New York City Comptroller
Scott M. Stringer

NEWS

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COMPTROLLER STRINGER: BILLIONS IN PENSION FUND FEES PAID TO WALL STREET HAVE FAILED TO PROVIDE VALUE TO TAXPAYERS

After fees, manager performance is $2.5 billion below benchmark over 10 years, new analysis of City pension system reveals

Calls for review of investment fee structure, alignment of pay with performance

(New York, NY) – New York City Comptroller Scott M. Stringer today released an analysis by his office showing that Wall Street money managers failed to provide value to the City's pension funds over the last 10 years, even as they raked in billions of dollars in fees. The analysis found that high fees and failures to hit performance objectives have cost the pension system some $2.5 billion in lost value over the past decade.

"We need to demand more value from Wall Street when they invest the hard-earned pension dollars of our workers, because right now money managers are being paid exorbitant fees even when they fail to meet baseline targets," Comptroller Stringer said. "When you do the math on what we pay Wall Street to actively manage our funds, it's shocking to realize that fees have not only wiped out any benefit to the funds, but have in fact cost taxpayers billions of dollars in lost returns. It's clear that the status quo needs to change."

The City's $160 billion pension system is the fourth largest in the nation. Currently, the City's five pension funds – the New York City Police Pension Fund, the New York City Fire Department Pension Fund, the Teachers Retirement System of the City of New York, the New York City Employees' Retirement and the Board of Education Retirement System – all employ a combination of active and passive investments, each with targeted objectives, or benchmarks, against which performance can be measured.

The Comptroller's analysis, performed by Chief Investment Officer Scott Evans and the Bureau of Asset Management using detailed historical performance data, tracked pension fund performance in all asset classes over the past ten years:

- Wall Street managers of private asset classes such as private equity, hedge funds and real estate fell $2.6 billion short of target benchmarks after fees;
- Over the same period, managers of public asset classes exceeded the benchmark slightly. However, those managers gobbled up more than 95 percent of the value added—over $2 billion—leaving almost no extra return for the Funds, which provide retirement benefits for 715,000 City workers, retirees and their beneficiaries;

- The poor performance of private asset classes ($2.6 billion below benchmark), combined with the marginally better performance in public markets, has cost the City pension funds nearly $2.5 billion in lost value over the past ten years.

As a result of the analysis, Stringer announced that the City will overhaul how it engages its external managers to better align fees paid to the value created for Fund beneficiaries.

"We need a fee structure that delivers more value for City taxpayers, workers, retirees and their beneficiaries," Stringer said. "Right now, heads or tails, Wall Street wins. In conjunction with our trustees, we are going to re-examine our entire fee structure so that our interests are better aligned and managers who do not create value will not continue to invest our funds."

As part of the review, Stringer said that he will work with other Fund trustees to maximize value from Wall Street, including enhancing disclosure of information around fee structures and providing uniform accounting of net and gross fees across asset classes.

"Retirees and taxpayers alike deserve to know where their money is going and what kind of value they are getting in return," Stringer said. "Moving forward, the City's pension funds will be more transparent about our fees, while demanding fairness and accountability in how our investment partnerships are structured."

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