<u>Staying the Course Makes Historical Sense</u>

By Robert D. Klausner

Many retirement plan sponsors have expressed the need to make drastic changes in plan benefits, often at the risk of costly litigation, to address increased employer contributions. A recent analysis of the history of the S & P 500 performed by a alarge statewide retirement system conclusively demonstrates that actuarial return assumptions in the range of 7% to 8% have strong historical support. The U.S. Bureau of the Census, which keeps detailed records on public pension plan returns, shows that over time more than 60% of the cost of plan benefits will be borne by market returns.

The current difficulties are the result of a sustained under performance by the capital markets in the first decade of the 21st century, combined with a severe downturn in municipal and state tax revenues. Those tax revenues have begun returning to pre-2008 levels and real estate values have been reported on the increase even in such hard hit areas as South Florida.

Pension plans are viewed in the working lifetime of the men and woman who perform the important tasks that keep the country running; public safety, education, sanitation, utilities, recreation etc. In other words, cost are viewed over horizons of 30 years rather than single snap shots. The Government Accountability Office recently found that most public pension plans remain wel funded and capable of meeting their obligations, as and when they become due. The battle then is not financial; it is ideological. Instead of rhetoric, pension plans should administer their programs based on known facts and reason scientifically based assumptions.

The market study shows as follows, and more importantly, speaks for itself:

S&P500 Returns by Decade1930 - 2010