Dept. of 'Say It Ain't So'

By Kerry Pechter *Wed, Oct 23, 2013*

Forbes reporter Ted Siedle alleges that asset managers are using the financial crisis to gain greater control over the billions in troubled public pensions—in this case, Rhode Island's.

A Florida pension investigator and columnist for *Forbes* magazine has published a 105-page report asserting that the treasurer of Rhode Island has misspent tens of millions of dollars on asset management fees when she could have used the money to preserve retiree benefits.

An executive summary of the report by former SEC attorney and investment company counsel, Edward Siedle, appears on the *Forbes* website. The title is, "Rhode Island Public Pension Reform: Wall Street's License to Steal."

Less than a month ago, *Rolling Stone* magazine and journalist David Sirota published related investigative stories–all of them reflecting the fear and anger among public pension officials that their current financial weakness is being exploited by people who want greater access to their asset pools.

Siedle is the president of Benchmark Financial Services of Ocean Ridge, Fla. He was retained by Council 94 of the American Federation of State, County and Municipal Employees (AFSCME), Rhode Island's largest public employee union, to investigate the management of the $7 billion Employee Retirement System of Rhode Island (ERSRI).

A former regulator and fund company executive, Siedle has published a series of muckraking columns in conservative *Forbes* about the U.S. retirement crisis and about the hiring of hedge fund managers by public employee pension funds. He himself manages pension funds in Florida, he told *RIJ* in a phone interview this week.

Three weeks ago, *Rolling Stone* magazine published a sensational, overheated article about a "plot" by conservative think tanks, foundations and local politicians to use the undeniable financial difficulties of some public pensions—underfunding due to the 2008 crash and systematic underfunding—as an opportunity to convert as many public pensions to defined contribution plans as possible.

RIJ asked Siedle if he agreed with *Rolling Stone's* assertion that there's a "plot" by conservative think tanks, foundations and some politicians to convert public defined benefit plans to DC plans. He paused only slightly before agreeing with the spirit of the *Rolling Stone* piece.

“In the short term, there’s a conspiracy by the hedge funds to suck dry the assets in public pensions,” said Siedle, whose passion for his topic is evident, and occasionally spills over into his prose. “In the longer-term, Wall Street wants to convert DB pensions that currently pay them only 30 basis points to defined contribution plans that pay them 1%.”

The gist of his article is that Rhode Island’s General Treasurer and the fiduciary of the state pension fund, Gina Raimondo, has overseen a large increase in the fees paid to hedge funds for managing ERSRI assets while cutting retiree benefits by a roughly equal amount—all while denying the participants access to information about the decision-making behind it.

According to Siedle’s report, Raimondo increased the allocation of plan assets to hedge funds, venture capital and private equity funds by 25%, to almost $2 billion, in an apparent attempt to increase pension fund returns. Subsequently, the fees paid to such firms rose to $70 million from about $11 million.

During the same time period, the Rhode Island Retirement Security Act of 2011 was passed. It suspended the cost of living adjustment (COLA) for all state employees, teachers, state police and judges, until the pension fund’s overall funding level surpasses 80%.

The chances of the funding level reaching 80% have been hurt, according to Siedle’s report, by the rise in fees and the reduction in April 2011 of the pension fund’s assumed rate of return from 8.25% to 7.5%. (Both figures are still far in excess of the austere risk-free rate that conservative think tanks recommend.) Siedle’s article says there’s reason to believe that consultants will recommend that the rate be reduced to 6%.

Participants in ERSRI have also become alarmed by the fact that Raimondo’s asset managers have brought in sub-par investment returns, thus diminishing even further the chances of a return of COLA increases. The managers earned “a mere 11.07% versus 12.43% for the median public-sector pension during the 12 months ended June 30, 2013,” Siedle writes.

Siedle has made a specialty of investigating and exposing what he believes to misconduct in the pension and investment world. In late 2008, his firm, Benchmark Financial Services, filed a federal class action lawsuit against FINRA, the financial industry’s self-regulating authority, and its managers, including then-chief executive Mary L. Schapiro. The widely-publicized suit accused them of enriching themselves by deceiving members of the National

Association of Securities Dealers (NASD) into accepting only $35,000 each to approve the merger of NASD and the New York Stock Exchange, when the members were entitled to much more.