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Proposals let state funds plunge into stock market

Amendments' aim is higher cash return

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By Robert Travis Scott

BATON ROUGE -- Louisiana citizens will vote Sept. 30 on two changes to the state Constitution that would give the state's university endowments and a health care fund a freer hand to invest in the stock market to improve their bottom lines.

Proposed amendment No. 7 would let the state treasurer invest up to 35 percent of the Medicaid Trust Fund for the Elderly in stocks. The fund, which provides support for health care programs for the poor and elderly, currently has about \$830 million, almost entirely invested in low-interest bonds and other low-risk investments.

Proposed amendment No. 10 would let higher education institutions buy stocks for investments of up to 35 percent of the state-financed portion of their endowments. The university systems are in favor of the change.

For example, Louisiana State University had a total endowment of \$259.1 million as of June 30. Most of the money was donated by private sources and already can be invested in stocks. The endowment's \$54.9 million in public money from the state is invested in low-risk securities.

Under the proposed amendment, the university would be able to invest up to 35 percent of that public portion in so-called equities, meaning that up to \$19.2 million could be put in the stock market. The University of New Orleans has a \$46.8 million total endowment, of which \$15.6 million is state-financed. At that level, the amendment would let the school invest \$5.5 million of its portfolio in stocks.

Low-risk investments such as U.S. Treasuries, bank certificates of deposit and high-grade corporate bonds provide a relatively predictable and modest return on investment compared to stocks, which are riskier but generally over time have produced a higher rate of return. The actual return, however, will depend on the specific stocks chosen, not necessarily on the average return of the stock market as a whole.

In the past fiscal year, LSU got a 7.78 percent return on its conservatively invested public portion of the endowment. The private portion, put into stocks and other investments, saw a return of 12.25 percent.

On average nationwide, stocks make up 58.5 percent of university endowments, according to the Public Affairs Research Council of Louisiana.

The lone vote against the measures in the Legislature came from state Rep. Shirley Bowler, R-Harahan, who has two principal reasons for opposing the amendments.

"I don't think it's a good idea to invest public money in a way that it can be lost," Bowler said, referring to the riskier nature of the stock market.

The other reason is that whenever the government buys stocks, it is picking winners and losers among corporations in the marketplace. That should not be the role of government, Bowler said. Such decisions could lead to conflicts of interest, showing that government agencies should not become "too chummy or too dependent on private enterprise," she said.

The relative return on investments often depends on which period of time is being measured. The stock market turned down dramatically in 2000 and was further impacted by the 2001 terrorist attacks.

Standard & Poor's 500 index of stocks has performed with an annual return of 3.97 percent in the past five years but 8.95 percent over the past 10 years. By comparison, the Lehman Brothers aggregate bond average has returned 5.11 percent in the past five years and 6.29 percent in the past 10 years, according to PAR research.

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