FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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SB 84 Eliminates DB Plans for State Employees

Florida State Senate – February 4, 2021

SB 84 provides for compulsory membership in the Florida Retirement System Investment Plan (DC Account) for employees initially enrolled on or after July 1, 2022. The bill was approved by the Governmental Oversight and Accountability on February 4, 2021 by a vote of 4 in favor and 2 opposed. The bill has been sent to the Appropriations Committee. There is no companion bill in the House of Representatives.
Editor's Note: See the January 2021 Pension Clips for a more detailed discussion of SB 84.

Battle lines drawn for state pension plan overhaul as bill aims to shut out new hires

By James Call, Tallahassee Democrat, February 4, 2021

Police, firefighters and teachers on Thursday failed to get a Senate panel to defeat a proposal that would make the biggest change to the state retirement system for public sector employees in nearly 50 years. The proposal would close the traditional pension plan to new hires and move them into a 401(k)-style investment plan, managed by the individual worker and not by the state. And while the bill cleared the Senate Governmental Oversight and Accountability Committee on a 4-2 vote, one supporter — state Sen. Joe Gruters, R-Sarasota — said he will not vote again for the measure (SB 84) in its current form. That's no problem for the sponsor, Estero Republican Ray Rodrigues: "This bill is how we will start. It is not necessarily how we will finish." The bill is fast tracked, having been assigned only two committees before it can be heard on the Senate floor, suggesting it is a priority of leadership. His focus is the pension plan's unfunded liability, the difference between the amount of money on hand and what is needed to pay promised benefits to current workers in the system were they all to retire today. He sees the $36 billion shortfall, up 230% since 2009, as a threat to the state's financial wellbeing.

State pension reform plan approved by Senate panel

By James Call, Palm Beach Post, February 5, 2021

Police, firefighters and teachers on Thursday failed to get a Senate panel to defeat a proposal that would make the biggest change to the state retirement system for public sector employees in nearly 50 years. The proposal would close the traditional pension plan to new hires and move them into a 401(k)-style investment plan, managed by the individual worker and not by the state. And while the bill cleared the Senate Governmental Oversight and Accountability Committee on a 4-2 vote, one supporter — state Sen. Joe Gruters, R-Sarasota — said he will not vote again for the measure (SB 84) in its current form. The sponsor, state senator Rodrigues, a first-term state senator, commissioned an actuarial study of the Florida Retirement System (FRS) for lawmakers and stakeholders to review. The Milliman firm will report back in March. He sees the $36 billion shortfall, up 230% since 2009, as a threat to the state's financial wellbeing. His opponents, however, note that even with the shortfall the plan is funded at 82%; financial experts generally consider any pension fund at least 80% funded to be in good shape. The bill moves to the Appropriations Committee next month, with the formal start of the 2021 legislative session on March 2. Now before Appropriations - No related bill in the State House

S 84 Approved by Senate Governmental Oversight and Accountability 2/4/2021 4 Yeas - 2 Nays

Editor's Note: This bill to change the retirement system from a DB plan to a DC account is of concern to all Florida local pension plans. While the bill does not directly impact them, passage gives legitimacy and momentum to attack local pension plans and push for eliminating these DB plans for DC accounts. It's somewhat like the start of a landslide.

Florida 'Defund The Police' Bill Would Strip Local Governments Of Final Say On Police Pensions And Budgets

By Daniel Rivero, WLRN Radio, February 10, 2021

A staff analysis of the twin bills HB1 and SB484 explicitly calls out St. Petersburg's Community Assistance Liaison (CAL) program as an example of the sort of program the bill could prevent from happening in other cities across Florida. If passed, the bill would allow the governor and the Cabinet to override locally elected commissioners, council members and mayors if police budgets are decreased, or if funds are redirected from them. The Cabinet could force cities to increase police budgets if they wish, potentially resulting in cities being forced to slash other services or raise taxes in order to balance their budgets. The city could appeal and present its case before the Cabinet, but any decision made by the governor and Cabinet would be final. Police unions are in favor of the legislation, and support DeSantis' efforts to stop the "defund the police" movement in its tracks. Battles over police pensions are a perennial issue in municipal politics, as unions and elected officials play tug-of-war between revenue realities and union contracts. Under the current bills in Tallahassee, the governor and the Cabinet would have a final say over those pension battles.

Every State's Pension Crisis Ranked

By Grant Suneson, 24/7 Wall Street, February 19, 2021

To rank the severity of each state's pension crisis, 24/7 Wall St. reviewed the average pension funding ratio — the market value of a pension fund as a share of the total benefits owed to current or retired public employees — for all 50 states as of 2018 with data from nongovernmental organization The Pew Charitable Trusts. Ranked number 50 (the best) is South Dakota (100% funded) to number 1 (the worst) is New Jersey (38.4% funded). Florida ranked number 32.

> Funded ratio: 79.9%
> Total pension shortfall: $40.7 billion shortfall (7th largest)
> Gov't workers as share of total workforce: 10.9% (4th lowest)
> Avg. annual payout per public retiree: $24,013 (23rd highest)

1000 Largest Retirement Funds/Sponsors

P&I, February 8, 2021

This P&I survey is based on the market value of pension assets as of September 30, 2020 and includes public plans, private plans, defined benefit and defined contribution systems. Below are the six Florida plans that are included in the top 1000.

# 6 Florida State Board	$ 180 billion
# 445 Florida Deferred Comp	$5 billion
# 719 Jacksonville Retirement	$2.5 billion
# 748 Tampa Fire and Police	$2.4 billion
# 811 Jacksonville Police & Fire	$2 billion
# 983 Orlando City	$1.4 billion

Eight of 10 top plans are public plans. Of the top 200 retirement plans, DB Plans had 67.6% of assets and DC accounts had 32.4% of assets.

Public pension trends in 2020

By Danielle Andrus, Benefits Pro, February 02, 2021

A survey by the National Conference on Public Employee Retirement Systems found public pensions are adapting their benefits and business practices to suit a changing environment. Between 2019 and 2020, funded levels increased almost three percentage points, from 72.4% to 75.1%. The average 1-year return was around 8.1%, NCPERS found. The 5-year and 20-year averages were below the assumed rate of return, while the 10-year average outperformed. The average plan expense increased from 55 basis points to 60 bps. Plans implemented or considered a number of changes in 2020, the study found. Over half have lowered the actuarial assumed rate of return, and 17% are considering doing so. Roughly one-third of plans have raised their benefit age or service requirements, or increased employee contributions; 4% are considering implementing each of these changes. Fourteen percent of pensions have shortened the amortization period to improve the plans funded status, while 12% are holding or lengthening the period to improve affordability. In 2019, plans were much keener to shorten the amortization period, with 20% saying they had already done so, and 8% considering it. Sixty-two percent of plans conducted a death audit in 2020, up from 60% in 2019. NCPERS also found more plans were updating or strengthening asset allocation studies: from 53% to 57%.

Defined benefit pensions crucial for economic health

By Ted Toppin, Capitol Weekly, February 4, 2021

As Americans confront the effects of a K-shaped recovery that is further enriching the wealthy even as low- and-middle income workers struggle to stay afloat, the chasm between Wall Street and Main Street has never seemed wider. Finding ways to bridge that chasm and better spread the wealth that derives from investment earnings so that it creates broad public benefits remains one of this nation's greatest economic challenges. A report released this month in January by the National Institute on Retirement Security shows how one retirement instrument – **defined benefit pensions** – are effectively delivering Wall Street earnings into Main Street communities, supporting more than 395,000 jobs in California alone and creating $76.7 billion in economic impact in this state. Much public discussion has been focused on pensions, particularly those afforded to state and local government workers. Critics have complained about the costs to government agencies to contribute to the retirement security of teachers, hospital workers, first responders and all manner of employees. The discussion has ignored the back-end benefits of public employee pensions. Not only do pension benefits provide life-sustaining income for 1.3 million state and local government retirees in California who receive on average about $3,100 a month, but they also boost the economies of the communities in which those retirees live. The study notes that only about 24 cents of each dollar paid in retirement benefits comes from employer contributions. The bulk of those benefits – 64 cents out of each dollar – was generated by investment earnings. The remainder, about 12 cents on the dollar, was contributed by the retirees themselves.

DB pension scheme health 'surpasses' pre-Covid levels

By Duncan Ferris, Pensions Age, February 2, 2021

Defined benefit (DB) schemes are now healthier than in pre-Covid times following continued recovery through Q4 2020, according to Legal & General Investment Management (LGIM). The firm's health tracker, which monitors the condition of DB schemes, found that the average DB scheme could expect to pay 97.1 per cent of accrued benefits as of 31 December 2020, an increase of 1.6 percentage points from the end of the previous quarter. LGIM head of solutions research, John Southall, said: "This change was almost entirely driven by outperformance of growth assets with interest rates and expected inflation broadly flat over the quarter."

With lower returns on the horizon, public pensions will turn to riskier assets, Moody's says

By Andrea Riquier, Market Watch, February 27, 2021

State and local government pension systems are increasingly dependent on investment returns, and at risk of increasingly volatile results, as funding levels remain depressed and systems increasingly start to pay out more than they take in, according to a new report from Moody's. The credit-ratings agency anticipates higher volatility and lower returns across asset classes in 2021 compared to 2020, even as many pension sponsors have spent the past few years lowering their assumed returns from previous loftier targets that they rarely hit. That means that systems using more conservative metrics may still be at risk. Meanwhile, those that continue to rely on much more aggressive return assumptions "are even more susceptible to higher-than-assumed future pension costs if return performance above market interest rates does not materialize." "The asset classes carrying return expectations above 7%, such as emerging market equities and private equity, also carry the highest risk," meaning volatility risk is at historically high levels. Investment volatility also keeps assets from growing over time.