FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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SB84 Approved by Second Senate Committee

On March 31, the Senate Appropriations Committee approved SB84, a bill to eliminate a DB plan for newly covered employees hired starting on July 1, 2022, was reported favorable by the committee on an 12-8 vote in favor. An amendment was approved that deleted coverage for Special Risk employees (police, firefighters, corrections officers). The Special Risk Class6 has 75,161 active members and 1,182 in renewed membership. SB84 was approved earlier by the Government Oversight and Accountability Committee by a vote of 4-2. Currently there is no House companion bill.

Kimberlie Prior: Senate Bill 84 is fearmongering

By FPPTA CEO Kimberlie Prior, Florida Politics, March 18, 2021

Florida is indeed a model for state pension plans. In his op-ed on Senate Bill 84, Adrian Moore claims the Florida Retirement System (FRS) is in danger of collapsing the state's budget because it has an unfunded liability of $36 billion. His misunderstanding of pension funding is nothing short of staggering and he falls prey to several tropes about the financial risks of public pensions. Where to begin?

For starters, we would like to correct the record about unfunded liabilities. An unfunded liability is not the same as an underfunded plan. 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.

An underfunded plan, on the other hand, is one that has not met or made its annual required contribution (ARC), creating instability in the fund's ability to earn the money required to pay those benefits. And while a pension fund can achieve 100% funded status, it is not the only, or even the most important measure of the plan's health. For this reason, it has been a standard actuarial practice to use the 80% funded benchmark as one important measure of the plan's financial health and an acceptable guideline. FRS is 82% funded.

Actuaries review the pension fund annually to determine what the ARC should be for the upcoming year and to project what it might be over the next 10-20 years. This allows the plan sponsor to adjust, in real-time, to market shifts. Moreover, the ARC is calculated to achieve those returns even when confronted with negative return years. If the plan sponsor faithfully makes the required contributions, only economic Armageddon will result in underfunding.

No state worker has to worry that taxpayers will have to pay for their pension every time the stock market has a bad year or there is a recession. Taxpayers do not pay for an employee's pension in any instance. Taxpayer contributions are limited to paying for government services, a small percentage of which are allocated to support the pension fund. On average, just 3-5% of the total budget is used for the pension fund, while employees contribute with every paycheck for the duration of their careers. In fact, about 60% of revenue for public pensions come from earnings on the fund, not taxpayer dollars.

FRS has lowered its assumed rate of return from 7.4% to 7.0% to satisfy recessionary pressures and long-term earnings projections, and that of course results in a temporarily higher contribution requirement. Lowering the anticipated returns will prevent the fund from compounding negative returns. If the pension fund is expected to earn less, the contributions must rise. But one should remember, as a long-term investment vehicle, the stock market has returned 13.9% over the past 10-years; 10.7% over the past 30-years; and 10.9% over the past 50-years. The average annualized return of the S&P 500 Index, between 2000-2019, was 8.7%.

The past 20-years have seen two significant recessions, resulting in a short-term average of 5.6% returns for FRS over that period, but pensions operate in perpetuity and their long-term earnings are more important than the short 20-year cycle Dr. Moore cites.

Florida is indeed a model for state pension plans. FRS has been operated with discipline and measured expectations and should be rewarded with our confidence that it will continue to be operated with a steady hand to deliver promised retirement benefits to thousands of faithful state employees.

Adrian Moore: Don't buy the myths, Florida state retirement system is in deep trouble

Opinion Piece by Adrian Moore, Florida Politics, March 17, 2021

Opening Florida's 2021 Legislative Session, Senate President Wilton Simpson gave a dire warning to participants of the Florida Retirement System (FRS) — the plan that provides retirement benefits for state workers, many local workers and teachers in Florida. "Our current retirees and every state employee should be very concerned. You will hear that Florida's pension plan is better than most. And it is. That's what every state always says right up until the time that they cannot pay the unfunded liability." Financial models and annual reports published by FRS are clear — despite popular myth the pension plan in serious trouble. Unfortunately, some legislators and stakeholders mistakenly believe that FRS is in good shape. No one should believe these myths — they don't stand up to the facts. The FRS pension plan has an "unfunded liability" of $36 billion as of last year. That means the state is short $36 billion of what it needs to have invested in the market right now in order to meet the retirement benefits promised to generations of workers and retirees. The bulk of this pension debt — over $32 billion — is caused by a long history of underperforming investments and changes to actuarial assumptions to prepare for lower investment returns in the future too. But in fact, no professional actuarial organization considers less than 100% funding to be appropriate for a pension plan. Legislative changes made to FRS in 2000, 2011 and 2017 helped but, given that pension debt has only kept growing, obviously did not solve the problem. Don't buy the myths that FRS is just fine. It is not: and protecting teacher and other government worker retirement as well as state budgets and taxpayers means FRS needs significant reforms and it needs them now.

Editor's Note: Dr. Adrian Moore is vice president of the Reason Foundation and lives in Sarasota. The Reason Foundation is an ultra-conservative group that opposes defined benefit plans.

Florida pension revamp would push public workers into 401(k)-type investment plan

By John Haughey, The Center Square, March 2, 2021

Armed with overwhelming majorities in both legislative chambers after November's elections, Florida Republicans may achieve a long-sought goal in 2021 – a revamp of the state's pension program for public employees, including teachers and law enforcement officers. Senate Bill 84, filed by Sen. Ray Rodrigues, R-Estero, would require new public employees enroll in a 401(k)-type investment plan rather than in the Florida Retirement System (FRS), the nation's fourth-largest public pension plan that serves about 5.1 million Floridians, including 4.425 million retirees. FRS's swollen "unfunded liabilities" have been a concern for years. Last year, lawmakers adopted a bill increasing FRS employer contributions by $404.5 million a year — $232.7 million for school boards — to keep the fund from slipping further "underwater." As of early February, the FRS had a balance of $184 billion, an increase of $23 billion from last year at this time, and was paying out about $600 million a month, according to the State Board of Administration. The increased employer contributions are doing what lawmakers wanted them to do, chip away at unfunded liabilities and enhance pension security, Democrats argue. "Why do we need any legislation?" asked Rep. Joe Geller, D-Dania Beach. "FRS is a model nationally. I have to give credit where credit is due. The people who run it, seem to me, do a very good job. Leave it alone." The FRS services more than 644,000 active employees and more than 432,000 retired members.

[Legislators can't praise hardworking front-line workers while undercutting their retirement fund | Opinion]

By John O'Brien, Miami Herald, March 3, 2021

Though we continue to hear soundbites from state legislators praising Florida's essential workers risking their lives in the face of COVID-19, many have shown themselves to be less interested in truly helping dedicated shift workers answering the call. Unfortunately, the pandemic has spurred political opportunists to rush through disingenuous legislation, including Senate Bill 84, aimed at breaking our retirement plan for frontline and essential workers. The Florida Retirement System (FRS) Pension Plan is the fourth-largest state retirement system in the United States, managing more than $162 billion in assets. Members of plan include firefighters, police officers, judges, school teachers, nurses, as well as a variety of state and county employees. SB84 jeopardizes the retirements for which they all worked so hard and on which they are depending when they are no longer on the job. s the president of the South Florida Council of Firefighters, representing 3,600 firefighters, our position is clear: There's no appetite for this flagrant attack to close our public retirement plan to new hires. I have confidence in our union counterparts. I don't speak for them, but I will have their backs in this fight. Alleging an opponent's desire to defund public safety might be acceptable as campaign rhetoric; but, SB84 will defund essential workers' pensions, and that would be shameful.

[Florida's public pension plan works just fine. But lawmakers need to fully fund it]

By Charles E.F. Millard, Miami Herald, March 9, 2021

The Florida Senate is considering a bill to eliminate the state's pension plan for new workers. This is a bad idea.

Working for the state does not provide high salaries or bonuses, but it has traditionally provided a secure retirement. There are three particular arguments used to support changing the system. Each of them is just plain wrong. 1. The 401(k) system is good enough for private-sector employees; it should be good enough for public sector employees. The premise is incorrect: The 401(k) system is not good enough for private-sector employees. 2. Florida cannot afford these huge liabilities. The gross dollar amount of Florida's pension liabilities (approximately $200 billion), indeed, is large. But first, let's remember that the Florida State Board of Administration (SBA) has $164 billion currently on hand to pay those liabilities. This means that the pension system is 82 percent funded. (By the way, a funded ratio of 82 percent puts Florida a full 10 percentage points above the median for public plans.) Moody's ranked Florida 48th in pension liabilities per capita; 48th in pension liabilities as a percentage of state GDP; and 46th in pension liabilities as a percentage of revenues generated in-state. 3. The pension system's underfunding is not improving even though assets are growing; the system is broken. The reason the Florida pension system's funded status is not improving is not because investment performance is poor (actually, it is excellent). Florida's pension system is underfunded because it is . . . well . . . underfunded. So, the problem is not with the investment program. The investment program is doing fine. In fact, it is the envy of most other states. The problem is that the Florida Legislature that has not made the contributions it should be making to the plan. State lawmakers rely on an actuarial assumed rate of return that is too high. This makes liabilities appear smaller, and allows the Legislature to appear to be making its full contribution when it really is not doing so. The Legislature has underfunded Florida's pension plan by about $1 billion a year over the past five years.

Editor's Note: Charles E.F. Millard is the former director of the U.S. Pension Benefit Guaranty Corp.

Legislators can't praise hardworking front-line workers while undercutting their retirement fund | Opinion

By John O'Brien, Miami Herald, March 3, 2021

Though we continue to hear soundbites from state legislators praising Florida's essential workers risking their lives in the face of COVID-19, many have shown themselves to be less interested in truly helping dedicated shift workers answering the call. Unfortunately, the pandemic has spurred political opportunists to rush through disingenuous legislation, including Senate Bill 84, aimed at breaking our retirement plan for frontline and essential workers. The Florida Retirement System (FRS) Pension Plan is the fourth-largest state retirement system in the United States, managing more than $162 billion in assets. Members of plan include firefighters, police officers, judges, school teachers, nurses, as well as a variety of state and county employees. SB84 jeopardizes the retirements for which they all worked so hard and on which they are depending when they are no longer on the job.
Editor's Note: John O'Brien is president of the South Florida Council of Firefighters.

COVID rescue package gives failing pension plans a $86 billion bailout, stirring hope and criticisms

By Matt Stout, Boston Globe, March 13, 2021

In the shadow of stimulus checks and extra unemployment aid, Democratic lawmakers extended another hand in the $1.9 trillion pandemic relief package: a long-sought bailout for failing private pension plans.
Editor's Note: If you read the story, you understand that the $86 billion is for multi-employer pension plans that exist in the private sector. However, without reading the story, some have misinterpreted this to mean that states and local governments with failing pension plans also will get a bailout. This is not true – **not one cent of this pension bailout funding goes toward public sector pension plan funding**. Additionally, **not one cent of the state and local government funding goes toward public sector pension plan funding.** Media headlines and misunderstanding our pension plan funding continue to be our biggest enemy.

Washington baits a financial trap for states

By David Guenthner, The Hill, March 24, 2021

American Rescue Plan Act (ARPA) funds allocate $220 billion to state governments and another $130 billion directly to local governments. The law also explicitly forbids states to do two things with this money. One is plain: **States cannot deposit the money into any pension fund.** Public employee pensions and other post-employment benefits are the main fiscal threat to state governments.

Retirement Benefits

Town of Palm Beach Website

The Town of Palm Beach offers a variety of retirement plans designed to complement the overall benefit package provided to town employees. These programs include a town-sponsored defined benefit pension plan for Police Officers and non-union Firefighters, and a defined benefit pension plan offered in conjunction with a 401(a) defined contribution plan that includes matching contributions from the town for all other employees
Editor's Note: This is from the Town's website – talking about their retirement benefits. You will remember this is the town that eliminated the DB plan and replaced it with DC account, only to face a mass exodus of employees, higher costs, and realization that DB pensions help recruit and retain qualified employees.

Floridians Strongly Support Pensions For Public School Teachers

National Institute on Retirement Security, CISION Newswire, March 18, 2021

As Florida lawmakers consider legislation that would strip away pensions for teachers, a new state-wide survey finds that Floridians overwhelming support providing these retirement benefits for the state's education workforce. Eighty-seven percent of working-age Floridians agree that teachers in the state should continue to have a choice between a pension and a 401(k) account, and 82 percent say it is important to provide teachers with competitive retirement benefits to attract and retain teachers in Florida.

Stress Testing of Public Pensions Can Help States Navigate the COVID-19 Economy

Issue Brief, Pew Charitable Trust, March 8, 2021

The COVID-19 pandemic has upended life in the U.S. and disrupted the economy. Real gross domestic product (GDP) fell sharply in the second quarter of 2020 while job losses soared and state and local government finances weakened. Public pension systems, funded by those same governments, only narrowly averted large losses in the spring after a historic stock market rally boosted investment earnings. By 2025, CBO expects real GDP and labor force participation rates to recover close to their pre-pandemic trajectories— significant upgrades over its July 2020 forecast. For public pension systems, these projections point to potential budget challenges for state and local governments and lower earnings on public pension fund investments. An estimated 6% to 11% decline in state revenues has, in some cases, limited states' ability to make annual required contributions to pension plans. And over the long run, continued low interest rates, which drive earnings on bonds and other investments, could reduce annual pension fund investment returns. Pew offers a framework for pension system stress testing called "The Foundation for Public Pensions Risk Reporting" that shows how states can use stress testing to navigate economic and investment risks created by the pandemic.4 A recent update to this framework highlights how policymakers can use the most recent economic data to manage the short- and long-term budget challenges to their public retirement systems.

Can Fiscal Alchemy Bolster Public Pension Funds?

By Girard Miller, Governing, March 16, 2021

Precisely because governments are viewed as perpetuities, public pensions use an "expected" rate of return on their invested assets rather than a more conservative, risk-free rate as is required of private companies. When the public plans' investment returns fall short of the expectations, as they have in many plans over the past decades, an unfunded actuarial accrued liability is the result. Public employers are expected (and in some states, obliged) to pay an annual contribution for unfunded liability on top of their normal actuarial costs. When interest rates are low, as they are today, the underwriters and many financial consultants come out of the woodwork to pitch their POB deals. The lure is always the same: "Over 30 years, you will save money because history shows it's almost a certainty that stocks will outperform low bond yields," even if they are now taxable. The Government Finance Officers Association (GFOA) has long opposed POBs for this reason, among others. POBs make sense to me only when they are issued in recessionary bear markets. Another strategy that is gaining some traction involves the conversion of public assets into pension assets. Then we have the sale-leaseback deals. Here, a public employer sells property that it uses to a private counterparty, a "building authority" or a dummy corporation, with a long-term leaseback attached so that the public employer becomes a tenant and not the owner.
Editor's Note: This article is an excellent discussion and overview of pension funding.

[Trends in Maturity Metrics, Asset Allocations and Assumed Rates of Return for Large U.S. Public Pension Plans]

By Lisa Schilling and Patrick Wiese, Society of Actuaries, March 2021

The Society of Actuaries (SOA) released a report on trends in public defined benefit plan maturity metrics, asset allocations and assumed rates of return. The report focuses on 139 state-based and large local defined benefit pension systems or plans in the U.S. from 2001 to 2018. Large public plans generally matured significantly during this timeframe. Local plans were slightly more mature than state plans. While plans steadily matured, they were more sensitive to the effects of financial shocks, and their asset allocations typically shifted toward riskier, more complex and less transparent assets. This report considers trends in public defined benefit plan maturity metrics, asset allocations and assumed rates of return among 139 state-based and large local defined benefit pension systems or plans in the United States from 2001 to 2018. Click here to read the complete report.

Do Smaller Public Employer Pensions Spur More Saving?

By Laura D. Quinby and Geoffrey T. Sanzenbacher, Center for Retirement Research at Boston College, March 2021

A recent study about public employer pension plans and the savings rates of employees reached the following key findings. In theory, workers would increase their supplemental saving in response to lower pension income, but do they in practice? The answer matters for state and local workers, as pension income varies, some plans are poorly funded, and not all workers have Social Security. The results show that workers with less expected pension income are more likely to save, but the effects are small, and they do not respond to the other factors. The takeaway is that if public employers reduce pension benefits, workers are unlikely to make up the difference by saving more on their own. Click here to read the full report.

The sustainability of state and local government pensions: A public finance approach

By Jamie Lenney, Byron Lutz, Finn Schüle, and Louise Sheiner, Brookings, March 24, 2021

What must state and local governments do to make their public employee pension plans sustainable? Less than many analyses conclude, according to a paper discussed at the Brookings Papers on Economic Activity (BPEA) conference. The paper suggests that, for the United States as a whole, state and local pension debt can be stabilized with relatively moderate fiscal adjustments. Most research evaluates state and local pension plans on the assumption they should be fully funded. State and local pension plans, benefiting more than 11 million retirees, hold nearly $5 trillion in assets and, according to a recent estimate cited in the paper, would require an additional $4 trillion to meet all of their obligations. They show that being able to pay benefits in perpetuity doesn't require full funding. If plans contribute enough to stabilize their pension debt, that is enough to enable them to make benefit payments over the long run. Because of already implemented reforms, such as future benefit reductions, pension funds' cash-flow pressures should begin to recede in 20 years. At that point, under their baseline estimate, pension benefits as a percentage of gross domestic product declines sharply through mid-century and gradually after that.

The people's retirement plan

By Danielle Andrus, Benefits Pro, March 26, 2021

Over three-quarters — 77% — of Americans believe that all workers should have access to a pension plan, according to research from the National Institute on Retirement Security. Two-thirds feel that pensions promise a more secure retirement than the ubiquitous 401(k) plan. Americans' support for pensions isn't surprising considering the current state of retirement insecurity. More than two-thirds of respondents believe the country is facing a retirement crisis, and 56% are worried about their own prospects for financial uncertainty in retirement.

The report, “Americans’ Views Of State & Local Employee Retirement Plans,” surveyed over 1,200 adults in December 2020. Citing research from the U.S. Census Bureau, NIRS found that pensions provided an average benefit payment of $2,335 per month in 2018 to over 11 million retirees and beneficiaries. Doonan and Kenneally noted that public sector pensions were able to withstand much of the volatility caused by the pandemic in 2020. Public pension assets as of the third quarter had doubled since 2009 to $4.78 trillion, “all while reliably pumping hundreds of billions of dollars annually into the economy.”

Poland plans pensions for dogs, horses in state employment

Associated Press, Spectrum News 9, March 27, 2021

They locate survivors in collapsed buildings, track down fugitives, foil drugs and explosives smugglers and help control rowdy crowds. All in exchange for food and lodging — and an occasional pat on the head. But when retirement time comes, state care ends for the dogs and horses that serve in Poland's Police, Border Guard and Fire Service. They are given away, with no safeguards for their future welfare. Following appeals from concerned service members, the Interior Ministry has proposed new legislation that would give these animals an official status, and paid retirement to help cover the often-costly care bills their new owners face.