessive management fees. So, here's what we are going to do: We are going to stop excessive fees to Wall Street managers."

Josh Shapiro, chair of the Montgomery County Commissioners and the county's retirement board, said that "Gov. Wolf's adoption of the same type of investment strategy as Montgomery County is further proof that we made the correct decision in shifting from an active to a passive investment policy."

While the Montgomery County Retirement Fund was in much better shape than the Commonwealth's, no payments had been made to the fund for five years before the current administration assumed office in 2012. While dealing with other budgetary and financial problems the administration inherited, the Retirement Board, which includes the county commissioners, began looking for ways to maximize returns and minimize costs for the fund.

In 2013, after a thorough review of the performance of the county's half-billion dollar pension fund and discussions with experts, the county pension board voted to move 90 percent of pension-fund assets to a "passive" portfolio offered by Vanguard, a Valley Forge-based, investor-owned firm with hundreds of employees in our county. Few other funds nationwide have shown a willingness to abandon the more traditional approach featuring expensive money managers, and the move was met with surprise and skepticism.

Passive investing focuses on establishing a diversified portfolio which aims to achieve a return that reflects the total market. It attempts to mimic the market, rather than take speculative risks to beat the market.

The results have been very positive for the retirees, who depend on the fund for their retirement, and the taxpayers who help fund it. The decision has reduced the fund's management fee expenses by more than two-thirds, a savings of more than $1.3 million annually, giving the county an advantage before market performance is even considered.

Based upon research they conducted, county officials were confident that performance would not suffer since a market-based portfolio index had beaten the county's actively managed fund's annual performance in eight of the previous 10 years, despite the efforts of the Wall Street managers. Like many public pension funds, including the two Pennsylvania pension funds – the State Employees' Retirement System (SERS) and the Public School Employees' Retirement Fund (PSERS) -- the County assumes the fund will return 7.5 percent a year, the return needed just to break even.

The diversified index fund portfolio chosen has an impressive 30 year history, with annual average returns of 10.11 percent over that period, well in excess of the assumption target of 7.5 percent.