Should Governments Contribute Parks to Fund Their Pension Plans?

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A really bad idea appears to be gaining traction.

A bad idea for pension funding started with a very interesting book – "The Public Wealth of Nations" – written in 2015 by a Swedish investment advisor and a Swedish economist. The authors estimated that the world has $75 trillion in assets not accounted for in any balance sheet. These public assets include natural resources (such as land, forest, and minerals) and infrastructure (such as ports, airports, roads and bridges). The idea that these assets should be managed efficiently seems perfectly sensible. Woodstock, Vermont, for example, uses its town hall as a movie theater, so its infrastructure yields some return. It might also make sense to sell off some public land to reduce excessive outstanding debt.

Current proposals take a sensible notion – manage public assets efficiently – in a whole new direction –namely, transfer government assets to the pension fund to pay off large unfunded liabilities. Several states – those with the most underfunded plans – appear to be taking the notion seriously.

Those advocating for the transfer of public assets make a number of arguments:

- Pension fund managers have a fiduciary obligation to grow the assets and therefore would be better managers than the government itself.
- The government of Queensland, Australia transferred a toll road to its defined benefit plan, which made improvements and sold it for more than twice its original value.
- Because of the tax-free status of the pension fund, the government can make a larger contribution by transferring the asset directly than selling it to a private sector buyer and transferring the proceeds of the sale.

None of these arguments hold water:

- Managers of the poorly funded plans most likely do not have the ability to grow government assets; they tend to earn below-average returns on the assets in their funds.
- U.S. pension funds, unlike those in Australia, generally do not invest directly in infrastructure and would not have the capability to manage a toll road.
- Yes, the government can transfer $100 by contributing the asset directly compared to $80 from the proceeds of a sale, but when the fund sells the asset to a private buyer it will only get $80.

Moreover, the downside of transferring assets is enormous:

- The optics could be terrible; at the extreme, a four-year-old could not join her friends in the park because entrance fees have been introduced to pay pensions for public employees.
- The potential for obfuscation and corruption are high, since government assets are notoriously hard to value.

- Asset transfers would distract fund managers from earning the highest risk-adjusted return.

This movement should be nipped in the bud.