Creating Good Jobs for Our Communities: Pension Dollars at Work

Michael Wasser, March 2011

Over the past year, defined benefit retirement systems, known more commonly as pensions, have been the target of political attacks. Newly elected governors in states ranging from Wisconsin to Florida argue that the public employee pensions are a fiscal burden to taxpayers.[1] Conservative groups like the Hudson Institute assert that defined benefit plans negotiated as part of collective bargaining agreements create problems through underfunding.[2] This attack on pensions flanks the assault on unions, as union members are more than three times more likely to have a pension plan than non-union workers.[3] Critics do not mask the connection between eradicating unions and eliminating pensions, as a participant at the 2011 Conservative Political Action Conference opined, "If we just stop and cure the pension problem, we have not gone far enough."[4] In doing so, they use the economic downturn as an opportunity to diminish the expectations of workers and permanently limit the value of pensions, even when prosperity returns.

The attack on pensions ignores the fact that these funds do not only provide for a decent retirement after decades of hard work; they serve as a powerful source of capital that drives our economy. In this brief, we shine the light on one small fraction of these investments. Pension fund investment of billions of dollars in construction funds and real estate trusts bring solid, competitive returns while also providing hundreds of thousands of good, family-supporting jobs for communities. In this way, our analysis serves as a perspective on the way workers' dollars can be harnessed fully for the good of workers and their communities and shows that strategies to slash pensions are short-sighted and cut off a path toward economic prosperity.

The Power of Pensions

For American workers, there are only a few ways to meaningfully save for retirement and even fewer ways to guarantee those savings beyond defined benefit plans. The federal government guarantees Social Security Insurance for eligible workers beginning as early as age 62. While one-third of American households only have access to this form of retirement income beyond whatever savings they may have on hand, it does not provide nearly enough to live on alone for the average retiree.[5] Individual retirement accounts and defined contribution plans – of which 401(k)s are the most common – provide no certain payout and are subject to the whims of the

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[1] Greenhouse, S. (2011, Jan. 3rd). Strained states turning to laws to curb labor unions. *New York Times*. Retrieved from http://www.nytimes.com.; Klas, M. E. (2011, Jan. 29). State workers fear likely pension fees. *The Miami Herald*. Retrieved from http://www.miamiherald.com.

[2] Furchtgott-Roth, D and Brown, A. (2009). Comparing union-sponsored and private pension plans: How safe are workers' retirements? Washington, DC: Hudson Institute.

[3] U.S. Bureau of Labor Statistics. (2009). *National Compensation Survey: Employee Benefits in the United States, March 2009*. Retrieved from Bureau of Labor Statistics website: http://www.bls.gov

[4] Denvir, D. (2011, Feb. 14). At CPAC, conservatives glorify attacks on public-sector unions. *In These Times*. Retrieved from http://www.inthesetimes.com

[5] --. (2011). *A preamble to the principles for a new system*. Washington, DC: Retirement USA. Retrieved from http://www.retirement-usa.org

markets. Only defined benefit plans – backed by the Pension Benefit Guaranty Corporation (PBGC) – provide workers access to a known, substantial form of income that provides a meaningful retirement.[6]

In addition to providing a secure retirement, pension funds power capital markets. The importance of public and private employer-based pension funds in driving the private sector cannot be overstated. In 2009, U.S. pension funds held $5,938.2 billion in assets. Investors divide this vast sum of money among equities, bonds, cash, and other investments.[7] From well-known corporations to little known bond offerings, workers' dollars supplied the necessary capital to keep economies here and abroad churning.

Of course, pension funds do not function as altruistic operations. Stakeholders intend them to perform and create a return for the investor. In this way, defined benefit plans perform quite well. During the financial markets' darkest days since the Great Depression, defined benefit plans outperformed defined contribution plans. Studies show that defined benefit plans perform better than defined contribution plans in both up and down markets.[8]

Pension plans also drive local and national economies when plan participants draw money from them. The National Institute on Retirement Security (NIRS) measured the overall economic impact of benefits paid by state and local government pension funds during FY 2005–2006. In this time frame, the funds paid out over $151.7 billion in deferred compensation to 7.3 million retired employees and their beneficiaries. As the retirees used their monthly pension payments for day-to-day services and goods, each dollar of pension benefits supported $2.36 in total economic output. As the NIRS report makes clear, "…local economies…benefit from the regular expenditures these retirees make on food, medical services, transportation, and even the occasional movie matinee."[9]

Solid Investments with Collateral Benefits

As pension funds invest in a whole range of asset categories, opportunities exist for diversified strategies within each asset class. This report looks at a narrow area of investing within asset classes identified as Economically Targeted Investments (ETIs). This type of investment "…aim[s] to generate collateral benefits and to yield market-based rate of returns."[10] In doing so, these investments intend to generate a double, even triple, bottom line that creates returns for the pension fund while also facilitating good jobs and, in some instances, promoting environmental sustainability. While powerful, these types of assets generally account for no more than five percent of a fund's total investments.[11]

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[6] *Who we are*. (2011). Retrieved February 24, 2011, from Pension Benefit Guaranty Corporation website, http://www.pbgc.gov/about/who-we-are.html.
[7] --(2010). *2010 global pension asset study*. New York: Towers Watson.
[8] Miller, S. (2010). Defined benefit plans outperformed 401(k) plans during bull and bear markets. Retrieved July 8, 2010, from SHRM, Benefits Discipline website, http://www.shrm.org/hrdisciplines/benefits/Articles/Pages/DBoutperformed.aspx.
[9] Boivie, I., & Almeida, B. (2009). *Pensionomics: Measuring the economic impact of state and local pension plans*. Washington, DC: National Institute on Retirement Security. p. 1.
[10] Hebb, T. (2001). Introduction: The challenge of labor's capital strategy. In A. Fung, T. Hebb, & J. Rogers (Eds), *Working capital: The power of labor's pensions* (pp. 1-12). Ithaca, NY: ILR Press. p. 6.
[11] Hebb, 2001.

This report focuses on investments into construction funds and real estate trusts that provide a solid return and create good jobs. Interest in this type of alternative investment represents a relatively recent phenomenon. Since 1994, Taft-Hartley pension fund portfolios have dedicated an increasing percentage to them, doing so mostly through commingled funds and trusts.[12] As investment expert Jack Marco notes, "While pension fund investing in stocks and bonds provide needed returns in pension funds, these targeted investments do more. They provide economic development in the good jobs they provide on the project and moreover, the ripple effect throughout the neighboring community."[13]

Choosing to invest in such construction funds and real estate trusts proves beneficial for both the defined benefit plans and the workers on these projects. The funds and trusts invest in a range of projects, including both residential and commercial construction, that help mitigate volatility and keep people working. In order to ensure the jobs created are good jobs, with fair pay, safety protections, and solid benefits, investors bring on contractors who use union labor. As these union contractors gain market share, more workers access good, family-supporting jobs and participate in pension funds – helping to ensure the long-term health of the funds. Trusts and funds also target their investments geographically, choosing to build in locales where plan participants live and work. Doing so ensures that workers stay on the job and contributions to the pension fund continue at a regular pace.[14]

Benefits from real estate investments can extend beyond even initial construction. Many real estate trusts employ responsible contractor policies (RCPs) for tenant improvement projects and building services. While not explicitly mandating union labor, RCPs provide notice that a particular investor or asset manager holds an interest in promoting high-road workplace standards. In the United States, the California Public Employees Retirement System (CalPERS) set the standard for RCPs in 1991. Its prototype language "...makes clear that the duty of CalPERS' investment decisions is to maximize shareholder value and that the RCP itself must not in any way prevent investment managers or other decision-makers from pursuing the policy that best achieves that goal."[15] Even with RCPs in place, these real estate investors use the standard industry financial benchmarks and determine their performance the same as any competitor.[16]

Like all pension fund activity, alternative investments must comply with appropriate laws. The Employment Retirement Income Security Act of 1974 (ERISA) regulates Taft-Hartley joint pension funds and private employer-sponsored defined benefit plans, while state laws regulating public sector pension funds tend to mirror it.[17]

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[12] Calabrese, M. (2001). Building on success: Labor-friendly investment vehicles and the power of private equity. In A. Fung, T. Hebb, & J. Rogers (Eds), *Working capital: The power of labor's pensions* (pp. 93-127). Ithaca, NY: ILR Press

[13] Marco, J. (2011, March 9). Personal interview.

[14] Calabrese, 2001.

[15] Hebb, T., Wood, D., & Hamilton, A. (2009). *Responsible property investing and property management: Exploring the impacts of good labour practices on property performance*. Ottawa, ON: Carleton Centre for Community Innovation. p. 18.

[16] Hebb et al., 2009.

[17] Ghilarducci, T. (2001). Small benefits, big pension funds, and how governance reforms can close the gap. In A. Fung, T. Hebb, & J. Rogers (Eds), *Working capital: The power of labor's pensions* (pp. 158-180). Ithaca, NY: ILR Press

ERISA mandates that pension fund trustees have a fiduciary duty to invest "...plan assets prudently and solely in the interest of plan participants and beneficiaries."[18] The U.S. Department of Labor (DOL) plays an important role in interpreting and enforcing the statute.

The DOL provides guidance on how ERISA's fiduciary responsibility operates with regards to ETIs. In a 2008 interpretive bulletin, the DOL's reading of the statute asserted that "...third-party benefits may be used as a tie-breaking factor when the plan's 'alternative [investment options] are truly equal.'"[19] Even the most conservative of legal scholars argue that the bulletin still allows for ETIs, so long as any benefits outside of returns are truly collateral.[20] As results from this study show, investments in construction funds and real estate trusts that put an emphasis on creating good jobs do provide competitive rates of return for the pension funds – in a manner that also supports the community.

Methodology

This study provides an accounting of the amount of public and private pension money invested in such construction funds and real estate trusts from 1995 to 2010 that in addition to producing solid returns, promote good job creation as a result of their investments. This time frame helps reduce the effect of short term economic booms and busts. The total amount invested by public and private pension funds into these investments is matched with the number of jobs created by the construction funds and real estate trusts and median returns over the same time period. To protect the identity of contributing construction loan funds and real estate trusts, results are reported at the aggregate level. While this brief does not cover all such investments, conversations with key investment experts confirm that the participating entities invest the vast majority of pension money in these types of high-road financial arrangements.

Results

Table 1: Amount invested by public and private pension plans into construction and real estate ETIs and approximate number of job years created, 1995–2010.

AMOUNT INVESTED	JOB YEARS CREATED (APPROXIMATE)
$21.763 billion	161,083

Table 1 shows the aggregate amount of money invested by both private, Taft-Hartley pension plans and public employee pension plans into the sample of construction funds and real estate trusts between 1995 and 2010.[21] While $21.763 billion stands out as a significant investment of money, it represents only 0.004 percent of assets held by defined benefit plans in 2009. In this light, the study's sample shows the great

[18] Croft, T. (2009). *Up from Wall Street: The responsible investment alternative*. New York: Cosimo. p. 50.
[19] Zelinsky, E.A. (2009). Interpretive bulletin 08-1 and economically targeted investing; A missed opportunity. *Southern California Law Review*, 82, 11-18. p. 15.
[20] Zelinksky, 2009.
[21] Funds part of the study's sample include: AFL-CIO Building Investment Trust, AFL-CIO Housing Investment Trust, Intercontinental Real Estate, Multi-Employer Property Trust, and Union Labor Life Insurance Company (ULLICO).

potential for continued alternative investments in construction funds and real estate trusts that hold important the collateral benefit of creating jobs.

The table also lists the number of job years created as a result of the investments. Due to differences in reporting by the funds and trusts participating in this study, the number of jobs created is an estimate based off both job hours and actual jobs reported.[22] The majority of jobs created by these alternative investments are in construction, which are fixed term in nature. It is possible for a single construction worker to work continuously throughout a calendar year in different jobs. Even so, this result demonstrates how important union pension investments are to communities. The jobs created as a result of investments into the study's sample of construction funds and real estate trusts provide a liveable wage, health care, and retirement benefits.[23] Matched with the amount invested, these jobs demonstrate how workers' dollars power local economies.

Table 2: Median returns of sample construction funds and real estate trusts, divided by type, and compared to appropriate benchmark index.

	SAMPLE MEDIAN	INDEX
BONDS	6.47%	6.04%
REAL ESTATE	4.85%	4.62%

As Table 2 makes clear, alternative investments in these construction funds and real estate trusts meets the fiduciary responsibilities by providing a competitive rate of return for the client pension plans. Investors use the Barclays Capital U.S. Aggregate Bond Index as a benchmark for construction bonds, while using the National Council of Real Estate Investing Fiduciaries (NCREIF) Property Index to track the performance of real estate investments. The median returns of the study's sample construction funds and real estate trusts outperform their respective indexes. While returns are sensitive to market conditions, the results here indicate that investing in high-road construction and real estate projects through the funds and trusts creates dividends for pension funds and communities.

Workers' Investment Dollars at Work

Though the specific amount of pension fund investments and number of jobs they created are certainly impressive in their own right, these numbers actually tell an important story. For instance, in the San Francisco Bay Area, the AFL-CIO Housing Investment Trust (HIT) is financing the construction of two multi-family developments: Arc Light and Potrero Launch. The projects are putting women and men back to work in a region and industry hard hit by the recession. The Arc Light project alone will put 270 construction workers back to work. In addition, the projects also benefit the community by increasing the availability of affordable housing for median- to low-income families. Both Arc Light and Potrero Launch will reserve 20 percent of total units for this segment of the population.[24]

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[22] To find estimated number of job years, total job hours were divided by 2,080 hours (assuming 40 hours of work over 52 weeks).

[23] The conditions of employment for the jobs created are based on reporting by the funds and were not confirmed by American Rights at Work.

[24] Burton, P. (2010) Two new Martin Building Company all-union projects in the works. Retrieved from San Francisco Building and Construction Trades Council website, http://www.sfbuildingtradescouncil.org/content/view/481/65/.

Along with putting people back to work and increasing affordable housing for the San Francisco Bay Area, HIT's investment – made possible because of union pension fund investments – is also improving the environment. The Arc Light development is on pace to be San Francisco's first LEED Gold-certified residential complex. Potrero Launch will help contribute funds to GreenTrust,[25] a community-based nonprofit that helps plan green spaces into larger development areas.[26]

Another example of workers' dollars powering a local economy is at work in Maryland just outside Washington, DC. Due to $53 million in funding from the AFL-CIO Building Investment Trust (BIT), construction is currently underway on the Ritchie Station Marketplace in Prince George's County, MD. Over 1,000 construction workers are building one of the largest projects of its kind in the United States right now.[27]

When completed, Ritchie Station will make available approximately one million square feet of retail and mixed use space. With tenants in place, the complex will provide Prince George's County and the surrounding area with an influx of tax revenue and more than 3,000 jobs. And as BIT will maintain ownership of the property, it will main job standards as well, as the Trust's leasing requirements include RCP language. BIT's investment in the Ritchie Station Marketplace is earning a good return for the pension plan and making a difference for the community – one made available because of workers' pensions.[28]

Conclusion

As our accounting of high-road pension investments in construction funds and real estate trusts demonstrate, pension plans power local economies throughout the United States by creating good jobs while providing a solid return on investment. Whether in San Francisco or Prince George's County, MD, workers' dollars serve as a powerful economic catalyst. The investing we identified is quite large in its own right, yet it only hints at the potential benefits that can come with expanding this type of investment, as it represents a tiny fraction of total pension assets. On top of that, if more workers had union representation and could negotiate with their employers for pension plans and a secure retirement, more of their money could be redirected back to their own communities and into type of high road development projects. At a time when federal, state, and local governments are unwilling to fund projects that would put people to work and stimulate the economy, defined benefit pension plans could provide the necessary capital to do just that and recharge our local economies.

[25] Burton, 2010.
[26] *About us*. (n.d.). Retrieved March 7, 2011, from GreenTrustSF Central Waterfront website, http://gtsfcw.org/vision.htm.
[27] *BIT's Ritchie Station Heralded at Building Trades Convention*. (2010). Retrieved from AFL-CIO Building Investment Trust website (video), http://www.aflcio-bit.com/News-and-Media/Headlines/BIT-s-Ritchie-Station-Heralded-at-Building-Trades-.aspx.
[28] *BIT's Ritchie Station Heralded at Building Trades Convention*, (2010).