RETIREMENT: Your State Pension Hates You

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State laws mandate that pension fiduciaries have a duty of loyalty to manage retirement plan assets for the exclusive benefit of beneficiaries, i.e., state workers and retirees. Yet all-too-often public pension assets are steered into secretive, risky, poor-performing investments based upon “dark money” contributions by Wall Street to politicians sitting on oversight boards and unions—private investment funds which also ensure outlandish bonuses to pension staffs. Worse still, when pensioners demand disclosure of records which will reveal how their retirement savings are invested, state boards and staffs routinely respond with hostility—as if plan participants were the enemy, as opposed to the owners of the assets. State pension beneficiaries today need to fight to ensure these retirement plans are managed exclusively for their benefit and not for the benefit of elected officials, unions, lavishly-compensated pension staffs and Wall Street billionaires.

Under federal and state pension law—similar to traditional trust law—the duty of loyalty places trustees under a duty to the beneficiaries to administer the pension trust solely in the interest of the beneficiaries. In short, the assets of a pension should never be used to benefit any other party and must be held for the exclusive purposes of providing benefits to participants in the plan and their beneficiaries.

Unfortunately, there is no easy way for state pension participants to ensure their retirement plans are properly managed for their exclusive benefit. In the absence of robust public scrutiny and accountability, state pension investments are frequently selected based upon criteria other than what’s best for the participants. So, for whose benefit are investments selected?

State pensions are overseen by boards dominated by elected officials and union representatives utterly lacking any investment experience or credentials. They wouldn’t know a good investment if they saw one and really don’t care. These board members and the organizations they represent often receive “dark money” contributions from Wall Street firms managing the costliest funds ever devised—hedge, private equity, real estate and venture funds. They are subject to a conflict of interest in that they benefit from steering plan assets to Wall Street firms which secretly pay them. Unlike under federal pension law, there are no prohibitions on self-dealing and other conflicts of interest that would preclude such corrupt decisions.

State pensions holding hundreds of billions in assets also have enormous investment staffs which have agendas of their own. These government workers are compensated based upon performance of the assets. They get paid lavish bonuses when pensions outperform public market indexes, such as the S&P 500, but are not penalized when pensions underperform. Therefore, it is in their interest to steer monies into high-risk secretive investments which are permitted to self-value assets under management and inflate investment performance results.

In most states today, pension investment staffs are the most highly compensated state employees. They receive base and incentive compensation exponentially greater than governors or state treasurers.

It should come as no surprise then that state pensions have in recent years increased their alternative investment holdings to well over 30%, motivated by dark money payments to politicians and unions, and investment staff greed.

***The best test for whether your state pension is being managed for the benefit of parties other than beneficiaries, like you, is to file public record requests for investment documents. If your state pension denies your public records request or stonewalls, it’s hiding something ugly***. (Emphasis added) It’s your money and you have a right to see how it’s invested. If you are denied access to records, that means someone else’s interests have trumped yours. That is, your pension is being run for the benefit of parties other than you—and those parties do not want you to see what’s being done with your hard-earned retirement savings.

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Edward Siedle

P.S. Yes, Ted is a MEMBER of this STRS Ohio Watchdogs forum and reads it regularly.

STRS FLASHBACK - The STRS Board Didn't Listen Then Either, Did They?

Words of wisdom given to STRS Board members by the former Cleveland Teachers Union President Rich DeColibus...words most of them never paid attention to. And because they didn’t, we are NOT enjoying the fruits of their labors today! It is time that these words be examined again. Rich DeColibus was ahead of his time.

From Rich DeColibus, October 25, 2007

Rich DeColibus to STRS Board: Some words of advice

THE RESPONSIBILITY OF AUTHORITY!

Dear STRS Board Members,
I have been given to understand there is some confusion over the lines of authority between yourself, as an STRS Board Member, and the administration. If you will bear with me for a short while, I have some thoughts on the issue.

You are bestowed authority by virtue of being elected by the constituency which STRS serves (both retired and active). As a former teacher and Past President of the Cleveland Teachers Union, I can understand this is a difficult and tricky responsibility. The administrators of STRS have zero authority because they are not elected and, in America at least, have no legitimacy outside of that conferred on them by elected officials (you). STRS also has appointed members, but they are all appointed by elected officials and serve as watchdogs for the various state agencies which have interests and concerns with respect to STRS issues.

Having dealt over the years with many Superintendents, no one has more respect for them individually or collectively than I do. President of the CTU was a miserable job, but it was a heckuva lot better than what they had to go through. They frequently had to deal with unreasonable Boards of Education, unhappy parents, unsatisfied communities, and a whole lot of other aggravations I watched from the sidelines (and was very glad to leave to them). My experience as part of Ohio Federation of Teachers also led me to conclude whether it was a 72,000-pupil district or a 3,000-pupil district didn't matter all that much.

More to the point, though, almost all of them recognized their ultimate subservience to the Boards they served. Their Board members were elected, they were not, and the legitimacy that comes from being elected superseded in all cases the desire of the administrators to run things in a way they felt was most correct. Sometimes they were right, sometimes they were wrong, but it really doesn't matter. The responsibility for all the decisions any Superintendent (and other administrators down the line) makes still falls on the Board members. As a matter of responsible policy, then, so does ALL the authority for those decisions. In short, no matter how badly your administrators screw up, the buck stops on your desk. You also get credit when they do great things (but, then, nobody seems to notice that!).

In fundamental terms, and like most government agencies, you are not there to run the operation. You are there to watch the people who run the operation. Administrators are there to administer, which amounts to the nuts and bolts of ensuring the organization fulfills the reason it exists. Having had experience with Board of Education members who micromanage, and the experience of Board members who are strictly "hands-off", all I can say is Aristotle's golden mean is a concept with great value. STRS is a little different, though, because you're working with billions (with a "B") of dollars and have over a hundred thousand individuals who depend almost entirely on your good judgment for their quality of life (and another hundred thousand who eventually hope to). I would encourage you to error on the side of over-supervision, if for no other reason than the recent embarrassing history of under-supervision. It is your primary responsibility and the number of people who depend on you getting it right is staggering.

As a general rule I followed when I was CTU President negotiating contracts with my own staff (small, but very competent and very vocal!), I believed the staff members could not, and should not, do better than the members they served. If teachers didn't get those benefits, then neither did my staff members. By the same token, you need to be careful STRS employees do not enjoy benefits and monetary rewards considerably better than the teachers who are paying into the system. Of course, you should recognize excellence and reward diligence, but in the background there's always the question: "Will Mary Smith, the third-grade teacher in rural Ohio making $21,000/year with five years experience, consider this reasonable?" That may not be much of a gold standard, but it's the most valid one you have to balance on the scale of fairness.

It is terribly easy to justify any decision you make, however good or bad it may be. The capacity of humans to explain away bad choices is, in my experience, close to infinite, and a testimony to the inherent intelligence of the human race. You need never worry about having to justify your decisions. What you do need to consider is the Mary Smith standard because, when push comes to shove, that's how everyone else will judge your judgment. I understand clearly the election dynamics of how STRS Board members are elected, and I know a few of you personally, and I am not standing on a soap box preaching "You won't get elected if you make bad decisions." The reality is you probably will be elected, depending on election dynamics, no matter how good or bad your judgment is. What is more important, though, is what legacy you will leave behind. I had the insight of knowing almost all of the old Cleveland Board of Education members, and practically to a person, they were caring, intelligent, and of good character. Despite that, as a Board of Education, they were, frankly, just horrible. The few of you I do know are outstanding individuals, and what I am hoping is you will walk that fine line between over-management and under-management. As I iterated before, your responsibility is not to run the show, but keep a careful eye on those who do. Given STRS's reputation is at stake, it is not a task for the fainthearted, nor have I much interest in giving the Ohio General Assembly ANY excuse to muddle in our waters.

I wish you all well, both individually and collectively, and there is no need for you to respond to this. I said my piece and you may decide for yourself if it has merit.

Rich DeColibus

## About STRS Ohio Member Only Forum (Facebook)

This group has a vested interest in Ohio's State Teachers Retirement System (STRS) and its fiduciary duty to responsibly manage OUR pension funds in serving the best interests of both active and retired members. Based on the past and present actions by STRS Directors and the STRS Board members, it is now necessary for ALL STRS members to continue to be fully engaged in promoting what should have been instituted years ago; transparency, accountability and member oversight. Based on the past and what is still occurring today, there must be immediate changes in the current STRS organization and operations and a complete change of the current management philosophy. The STRS Board must operate independently and act as the sole governing body and not as conduit for any single association, union, or approve STRS staff recommendations that are not of direct benefit to the members they represent. We can no longer wait and allow what has happened in the past to further financially weaken OUR retirement system that thousands of members are depending on now and in the future. It is imperative that we continue to take bold action that ensures that ALL STRS member contributions are managed and invested to maintain a financially sound retirement system. Anything less is unacceptable.