

PBGC SCAM: IN THE SUMMER, THEY STILL BELIEVED THEY COULD WIN

I have just one thing to add to the great discussion on the report that the Pension Benefit Guarantee Corporation's decision last summer to move the pension fund out of bonds and into stocks.

Just months before the start of last year's stock market collapse, the federal agency that insures the retirement funds of 44 million Americans departed from its conservative investment strategy and decided to put much of its \$64 billion insurance fund into stocks.

Switching from a heavy reliance on bonds, the Pension Benefit Guaranty Corporation decided to pour billions of dollars into speculative investments such as stocks in emerging foreign markets, real estate, and private equity funds.

The agency refused to say how much of the new investment strategy has been implemented or how the fund has fared during the downturn. The agency would only say that its fund was down 6.5 percent – and all of its stock-related investments were down 23 percent – as of last Sept. 30, the end of its fiscal year. But that was before most of the recent stock market decline and just before the investment switch was scheduled to begin in earnest.

First, we know from the fear-mongering about voter fraud and the plans to use foreclosure lists to vote-cage that the Republicans still

believed they had a shot of winning New Mexico, Nevada, Ohio, and Michigan. Last summer, at the time this decision was made but before the switch was enacted (according to the vague dates in the story), Republicans still believed they had a shot at winning the Presidency.

Second, we know that the Bush Administration used federal resources for political ends.

Third, the market was already beginning to tank when they made this decision. And Karl Rove knows you don't win elections if the economy isn't "strong."

Call me crazy. But it sure looks like some Bush flunkie put the potential retirement of a bunch of Americans up in smoke so a guy who married a \$100 million sugar momma would have a shot at being President.

Update: Prof Foland and drational say I'm wrong, and that the scandal is likely cronyism and not electoral politics.

Prof Foland:

Yves Smith has the allocation percentages before and after. To me at least, they don't seem to suggest that this was done to rescue the US stock market. Actually, the US stock market investment percentage went down as a result of the change, from 25% to 20%.

The major change was to ramp up the international equity exposure, from 0% to 25%. A minor change was to ramp private equity exposure, from 0% to 5%.

"High yield fixed income" is, I believe, a euphemism for junk bonds.

If there are shenanigans, I'd guess they're likely to be in the private equity category. It would be interesting to know just which PE firms got that money, and whether any of them are run by former Republican Vice Presidents or Treasury Secretaries.

drational:

Regarding timing:

Looks like they voted to implement the plan in February, 2008, before the market started descending.

After full consideration, PBGC's Board of Directors unanimously adopted a new diversified investment policy on February 12, 2008.

Regarding P. Foland @34:

At the end of FY2007, they had 55 billion dollars of investible assets, 25% in risky stocks. They voted to increase the risk to 55%. It is not clear from congressional testimony and their FY 2008 financial statement whether they made the changes they approved ("PBGC has developed a plan for gradual implementation of the new policy to prevent any disruptions in financial markets")

and from the 2008 annual review/a>:

In FY 2008 [Thru September 30, 2008], PBGC continued to hold a large portion of its investments in long duration fixed income securities, while working to transition the assets into the new target allocations. PBGC will continue to take a prudent and careful approach to the phased implementation of this long-term policy in FY 2009 and beyond.

If they did it, they took 2.5 billion out of the US stock market and put 12.5 billion in the foriegn markets. So this does not sound like electoral manipulation at all.

It seems the scandal may be found in (as

Foland and Klynn point out) the nature of the private equity allocations they moved into.