



City, Unions Agree To Independent Investment Process for Pensions

By **RICHARD STEIER**

In a move that could improve city pension earnings by a billion dollars or more a year, Mayor Bloomberg, City Comptroller John C. Liu and top municipal union leaders Oct. 27 announced an agreement in principle to sharply revamp the five pension funds' investment operations by creating a single investment board that would be led by a Chief Investment Officer who would serve independent of the Comptroller's Office.

Despite the notes of optimism sounded by the Mayor and Comptroller and several union leaders, there are a host of unresolved questions. The move that Mr. Bloomberg described as "a game-changer" and Patrolmen's Benevolent Association President Patrick J. Lynch called "an important and difficult first step" was complicated by the fact that two of the three union representatives on the board of the largest of the five funds complained that they had been shut out of the discussions and only learned about the decision a couple of hours prior to the announcement at City Hall.

Better, Faster Investments?

Those labor leaders who are supporting the initiative—which would need approval by the State Legislature and the Governor—said it would improve the investment process for the funds, not least by speeding action on decisions made by the trustees.

At present, Uniformed Firefighters Association President Steve Cassidy told reporters, "If we make an investment it's like turning the Queen Mary around in the Hudson River. By the time you do it, you may be going in the wrong direction."

That sentiment was echoed by United Federation of Teachers President Michael Mulgrew following the press conference when he remarked, "We make a decision to do an investment, it happens 14 months later."

Among the hindrances to speedy choices has been the fact that the investment advisers until now have been chosen by the City Comptroller's Office, and any time a new Comptroller comes in, it has been common for that official to remove the systems' investment advisers and choose his or her own. In addition to taking control over investment advisers out of the Comptroller's hands, the proposed legislation would require that the Chief Investment Officer serve a term that does not coincide with those of the Mayor and Comptroller, allowing for a continuity that Mr. Bloomberg said has often not existed.

Report Directly to Board

The Chief Investment Officer would report directly to the investment board, rather than to the Comptroller. He or she would also be paid at a rate comparable to what such positions command in the private sector, which is often in the millions of dollars for those managing funds of the magnitude of the five city systems, which have about \$120 billion in assets.

The Mayor described it as a way of “professionalizing and depoliticizing” the management of investments for the five funds—the New York City Employees Retirement System, the Teachers Retirement System, the Police Pension Fund, the Fire Pension Fund, and the Board of Education Retirement System. He and several union leaders praised the Comptroller for agreeing to relinquish control of investments through the Bureau of Asset Management and the protocol under which outside investment consultants reported to him. The entity that takes the place of the bureau will offer what the Mayor’s Office described as the kind of compensation packages needed to attract “experienced industry professionals.” The reconstituted pension investment board will set the overall strategy for the investment of the funds’ assets.

The five pension funds would continue to administer benefits and make decisions on disability-pension applications independently of each other. While he insisted the city would still need to reduce pension benefits for future workers to cope with rising costs as employees live longer after retirement, the Mayor said the streamlined investment operation could have a profound impact on the city budget by easing pressure on it to keep the benefits flowing, noting that even a 1-percent improvement in investment returns would be worth \$1 billion a year.

Hevesi Scandal a Factor?

During a press conference in the Governor’s Room at City Hall, the Mayor said Mr. Liu “really has stood up... He’s putting the good of the city ahead of the traditional powers and prerogatives of his office.” Mr. Liu sidestepped a question as to whether his willingness to give up some of his power had been influenced by the pay-for-play scandal in the State Comptroller’s Office that earlier this year led to a prison term for former Comptroller Alan G. Hevesi, who previously held that role for the city from 1994 through 2001, but he acknowledged that the change would “improve accountability and guard against the possibility of fraud and corruption.”

Officials close to Mr. Hevesi had awarded state pension investment business to firms that either paid bribes to them, provided the then-Comptroller with expensive overseas trips, or helped him politically. In the wake of that scandal, then-City Comptroller William C. Thompson Jr. discontinued the use of “placement agents,” who brokered investment deals for sizable fees and often had little qualification for such work other than their political connections.

More than a half-dozen union officials who play key roles in the funds’ operation were present for the announcement, but several of them sounded a cautionary note by offering a variation on the assessment made by District Council 37 Executive Director Lillian Roberts of the proposed change: “The devil is in the details.”

Critic: Projected Gains a ‘Fantasy’

There are currently 58 trustees for the five funds, but that counts as one for each fund the Comptroller, the Finance Commissioner, and another mayoral representative. It is expected that the proposal board would have about a dozen members. The unions now have at least equal representation on the boards of the five funds; it is not clear whether the new board would continue that. Several union officials had major reservations about the plan.

One official knowledgeable about the issues claimed that Mr. Bloomberg’s projection of earnings improvements of \$1 billion a year was “a complete fantasy. The idea that there’s going to be greater nimbleness with investments is nuts.”

Notwithstanding the complaints by union leaders like Mr. Mulgrew and Mr. Cassidy about long delays between investment decisions being made and executed, he contended, “You don’t day-trade with \$120 billion.”

Even with much-smaller funds, said this official, who spoke conditioned on anonymity, “The process takes months and months to make a decision. There’s no quick approach when you’re dealing with other people’s money like this.”

‘Eliminates Real Oversight’

And creating an investment operation separate from the Comptroller’s Office, he continued, would “eliminate real oversight.”

The key step the city was likely to take in trying to improve investment returns, he predicted, would be to remove current limits on how much of the funds’ assets can be placed in “alternative investments,” most notably hedge funds. But the person making those choices, he said, “will be unaccountable to either the politicians or the union trustees.”

Teamsters Local 237 President Gregory Floyd said both before and after the press conference that he was unhappy about having learned of the project only that morning. His fellow representative on the NYCERS board, Transport Workers Union Local 100 President John Samuelsen, was not in attendance, and neither was Correction Officers Benevolent Association President Norman Seabrook. The three of them represent the largest contingents of NYCERS members aside from those under DC 37’s banner.

“Everything is presented in a vacuum,” Mr. Floyd lamented outside the Governor’s Room, “At no time did anyone reach out to Local 237. Hearing a lot of my other colleagues speak in favor of it, it may be a good thing. But there are a plethora of issues that have to be answered. This is not the way to do business.”

‘How Much Say Will We Have?’

He continued, “This is the most-important piece of legislation that’s been done to our pension system since its existence. And I think a meeting on the issue was warranted.”

Mr. Samuelsen expressed similar sentiments by phone late that afternoon, describing it as “a little baffling” that no one had spoken to him about the plan until Mr. Liu called that morning.

But he added, “Being left out is not going to enter into my judgment as to whether it’s the right thing to do. The governing factor is going to be how much influence the TWU is going to have over investments. If the proposal means the TWU is going to lose its hammer over helping working families and to advance social justice, we’re going to be opposed.”

He noted that his union, along with others with large contingents of active and retired members belonging to NYCERS, had played key roles in exerting pressure beginning in the 1980s on corporations not to do business with the apartheid regime in South Africa and to ensure that they abided by fair-employment standards in Northern Ireland, where Catholic residents during that era often faced job discrimination.

Conscious of Negative Image

Mr. Samuelsen added, “The TWU is certainly not going to walk away from a plan that would improve the investment return for the fund.” But he said it appeared a good deal had to be resolved before he could support the plan, with one consideration being whether the consolidated board would leave his union with

less voting strength on investment decisions than it currently enjoys. He predicted other labor leaders would also be focusing on that issue, saying, "There'll be a major obstacle among the unions themselves" that lose their representatives as part of the streamlining.

But other union leaders beginning with Mr. Mulgrew seemed sensitive to a perception that they had not been sufficiently cooperative when the Mayor had appealed to them for budget relief in areas including pensions and health benefits earlier this year.

"Labor came to the table," the UFT leader said. "We need to be part of the solutions... if you work with us in a respectful manner, we can get there."

Detectives Endowment Association President Michael J. Palladino remarked, "Contrary to the way we've been beaten up in the newspapers and editorials, we care."

Ready for Albany in January?

Mr. Mulgrew said he was unconcerned about a bill, once finalized, running into problems in Albany, pointing out that legislation that had the support of both the city and the unions generally gained easy passage if it carried no additional costs for the state. As to how soon the key issues that remain could be resolved, he said, "We're hoping we can iron this out and go to Albany at the beginning of the legislative session in January."