



Section: [New York](#) > [Printer-Friendly Version](#)

NYC Pension Funds Lose on Lehman, AIG

A Downturn of More Than \$200 Million

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NEW YORK CITY'S PENSION SYSTEM APPEARS TO HAVE LOST ABOUT \$230 MILLION SINCE June from the collapse of [Lehman Brothers](#), [Merrill Lynch](#), and [American International Group](#), increasing the strain on taxpayers after a year in which the funds already took a \$6 billion hit.

The city's five pension funds shrank by 5.4% of their total value in the fiscal year that ended June 30, according to data that the comptroller's office provided to The New York Sun. Since that date, the funds' investments in Lehman Brothers, Merrill Lynch, and AIG lost another \$231 million, based on the number of shares that the city currently holds. More money has almost certainly been lost in the general downturn since June, but information on those losses is not available.

While [Comptroller William Thompson Jr.](#) insists that the pension funds remain healthy, the figures he provided offer the clearest picture yet of a portfolio falling victim to market upheaval. Mr. Thompson noted his concern, but played down the city's exposure to the fall of the major firms last week, emphasizing that their shares accounted for roughly two-tenths of 1% of a pension system currently valued at \$104.7 billion.

Those shares were worth more than twice as much at the end of June, and more than four times as much at the end of December. Those calculations assume that the city had the same number of shares in the three companies then that it does now. The comptroller's office did not indicate how the share levels may have changed.

The burden of covering any losses will ultimately fall to taxpayers, since the government is obligated to make up for shortfalls in pension earnings in order to protect retirees. The pension system thus risks becoming a liability just when the city is expecting decreased revenues as a result of the financial crisis. Experts and city officials said that if investment returns do not improve in the coming year — and given recent events, the prospects for a quick turnaround don't look good — budget planners will have to make some tough choices.

"It's all going to be about how long this lasts, but there's no question the pension funds' losses will add significant fiscal pressure in future years," the deputy research director for the Citizens Budget Commission, Elizabeth Lynam, said.

New York's last financial plan, which was released in May, projected a 0% rate of return for the

pension funds in the 2008 fiscal year, according to the chief of staff of the Independent Budget Office, Doug Turetsky. Since the pension system instead shrank by 5.4%, the city will have to make several billion dollars in unexpected contributions to the funds. The payments will spread out over six years to minimize immediate shock to the budget.

The city is also falling victim to retiree benefit sweeteners that were signed into law several years ago, when the economy was strong, Ms. Lynam said. Irrespective of the poor performance last year, the city's annual contribution to the pension system will have nearly doubled between fiscal years 2005 and 2009, when it will owe about \$6.1 billion.

Mr. Thompson, who is expected to run for mayor next year, has assured New Yorkers that employee pensions remain secure.

"New York City funds are healthy, and we are ready for the trying times that are no doubt ahead," he said Wednesday during a speech at New York University. "We're better prepared to deal with the downturn than ever before."

John Tepper Marlin, who served as the city's chief economist until 2006, said the losses that have been made public are probably just a preview of trouble to come. The collapse of Lehman, the sale of Merrill Lynch, and the government takeover of AIG last week did not mark the end of panic in the financial markets. Pension funds tend to perform about as well as the economy as a whole, Mr. Marlin said, and the future of the economy is currently unclear, especially as the federal government embarks on an unprecedented intervention into the free market.

"The stuff is so sophisticated and complicated, I can't believe there aren't going to be some surprises," Mr. Marlin said, noting he collects a city pension. "I'm worried for myself and for the city."

Financial institutions that remain in trouble include Washington Mutual and Morgan Stanley, both of which are in talks to sell their assets. The city owns 5.7 million shares of Washington Mutual and 3.3 million shares of Morgan Stanley, according to the comptroller's office. The combined shares are worth about \$112 million.

Despite the high level of uncertainty and talk of a "paradigm shift," in the words of Governor Paterson, experts said they do not anticipate a fundamental change in the way pensions manage their money.

"I don't believe that we are in what we would describe as a new paradigm, when now things are different," a pension fund investment consultant, Steven Pines, said. "I'd be very surprised if 10 years from now people are keeping all their money under the mattress."

Then again, he added, it is still too early to assess the fallout from the current crisis.

The city pension system performed slightly worse in the 2008 fiscal year than other public funds worth more than \$5 billion, which lost about 4.4%, according the pension tracking group Wilshire Associates. New York City's pension system has earned 9.5% annualized returns over the past five years, compared to 10.2% for its peer funds.

The city pension system comprises the New York City Employees' Retirement System, the Police Pension Fund, the Fire Department Pension Fund, the Teachers' Retirement System, and the Board of Education Retirement System.