



Stock Dive Hurts State Pensions, Budgets

The Troubles on Wall Street Might Mean Dark Days for States Across the Country

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The pain and suffering on [Wall Street](#) last week also set off shockwaves in statehouses across the country. The value of many pension funds plunged millions of dollars and state leaders, already facing tough budgets, worried about how this latest blow would hurt tax collections.

AIG, Fannie Mae, Freddie Mac and Lehman Brothers were all favorites of big institutional investors like state pension funds because -- until this month -- they were relatively safe bets. Now they are all worth next to nothing.

Pensioners shouldn't worry -- their benefits are defined by law and no matter how poorly the pension funds perform, they will still get their full monthly checks. But in some cases taxpayers will have to pay more into the funds to cover the shortfalls.

Patricia Macht, assistant executive officer of the California Public Employees' Retirement System, or CalPERS, said that while the \$235.9 billion fund did take a hit on some of those stocks it also has so many other investments spread out in other areas.

"The good news for CalPERS: We're large enough and diverse enough to weather the storm," Macht said. "We have been through many of the crises."

CalPERS, the largest public pension plan in the country, aims for a 7.75 percent return on its investments each year.

Last year, it lost about 3.5 percent. But the year before it made nearly 19 percent and the year before it made 9.7 percent.

"We've rebounded from other market crises and will again," Macht said. "We're in it for the long term. One of the upsides of long term investor, we don't need to cash in soon."

New York state might not be as optimistic. Layoffs on Wall Street could really hurt tax collections. Some estimates say Wall Street workers account for 20 percent of the state's income tax revenues.

Arturo Perez, a fiscal analyst for the National Conference of State Legislatures, said that 31 states struggled to close gaps in their latest annual budgets. They managed to do so, but now risk a drop in revenues if stocks continue to decline.

Income Taxes and State Pensions

The other key determinant for states will be the holiday shopping season. States get about a third of their money from personal income taxes and another third from sales taxes.

That Washington State Investment Board manages about \$78 billion in public employee retirement and insurance funds, defined contribution plans and state trust funds.

The funds lost about \$130 million in total value after Lehman Brothers declared bankruptcy, with about \$122 million of the loss coming from investments in index funds that included fixed-income Lehman Brothers bonds and another \$8 million from index-fund investments involving Lehman stock.

The state also took a far smaller hit from the drop in AIG stock. The total loss represents about .17 percent of the state funds' value. Since Sept. 30, 2007, those funds have dropped about \$7 billion, from a high of \$85 billion.

None of this should affect the firefighters, teachers and other state employees who depend upon the funds for retirement and other benefits, said Joe Dear, executive director of the Investment Board. He stresses that, like most state pension funds, Washington's is highly diversified.

"It's no fun going through a period like this," he said, "but the stability and financing of our pension system is solid. We're confident that we will meet the 8 percent return on our investments over the long term."

Dear admits, though, that this week's events involving AIG "were a major worry, because nobody knows how bad it would have been if they had gone bankrupt, and nobody wanted to find out."

He also said it would be "a classic mistake" for him to make any major changes in investment strategy in the midst of this "really bad market." And like most everyone else, he doesn't see the financial outlook improving "as long as housing prices decline."

Market Trickles to State Funds

Across the country in Rhode Island, the Department of Transportation and other state agencies have a total of \$138 million invested in AIG Guaranteed Investment Contracts, which produce income on highway and other project funds until the money is needed to pay construction costs.

That money was at risk earlier last week, when AIG's credit rating slipped and the company became obligated to post additional collateral backing payment on the contracts. No one knew whether AIG could do so until the Fed came up with an \$85 billion loan. For now, the funds are safe, said state Treasurer Frank Caprio.

Caprio also said the state's pension fund dropped in value from \$8.4 billion at the beginning of this year to \$7.4 billion at the end of last month, though the troubles of Lehman Brothers and AIG had little to do with the decrease and the fund has no significant investments in either company.

"The state pension fund & will be paying out all its obligations in the future," Caprio said. "Nobody's pension is at risk."

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