FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS APRIL 2021 ON FLORIDA PENSION ISSUES

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Florida State Legislature adjourns on April 29. SB84, after passing the State Senate, was not considered by the State House of Representatives, and therefore expires at adjournment.

Florida Senate Bill Overhauls State Pensions

Florida Political Review, April 22, 2021

Sparking protests from labor unions and Democrats, the Florida Senate voted along party lines (24-16) earlier this month to pass legislation that would overhaul the state's pension program for public sector employees. Critics question the effect the change would have on pension security. Democrats expressed concerns that fewer employees on the pension plan would allow — if not encourage — the state to take dollars away from the fund. Others note that the state's generous pensions help recruit new employees that might not want to work for the state if SB 84 becomes law. The bill passed the Senate, sending it to the Florida House where there is currently no companion bill. Florida Republicans, unimpeded by a powerful labor lobby, have long considered reforms to the FRS, and in a year where the economy has contracted and hotly contested social and cultural issues, they may be able to pass one of the most significant reforms in the history of the state's pension system.

Don't punish Florida state, local employees

Editorial, Palm Beach Post, April 25, 2021

Every now and then there arises an idea to change the Florida Retirement System (FRS). The proposals are typically billed as "reforms" but are often anything but. This year's shortsighted effort is no exception. A closer look at the FRS shows that there is no problem to be fixed, leaving SB 84 little more than a vehicle to divert millions that would appreciate over time into alternative — and riskier — investment funds managed by Wall Street firms friendly to Republican politicians. The Senate's consternation over Florida's retirement program might surprise people who actually know something about it. The state's pension program still has a AAA credit rating and a very manageable liability relative to the size of Florida's economy. Its funded ratio sits among the nation's best. Its sizeable returns on investment pay the bulk of retirement benefits. In fact, the program's retirement trust fund is doing fairly well. While the fund pays out $600 million a month, Williams testified during a March meeting of the Florida Cabinet, it currently stands at $184 billion, up 18% over the previous fiscal year. The so-called "unfunded-actuarial-liability crisis," said Williams, is actually an obligation that the state is paying off and has under control. If there's a crisis, the Legislature itself helped create it when, in the late 1990s and early 2000s, it decided to withhold employer contributions to the fund for 10 years.

Editor's Note: This editorial also ran in the Gainesville Sun on April 26, 2021.

Pension Bill is Politics, Not Policy

Letter to Editor, Palm Beach Post, April 29, 2021

Florida Public Pension Trustees Association would like to commend the Palm Beach Post for its April 25th editorial opposing Senate Bill 84, which would close the Florida Retirement System to all future hires, excepting

"special class" workers like police and fire. Pension funding is a complex issue and it is clear to us that the bill's supporters do not understand the fundamentals. The FRS is not an existential threat to the state's budget or to taxpayers. An unfunded liability represents the portion of money that will be needed to pay retirement benefits to every employee in the plan when they retire. Unless every worker in Florida retires at the same time – tomorrow – the unfunded liability represents only the money that will need to be earned or collected by the time they do. -FRS has an unfunded liability, but it is not underfunded. At 82% funded, the FRS has enough money on hand to pay retirement benefits to 82% of retirees covered by the plan if they all retired tomorrow, which of course is not going to happen. Moreover, it's on track to restore its full funding ratio within 30-years.
Kim Prior, CEO, FPPTA
Editor's Note: It is the third letter to the editor – the first two have nothing to do with FPPTA.

Pensions In The Sunshine State: Avoiding Unintended Dark Clouds

By Dan Doonan, Forbes, April 1, 2021

Florida lawmakers are considering legislation that would eliminate retirement plan choice for state employees. The proposed measure would do away with defined benefit pensions for newly-hired employees, offering only a 401(k)-style defined contribution plan. Other states and localities that have implemented dramatic shifts to their public employee retirement plans have experienced unfortunate, unintended consequences – from skyrocketing costs to losing experienced employees who deliver essential public services. In some cases, governments have actually re-instated their pension plans after the experiment proved a fiscal failure. Pensions largely are funded by regular employee contributions and investment returns, cutting off a key source of revenue likely will drive up taxpayer costs substantially and trigger an investment strategy that generates lower returns. Pensions serve as employee magnets for state and local governments that continuously struggle to recruit and retain experienced and qualified employees. The Florida Retirement System (FRS) has a long history as one of the best managed retirement systems in the country. The state pre-funds retirement benefits, with employees making contributions each pay period. Between 1993 and 2018, the bulk of Florida's public pension benefits were covered by employee contributions (3.5 percent) and investment earnings (71.3 percent). Some 25.2 percent of Florida's pension fund receipts are derived from employer/taxpayer contributions. This is a highly efficient way to provide modest but stable retirement benefits to public workers in the state, with employees and investments covering nearly three-fourths of the costs.
Editor's Note: Dan Doonan is the executive director of the National Institute on Retirement Security.

Unions warn: Senate bill would hand over state retirement system to 'Wall Street swindlers'

By Michael Moline, Florida Phoenix, April 1, 2021

Unions are organizing last-ditch efforts to defeat legislation that would bar new state and local government employees from Florida's public pension plan and commit the retirement income of thousands of administrators, teachers, nurses, and more to private investments. The legislation (SB 84) would require all workers joining state government's workforce after July 1, 2022, to forgo the traditional pension plan in favor of a "defined contribution" plan — that means investment vehicles like 401(k)s that don't guarantee retirement income. It could hit the Senate floor as soon as Wednesday. The bill exempts "special risk" workers — police, corrections, and probation officers, firefighters, and paramedics and EMTs. But they represent the smallest class under the retirement system and earn the most in benefits, Rick Templin, a lobbyist for the Florida AFL-CIO, said during a Zoom news conference. Without fresh contributions from new workers, the responsibility for keeping the Florida Retirement System afloat would fall on taxpayers, Templin said. Lee County Republican Ray Wesley Rodrigues is carrying the bill, but the main force behind it is Senate President Wilton Simpson, a Republican representing Citrus, Hernando, and part of Pasco counties.

State pension reform introduced in Senate

By James Call, Palm Beach Post, April 8, 2021

The bill (SB 84) prohibits most new hires from joining the Florida Retirement System's traditional pension, or 'defined benefits,' plan. Instead, it steers them into an investment vehicle that's like a 401(k) plan, dependent on the stock market. That shift poses twin threats to workers' retirement plans, opponents argued: It reduces the flow of income to the pension fund and ties the fund's health to Wall Street. Groups like the AFL-CIO, the American Federation of State, County and Municipal Employees, and the Florida Education Association had called on lawmakers to defeat the proposal and provided talking points for debate. While the FRS unfunded liability totals $36 billion, financial experts in two separate audits declare the fund healthy and the amount manageable, given the size of the state's economy. The FRS consumes about 0.06% of the state budget on average each year. The state is on track to pay off the unfunded liability in the next 30 years. Before the Great Recession the fund actually had a surplus. The bill will next be scheduled for a third and final reading, with debate and a vote in the Florida Senate. There is no House companion.

Senate set to vote to rewrite state's retirement system

By Renzo Downey, Florida Politics, April 7, 2021

Legislation to wean state employees off the Florida Retirement System is ready for a vote in the Senate. Republican Sen. Ray Rodrigues' bill (SB 84) would require most new government employees, beginning July 1, 2022, to enroll in an investment-style plan rather than the standard FRS. That's a "generational change" to ensure the pension's long-term stability. Other states have made the switch to an investment plan. Rodrigues acknowledged that the shift hasn't worked out for every state, but he said Florida's situation is different. There is no House companion for the measure. The bill next heads to the House, which may assign it to committees for consideration.

Florida Senate sends 'generational' pension revamp to House

By John Haughey, The Center Square, April 9, 2021

The Florida Senate Thursday approved a hotly-contested "generational" revamp of one of the nation's largest public worker pension plans into a 401(k)-program similar to those offered by private sector employees. Rodrigues said weaning new employees off the FRS would be a "generational change" necessary to ensure long-term stability for millions of Floridians, including teachers, law enforcement officers and firefighters. Labor unions and Democrats vigorously opposed SB 84's committee advance and pushed back Thursday, noting Florida State Board of Administration Chief Investment Officer Ash Williams told the Florida Cabinet the FRS is in good shape. "He was flat-out asked at the March Cabinet meeting about the unfunded actuarial liability and he flatly rejected the notion that this is a problem," said Senate Democratic Leader Sen. Gary Farmer, D-Lighthouse Point, noting analysts deem any fund with enough cash to pay 30 percent of liabilities fiscally sound. SB 84 breaks a "fundamental promise" the state made to public workers, said Sen. Loranne Ausley, D-Tallahassee.

Teachers & K-12 support staff push back against bill over concerns about pension security

By Dylan Lyons, WCJB-TV, April 12, 2021

Florida teachers and K-12 support staff are fighting to save their pension. They believe Senate Bill 84 will cause them to lose something they were promised, their defined benefits pension. Instead, new employees would have to enroll in a 401(k) style retirement plan. Putting money into a 401(k) style pension is not realistic because then they are relying on something that is not guaranteed. Former teacher Kim Cook believes this pension plan is being defunded because fewer people are paying into it. She said teachers and support staff are a significant contributor to the fund. "Teachers were promised in 1968 that they would also have a pension because the salaries were so low in the state of Florida," explained Cook. If this law goes into effect, Cook thinks the teacher shortage could become worse.

Palm Beach County educators oppose proposal to end pension plan for new teachers

By: Michelle Quesada, WPTV, April 22, 2021

A bill moving through the Florida Senate aims to end pensions for new teachers enrolling after June of next year, angering some Palm Beach County educators who believe it puts the entire state retirement system in jeopardy. Jacqueline Major is in the 29th year of her teaching career. "Nobody goes into education to get rich," the Palm Beach County school teacher said. In the last few years, she said, teachers have been tested by mass shooting drills, a pandemic, virtual learning and now a threat to future teacher pensions. SB 84 proposes ending pensions for eligible employees enrolling after June 2022 but excluding special-risk class members like police officers and firefighters for being first responders.

Florida's pension debt — $36 billion and climbing — must be controlled | Commentary

By Raheem Williams, Orlando Sentinel, April 1, 2021

The pension plan that provides retirement benefits to over one million Florida teachers and state and local government workers has over $36 billion in public pension debt. If nothing is done to address this debt and the pension system's rising costs, Florida will struggle to deliver the pension benefits that workers are counting on and taxpayer funds will be diverted away from other priorities like education and infrastructure. And Florida's pension problem is rapidly getting worse. In just the last two years, the Florida Retirement System (FRS) has added $6 billion in unfunded liabilities. The long-term cost of inaction is too expensive to ignore. Florida's ability to strike a balance between a low tax environment and quality public services has turned it into an attractive state for both young workers and older retirees. To preserve such a reputation, policymakers need to recognize and act to correct the state's growing pension problem.
Editor's Note: The writer is a policy analyst with the Pension Integrity Project at Reason Foundation – a group opposed to public defined benefit plans. Reason Foundation's Pension Integrity Project has helped policymakers across the country implement comprehensive public pension reform.

City aims to lower pension liability

Brittany Carloni, Naples Daily News, April 10, 2021

Naples is considering $35 million in bonds to lower the unfunded liability across the city's three pension plans, a move government finance expert says is a big risk. But Naples is in a strong financial position to take on bonds, which could help the city save money, said Naples Councilman Ted Blankenship, the chairman of the city's joint pension boards. The Naples City Council at a public workshop asked for a resolution to be prepared that would allow the city to issue up to $35 million in taxable pension bonds to raise the funding levels of each of the city's pension plans for police, fire and general employees. Currently, the city's three pension systems are each funded at levels between 75% and 85%, according to the city's 2020 comprehensive annual financial report. This means that the employee retirement benefits promised to employees are not fully funded at this time. More than $44 million is unfunded over the city's three plans as of the end of the city's 2020 fiscal year. The city assumes a 7% rate of return on pension fund investments to meet the fund's obligations. If the city doesn't have the unfunded $44 million invested when it needs those proceeds to meet its obligations, the city will have to pay the 7% instead of being able to rely on its investments. Naples could use bonds to borrow money at a lower interest rate than what is expected to come from its investments and save money they would have to pay to meet its obligations. Councilman Blankenship said raising the funding levels of the pensions helps the city recruit and retain good employees.
Editor's Note: There is no link as the newspaper charges to view articles – even one.

Study Suggests There Is No Imminent Public Pension Crisis

By Michael Katz, Chief Investment Officer, March 31, 2021

Contrary to popular belief, a recent research paper from the Brookings Institution argues there is no imminent crisis for most public pension plans. As the paper notes, much ado has been made in recent years about state and local pension plans' large unfunded liabilities, with one study estimating that public pension funds' obligations exceed their assets by nearly $4 trillion. The paper focuses on whether state and local pension plans are fiscally sustainable over the medium- and long-term under current policies and funding levels, and what changes are needed if they aren't. The paper projected the annual cash flows of state and local pension benefits and found that pension benefit payments in the US as a share of the economy are currently near their peak and will remain there for the next two decades. However, it also said the reforms enacted by many plans will gradually cause benefit cash flows to decline significantly. The paper acknowledged that under low or moderate real asset return assumptions of 0% to 2.5%, and a discount rate of 0%, state and local pensions are not currently sustainable because pension debt as a share of the economy would rise indefinitely. However, it added that pension debt can be stabilized with "relatively moderate fiscal adjustments," regardless of whether governments move to stabilize pension debt over the long-term, medium-term, or immediately. The findings also suggest there's no need to rush to stabilize the pensions as there is only a slight benefit to starting a stabilization process now instead of a decade down the road. "Neither the level at which debt stabilizes as a share of the economy nor the contribution change needed to achieve stabilization increase significantly when the start of the stabilization process is pushed 10 years out," according to the paper.

Public pension plans don't need to be fully funded – Brookings

By Rob Kozlowski, P&I, April 5, 2021

U.S. public pension funds are generally sustainable in the long term even without becoming fully funded, a study from Washington-based think tank Brookings Institution shows. The study, presented at the Brookings Papers on Economic Activity Conference, says that state and local government pension plans do not need to be fully funded in order for the plans to be able to pay benefits in the future. The study shows that over the past 30 years using discount rates based on the expected rate of return, the 40 public pension plans studied had an average funding ratio of 83%. If plans used a AAA corporate-bond interest rate to calculate their discount rates, it means "they always would have been underfunded." If they used that discount rate, the average funding ratio would have been 55%. The study also says another way to assess sustainability is to "ensure that the implicit debt to (gross domestic product) ratio is no higher in 30 years than it is today." The study provides a table of one-time permanent percentage point increases in contribution rates to public plans to keep that ratio stable, based on real rates of returns of zero, 2.5% and 5%.

Public Plan Funding Inches Up in First Quarter

Rob Kozlowski, P&I, April 19, 2021

The overall funding ratio of the 100 largest U.S. public pension plans rose to 79% as of March 31 from 78.6% the quarter before, according to the Milliman 100 Public Pension Funding index. The funding ratio is the highest recorded since the inception of the index, according to a news release. It also represents the breadth of the recovery in the year since the overall funding ratio fell to 66% on March 31, 2020. That ratio had reflected plummeting returns following the emergence of the COVID-19 pandemic. Since then, however, public pension plans have recovered, although the long-term impact of the pandemic has yet to be seen. During the quarter ended March 31, Milliman estimates the public pension plans had an aggregate investment return of 1.95%, with an estimated range of -0.95% to 4.79%. For the 12 months ended March 31, the annualized return was 27.7%. Of the 100 plans measured by the index, 31 plans had funding ratios above 90%, while 22 plans remained below 60% funded. A total of nine plans had ratios between 60% and 70%, 17 plans were between 70% and 80% and 21 plans were between 80% and 90%.

[GASB critics want more transparency for public pensions and other retirement benefits]
By Brian Tumulty, The Bond Buyer, April 9, 2021

The question of whether pensions and other retirement benefits should be more prominently reported by state and local governments is a burning controversy for the Governmental Accounting Standards Board. What's at stake is whether the public is being misled by when a governmental general fund is listed in financial statements as balanced while omitting those long-term debts. GASB requires long-term obligations to be reported in governmentwide reports, but critics say lawmakers too often look only at cash flow funds. The controversy involves revisions to how short-term cash flow is reported on one set of books that may show a balanced budget while another set of books are kept for unfunded long-term obligations. GASB says its proposal moves further away from cash accounting and toward what some commentators are calling a modified accrual accounting system. The challenge for GASB is to update public accounting rules for governments ranging from tiny villages as small as a few hundred people to large states such as California.

Bill Would Boost Social Security for Some Public Workers
By Melanie Waddell, Think Advisor, April 2, 2021

The bill would establish a "new, fairer" Windfall Elimination Provision formula, Rep. Neal says. WEP unfairly penalizes many public employees, Neal said. Current WEP retirees will receive $150 a month in relief payments. House Ways and Means Committee Chairman Richard Neal, D-Mass., reintroduced on April 1 the Public Servants Protection and Fairness Act of 2021, legislation that fixes Social Security's Windfall Elimination Provision (WEP), a law that reduces the Social Security benefits of certain public workers who receive pensions and don't pay Social Security taxes. The WEP "can reduce your U.S. retirement or disability benefits if you receive a pension based on work and you did not pay U.S. Social Security taxes on those earnings." The bill creates an alternative formula for new retirees who become eligible for benefits starting in 2023, coupled with a benefit guarantee ensuring no benefit cuts relative to current law for all current and future retirees. Current WEP retirees will receive $150 a month in relief payments. The bill would change the current-law WEP by adding a new formula, referred to as the Public Servant Protection (PSP) formula. The proposal would also provide for a "relief payment" for months beginning at least 270 days after enactment for retired-worker and disabled-worker beneficiaries first eligible before 2023 who are affected by the current WEP.

Do Public Workers Without Social Security Get Comparable Benefits?
By Laura D. Quinby, Jean-Pierre Aubry and Alicia H. Munnell, Center for Retirement Research at Boston College, April 2021

The key findings from this recent research paper from the Center are: About one quarter of state and local workers are not currently covered by Social Security. Federal standards require that state and local plans provide their noncovered workers benefits equivalent to Social Security at the full retirement age. This study explores whether the plans satisfy the federal standards, and whether the standards themselves ensure equivalent benefits. The results show that public plans do adhere to the standards, and the standards satisfy the letter of the law. But looking beyond the standards to see if plans also provide equal lifetime benefits suggests that a significant portion fall short for some of their members. Policy options include updating the standards to a lifetime measure or, more importantly, requiring all public workers to be covered by Social Security.

Bill to Boost RMD Age to 75 Up for Vote in 'Next Few Weeks': Rep. Neal
By Melanie Waddell, Think Adviser, April 15, 2021

House Ways and Means Committee Chairman Richard Neal, D-Mass., said that he'll be moving through his committee "in the next few weeks" the Securing a Strong Retirement Act of 2020, commonly called Secure Act 2.0, which would boost the required minimum distribution age from 72 to 75. For 2.0 "to work, we've also included legislation related to student loans, and a 401(k) matching contribution and increased the required minimum distribution age even further, to 75," Neal said. Further, "we indexed the catch-up provisions and we also created a higher catch-up amount for people at age 60," Neal said. "These changes will make it a lot easier for American families to prepare for a financially secure retirement." The bipartisan Secure Act 2.0 has been endorsed by AARP and the U.S. Chamber of Commerce.

Public Pension Plans Are Thirsty for Liquidity

By Charles Millard, Plan Sponsor, April 7, 2021

When a plan is significantly underfunded and does not receive the appropriate inflow of cash from the state or city, the CIO and team become forced sellers of assets just so they can make the required payments. The investment staff must sell assets at whatever the market will bear in order to meet pension "payroll." This adds millions of dollars in annual costs for pensions that are already underfunded. This happens in two ways. First, when pensions are underfunded they have a tendency (or need) to take on more risk in order to try to generate higher returns. Secondly, the pension plan must keep more cash on hand than it otherwise would. If your policy portfolio calls for a 3% allocation to cash, that is designed for diversification and dry powder. But a pension plan sponsor should be providing significant amounts of cash into the pension each year. If the sponsor is not making its contributions, then the pension plan has to carry more cash than it otherwise would. Public pensions are underfunded for many reasons, but first among them is that their sponsors fail to make their required contributions. This means the investment staffs must take more risk, but it also means they are forced sellers and are forced to hold too much cash. This leaves them less funded than they should be; it also costs them literally millions of dollars in lost opportunities and forced sales.

The Average Retirement Age in Every State

By John Csiszar, Yahoo Finances, April 17, 2021

On average, retirees in the U.S. hang up their work boots at age 64, according to Money Talks News. Of course, to truly live a comfortable retirement takes more than desire — it also takes a large chunk of cash. The state in which you live can play a big role in how early you can retire, as evidenced by the low average retirement ages across wide swaths of the South and Midwest. Next, it takes more than $1 million to have a comfortable retirement in any state in America — or over $2 million in the case of Hawaii and the District of Columbia — so it's important to work with a retirement advisor or the best 401(k) providers to help boost your savings as much as possible. Here are the numbers for Florida. **Average retirement age:** 64; Annual **cost of a comfortable retirement:** $56,382; and **Retirement savings needed:** $902,116.