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FOR IMMEDIATE RELEASE: November 20, 2014

Shapiro Points to Montco Moves As Ways State Can Begin Addressing Pension Woes

Norristown, PA (November 20, 2014) – Montgomery County Commissioner Chair Josh Shapiro today pointed to actions the county has taken as ways Pennsylvania's two pension systems could begin to address their pension problems.

Shapiro made the comments at a joint press conference in Norristown with Auditor General Eugene DePasquale, who urged leaders of the pension systems to negotiate lower fees for fund management, limit exposure to risk, and improve overall transparency regarding investment costs.

When Shapiro took office in 2012 along with Commissioner Leslie Richards and holdover Commissioner Bruce L. Castor, Jr., the county had not made a contribution to the employees' pension fund in five years. Today the county released its proposed 2015 budget that includes the third consecutive year with pension contributions.

"When we took office in 2012, we had a fiscal crisis on our hands with a $10 million hole in the budget and a $47 million structural deficit," Shapiro said. "We fixed that problem and made our first payment to the pension fund in 2013. But we realized that wasn't enough. We had to find ways to save as much money as possible and maximize the performance of our $450 million pension fund."

Shapiro explained that the county looked beyond the usual noise focused on benefit and contribution levels. He pointed out that the board focused on how the pension fund should invest as compared to best practices in the marketplace.

"What we did next raised a lot of eyebrows, and I am sure elicited a few chuckles on Wall Street, although that noise may have been people actually whistling past a graveyard," Shapiro said. "After a thorough review of the pension fund's performance and fees over many years, and discussions with experts about the merits of passive investing, our pension board voted to move 90 percent of our pension-fund assets to a portfolio offered by Vanguard, a Valley Forge-based, investor-owned firm with hundreds of employees in our county."

The early results are in and they are extremely positive. Today the pension fund is over 91 percent funded.

"This shift has reduced the fund's management-fee expenses by more than two-thirds, a savings of more than $1 million annually, giving us an advantage before market performance is even considered," Shapiro said. "We were confident that performance would not suffer since a market-based portfolio index had beaten our actively managed fund's annual performance in eight of the last 10 years despite the efforts of those high-priced managers."

Recently, the Philadelphia Inquirer reported that Montgomery County's "returns for the year ended June 30, after paying fees: 16.23% vs. the fund's 'portfolio specific market benchmark,' which returned 15.9%. That's double the pension's 'actuarial earning assumption' target of 7.5% a year, thanks mostly to the bull market in stocks."

"If the Commonwealth simply did what Montgomery County did, it would save over $600 million before any reforms," Shapiro said. "In Montgomery County we don't see ourselves as pioneers. All we want to do is maximize our returns while keeping our costs down. If the big boys had the same priorities, that whistling near the graveyard on Wall Street would be lot louder."