



## PA Commission Scrutinizes Active Management of Public Pension Assets

### ***Will this—and similar review in other states—lead to major litigation and regulatory activity?***

Active management of pension fund assets, and the associated fees generated for advisory firms, has come under scrutiny in Pennsylvania. Pennsylvania's two largest public pension funds, [according to Pennsylvania Treasurer Joe Torsella](#), could have saved more than \$5.5 billion in fees if the funds had followed a "simple passive index-tracking strategy."

Studying the costs and benefits of both active and passive investment strategies and developing recommendations to generate \$3 billion in savings over 30 years is the directive for the Public Pension Management and Asset Investment Review Commission ("Commission"), created in 2017 as part of Pennsylvania's public pension reform legislation. Findings and recommendations are scheduled to be reported to the Pennsylvania governor and the legislature around the end of the 2018 calendar year. The Commission held the first of its three planned hearings on July 30, 2018.

This review in Pennsylvania comes at a time when public pension plans across the country are facing substantial unfunded liabilities. According to numerous studies, in the wake of the dot-com crash and the onset of the Great Recession, public pension plans now face more than \$1 trillion in unfunded liability.

As these unfunded liabilities have grown, some public pension plans have increased the allocation of assets to actively managed hedge funds, private equity, and real estate investment vehicles. According to [one study](#), public pension plans have more than doubled their allocations to such investments in the past decade, from an average of 11 percent of assets in 2006 to 25 percent of assets in 2014.

The positive performance of passive index-based investments in recent years has been cited by critics, including Torsella, to argue that pensions have wasted substantial sums on active management strategies. Whether such criticism translates to substantial litigation and regulatory activity remains to be seen, although at least one significant litigation matter is currently ongoing in Kentucky, as we will discuss in a separate *Alert*. We will report on the ongoing work of the Pennsylvania Commission in future *Alerts* and continue to monitor the situation for further developments.



**Andy Stanton**  
Pittsburgh



**Jayant W. Tambe**  
New York



**Brian W. Castello**  
Pittsburgh



**Courtney L. Snyder**  
Pittsburgh

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