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PUSHING BACK

Glen Grell has a few choice words for critics who think revamping PSERS is a walk in the park

» MIKE WERESCHAGIN

Glen Grell has gone to bat for the Public School Employees' Retirement System in hearings, letters and, recently, with The Caucus. The system's executive director, a former House member from Cumberland County, describes his job as something that lets him "jump out of bed every day, excited to help people," and he bristles at elected officials' claims, detailed in the April 23 issue of The Caucus, that the $55 billion pension fund is a financial time bomb. If lawmakers want to help, Grell has a few suggestions for them.

1. FULLY FUND

We have really been focused on convincing the policymakers that the most important thing they can do is to fund us on an annual basis, to make sure that the actuarially determined contribution rate is provided for in the state budget. That really is the biggest success story since 2015. We're now in what will be the fourth consecutive year (of the state fully funding its annual obligation). And large credit to Gov. Wolf and to the Republican leadership in the House and the Senate. I think we convinced them that there is nothing more important than making sure they pay the annual bill, because that, in large part, is what got us into this situation we're in with this unfunded liability. There are a couple other reasons, but not paying the full actuarially required contribution for at least 12 years, closer to 15 years — you know, you don't pay your mortgage for 12 or 15 years, you're going to have a big debt.

2. CONSOLIDATION? KEEP POLITICS AT BAY

I'm speaking for myself right now. I have a 15-person board that ultimately will determine how PSERS feels about it. But, like anything, there are pros and cons to it. When Rep. (Mike) Tobash (R-Schuylkill County) is quoted in your story as saying that this is low-hanging fruit, that couldn't be any further from the truth. This is a very complicated transaction. To take two large public pension funds, each with their own separate independent board of trustees, their own funding needs, their own investment strategies and staffs, and to put that into a consolidated investment operation is a huge lift. If it's done properly it could really be a benefit to our systems and ultimately to the people that we serve. That's my guiding principle — that whatever comes of this has to be in the best interests of our membership and the sustainability of the fund. If it's done properly, it could be a legacy-type issue. If it's done in a political way, it could be disastrous.

3. CUT THE RED TAPE

We're currently encumbered with a lot of bureaucracy and regulations that my former Republican colleagues in the House would chafe at if those kinds of restrictions were placed on private businesses. For example, shortly after I started, the investment office said, "Hey, we'd like to invest and manage more of our money internally." OK, what do you need to do that? "Well, we need more people."

We put a proposal together, my board was fully supportive of the idea, but I had to go to the budget office and the governor's office and the office of administration to get approval to hire any additional people. So what sounded like a no-brainer — that if we get 15 more investment office professionals, we can handle billions more dollars internally and save money on outside manager fees — became an 18-month slog through bureaucracy, which ultimately resulted in, on bended knee, me getting seven additional investment office positions. So, 18 months to get half of the goal.

It's those sorts of things that, if pooling the investment office would necessarily bring along those kinds of bureaucratic regulatory reforms to the system, then it would be advantageous.

If you read the commission report there's some reference to best-in-class models, among them some of the Canadian pension systems which have been the most productive, successful public-sector pension plans anywhere in the world. They have a governance structure that is free of political influence, free of political appointees, very agile and run like a business, with investment professionals calling the shots.

4. DON'T EXPECT US TO BE THE HIGHEST-PERFORMING

If you look at the asset allocation from back in 2007, 2008, we were very much a 60/40-ish kind of pension fund, meaning you had 60% of your assets in equities, mostly U.S. equities very much at risk to the whims of the U.S. stock market, and then the other 40% in more fixed-income, really safe stuff like bonds. I think we learned our lesson when 2008-2009 rolled around and we realized that that's at least as risky as having alternative investments.

If you look at our asset allocation as of the end of last December, we're about 30% in equities, about 39% in fixed income, and then the rest is in what you would call alternative investments. A lot of that is in real estate and things that are very standard kinds of investments, especially for long-term-horizon investors like public pension funds.

It's all focused on minimizing risk. We never want to go through another 2008. We've been telling people that when the U.S. stock market is going gangbusters, we're not going to be the highest-performing fund. The benefit is that when the U.S. stock market is not doing well, we're not going to go into the tank again.

The proof of that was calendar year 2018. While average pension funds were losing 3, 4-plus percent, we actually gained. If we had adopted the strategy that some — including some on the commission advocate, just do a simple 60/40 index — we would have probably lost $2 (billion) to $3 billion in 2018, rather than gaining.

5. GETTING A BIG RETURN ON EXTERNAL MANAGERS

One of my biggest complaints about that article was you buying into this narrative that's being pushed, that we have some sort of haphazard, casino, roll-the-dice mentality with these pensions. I would challenge you to come to one of our meetings and see the diligence that we go through. It takes three to nine months for an investment to go from the idea stage to being presented to our board. And to suggest or to feed into the narrative that we're just haphazard as if we're in a casino with these investments is frankly insulting.

(An analysis in the commission report's appendix states that PSERS and SERS strategies "produced excess assets equal to $6.2 billion above a 100-percent index fund strategy, which presents a strong economic argument that the investment was justified.") What that is saying is, sure, we might have spent $400 million on external managers — which I'll note parenthetically is down from over $600 million when I came to PSERS in May of 2015 — but that $400 million generated returns in excess of what we would have received if we just indexed to the tune of $6.2 billion.

So, for the treasurer or anybody else to publicly be saying that PSERS and its trustees are wasting assets by spending money on external managers is just completely ignorant of the facts that were presented.

We're not against indexing, but indexing your entire pension fund or a substantial part of it for a $55 billion pension fund is just not a solid, defensible strategy.