

# Public Pension Plans: Expanding the Return Box to Positively Impact Communities

By Lesylleé White and Emily E. Johnstone

As public pension plans have become increasingly focused on ESG investments through proxy voting and risk screening, some plans are looking to have a more direct economic impact on their community and members. In particular, investing in affordable local housing and creating jobs across communities may be one strategy for public pension plans to improve returns while also serving the broader interests of their participants.

Effective impact investing might mean prioritizing investments that seek to meet return expectations, while creating jobs and economic activity that add to the state or local municipality's tax base. This can help support the long-term health of members' pensions. With cities and states under increasing pressure as the percentage of their budget attributed to pension costs continues to increase, local investments can help.



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*“Economically Targeted investments bolster our pension system while adding social benefits for the men and women who built our city. Since inception, by investing with groups like AFL-CIO HIT, the pensions have been able, not only, to achieve competitive risk-adjusted returns, but also to finance more than 100,000 units of affordable housing and thousands of good jobs for New Yorkers in need.”*

*–Scott Stringer, Comptroller, City of New York*

These investments can also increase and preserve the supply of affordable and workforce housing where it is needed most. Supply of rental units affordable to low- and moderate-income households has not kept pace with growth in demand.<sup>1</sup> Approximately one third of U.S. households live in rental housing, but despite recent declines, the number and share of cost-burdened renters (defined as those who pay over 30% of their income) remain well above levels a decade ago (at over 47% in 2016).<sup>2</sup> Revitalizing neighborhoods through preservation and rehabilitation of affordable housing can also return distressed properties to a locality's tax rolls.

The five pension funds of New York City (NYCRS) have collectively invested in its community. NYCRS established an Economically Targeted Investment (ETI) program to address market inefficiencies by providing capital to underserved communities and populations. The NYCRS Trustees allocated 2% of pension assets toward ETIs, which are targeted towards affordable or workforce housing for low-, moderate- and middle-income populations.

Investments by one of NYCRS currently active ETI managers have had a significant impact on New York City since 2002. These investments have created or preserved 34,500 units of affordable

## Impact of Investments in Affordable Rental Housing in NYC 2002 – Q1 2018

Investments in 53 Projects	\$1.35 billion
Total Development Investment	\$3.27 billion
Affordable Units Created/Preserved	34,500
Wages Generated	\$991 million
Jobs Created	13,500
State & Local Tax Revenue Generated	\$150 million
Total Economic Benefit	\$2.32 billion

Source: IMPLAN, Pinnacle Economics, AFL-CIO Housing Investment Trust, in 2017 dollars.

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and workforce housing, and have generated an estimated \$2.3 billion in total economic benefits, over \$990 million in personal income, and \$150 million in state and local tax revenue.

When a pension plan makes investments to address issues facing its local community, it can realize a competitive return while addressing some of the factors that can help its participants. It can quantify the number of affordable units preserved or constructed, the economic benefits for the community due to the effects of construction job creation rippling through their economy, and the increase in their tax base.

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A number of investment options are available for making locally focused investments, including separate accounts and commingled funds. Public plans and their consultants should review investment managers for their ability to achieve measurable impact objectives for their community and for the health of their pension plan, together with financial returns. ♦

<sup>1</sup> America's Rental Housing 2017, Joint Center for Housing Studies of Harvard University page.13.

<sup>2</sup> Joint Center for Housing Studies of Harvard University; tabulation of US Census Bureau, 2016 American Community Survey.

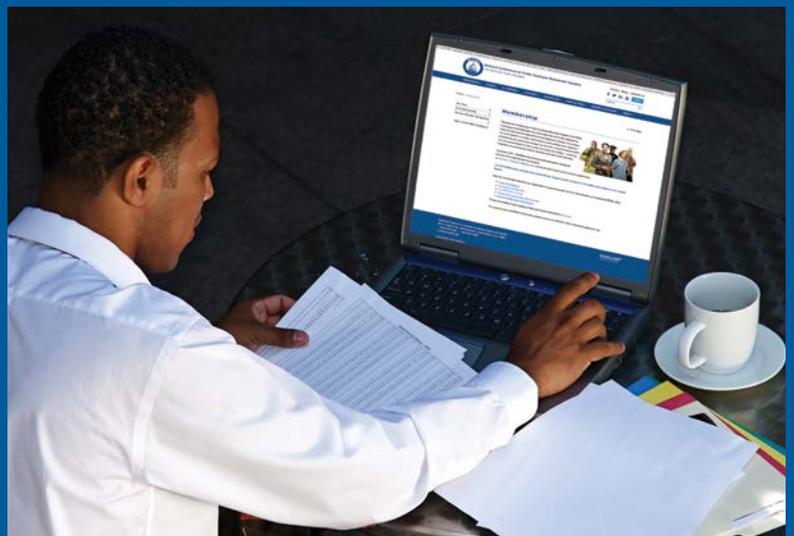
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