FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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Prepared by Fred Nesbitt, FPPTA Media Consultant – fnesbitt911@gmail.com

Report on local government efficiency headed to state leadership

By Renzo Downey, Florida Politics, May 5, 2021

The Legislature's task force on local government efficiency has effectively finalized its recommendations to streamline government processes. The Local Government Efficiency Task Force, established by the Legislature last year, is set to hand its final report to Gov. Ron DeSantis, Senate President Wilton Simpson and House Speaker Chris Sprowls by June 1. The report includes recommendations on elections, public meetings, reporting, pension plans, unfunded mandates and business taxes. Other recommendations are to consolidate duplicative local government reports and review reporting requirements, assemble a task force on Florida Retirement System changes and discourage unfunded mandates. Two of the recommendations included in the draft report: **Local government pension plans**: "To address financial efficiency issues associated with operating local government pension plans, the task force encourages the Legislature to assemble a related task force … charged with examining issues related to migrating local government pension plans to the Florida Retirement System." **Unfunded mandates**: The report calls on lawmakers "to consider the funding impacts created for local governments by state legislation. For any state mandates that affect local government budgets, the state should partner with local governments to fund programs."

Boca Pension Fund Costs Rise & FAU Housing Project Voted Down

By Randy Schultz, City Watch - Boca, May 27, 2021

Boca Raton City Manager got everyone's attention during this month's goal-setting session when he said that the city would have to contribute $2 million more than anticipated in next year's budget toward the police and fire pension fund. He said investment returns were lower than anticipated. If this trend continued, it would present the city with a serious financial problem. A trustee acknowledged that the board needs to have "better communication with the city." The manager's statement seemed to catch city council members by surprise, and his tone was urgent. Any additional money that the city must contribute to the fund is less money for general services. Mayor Scott Singer said the council has "discussed reviewing the management fees and asset allocations" in the fund's investments "and comparing those to benchmark funds, and then discussing those with the trustees." The police and fire contracts don't expire until September 2023, so there's no immediate option of changing the benefits, if any council member was inclined to do so. In Delray Beach, dissatisfaction with pension fund performance caused the city commission to split the combined board and create one for the police pension and another for the fire pension.

Naples will issue up to $22 million in debt to raise pension money, reduce liability

By Omar Rodríguez Ortiz, Naples Daily News, May 21, 2021

The Naples City Council voted 5-2 for the city to take steps to issue up to $22 million in taxable bonds to raise pension funds and reduce unfunded liability. The bonds would increase money in the city's three pension plans to about 90% funded, according to a presentation of the finance department. The police, fire and general employees pension plans are currently each funded at levels between 77% and 83%, according to a recent memorandum of the department. A boost of nearly $45 million would be required to completely fund the retirement benefits of city employees, the memorandum states. Are bonds the right approach? Naples wants to lower the city's unfunded pension liability. Naples to contribute more to pensions to offset lower expected investment returns. The City Council also voted to approve a resolution which authorizes the city to issue up to $35 million in taxable pension bonds. Approving the resolution gives the city some wiggle room in case the city needs more than $22 million, said Duane Draper of the law firm Bryant Miller Olive, bond counsel for the city. Draper said he expects that the city will not exceed the $35 million limit. In October of last year, members of the three pension boards voted to lower the assumed rate of return on city pension investments from 7.3% to 7% because they expected less funding from investments.

Council OKs lifting cap on budget expenditures

By Bob Mudge, Venice Gondolier, May 25, 2021

Venice City Manager's request to waive the cap on an increase in the next fiscal year's expenditures was met with some questions Tuesday — but no opposition. City employees will be getting an increase of about 3.5%, she said. In addition, the city's contribution to the Florida Retirement System, which most employees participate in, is going up by 5.9%.

The Pandemic Hit Public Pension Funds Hard — But Now They're Better Funded Than They've Been in Years

Institutional Investor, May 3, 2021

The Covid-19 pandemic didn't hit all U.S. public pensions funds equally. Funds that were in the best financial health at the start of the pandemic took the hardest hit to their funded statuses over the course of the past year — but they've also benefitted most from the speedy recovery over the past 12 months, according to Goldman Sachs Asset Management's public pension fund report for the first quarter of 2021. The report, based on a performance sample of 99 public plans, found that a majority of the pensions experienced funded status declines of 10.1 to 12.5 percent in March 2020. Retirement plans which were well funded to begin with — at over 90 percent funded — experienced the largest decline in funded statuses from December 2019 to March 2020. Meanwhile, pensions that started off the pandemic with funding ratios below 70 percent experienced a single-digit median decline in funded status. Since the pandemic's March 2020 lows, however, the aggregate funded status of public pension funds has rebounded. In March 2020, funds' aggregate funded status dropped to 64 percent. Throughout the past year, that status has climbed back up, reaching 80 percent in March 2021. At the end of March 2020, the top quartile of plan funded status was around 81 to 90 percent. By March 2021, that figure increased to 91 to 100 percent funded status, according to the report.

SECURE 2.0 retirement bill clears committee and moves closer to passage

By Ben Werschkul, Yahoo Finance, May 5, 2021

The bill, officially called the Securing a Strong Retirement Act of 2021, cleared the House Ways and Means committee and is now before the full House of Representatives. Proponents are hoping for a full House vote in the coming weeks. A key provision raises the age people must start taking mandatory distributions in private retirement plans (401(k) plans, 457 plans and IRAs). The SECURE Act increased the required minimum distribution age to 72, from 70. The new bill lifts it to 75. Under current law, participants are generally required to begin taking distributions from their retirement plans at age 72, an increase ushered in by the Secure Act. Secure 2.0 increases the RMD age to 73 starting on Jan. 1, 2022; to 74 starting on Jan. 1, 2029; and 75 starting on Jan. 1, 2032. The legislation also exempts retirees from minimum distributions for the rest of their life if they have less than $100,000 in all of their retirement plans at age 75. As it stands now, when you reach age 72, you're required to withdraw a certain amount of money from your retirement accounts each year and pay taxes on that amount. There are also provisions in the bill to help workers older than 50 to catch up on contributions. The provisions would increase the catch-up amounts and also index the allowed amounts to inflation.

Senate Revives Bill to Raise RMD Age, Boost Income Annuities

By Allison Bell, Think Advisor, May 24, 2021

The reintroduced, bipartisan Retirement Security & Savings Act (S1770) will likely be rolled into the Secure Act 2.0, which passed a House panel in early May. A multiple employer plan expansion provision would apply both to 403(b) plans and 457 plans. An RMD increase provision would raise the minimum distribution age to 75, from 72, by 2032. Enable employers to put matching contributions into workers' 401(k) plan accounts or other defined contribution retirement plan accounts when the workers make student loan payments, as well as when the workers make contributions to the plans.

Public pensions won't earn as much from investments in the future. Here's why that matters

By Andrea Riquier, Market Watch, May 11, 2021

State pension systems dropped the rate of return they assume for their investment portfolios again, continuing a two-decade long trend that public-finance experts say is necessary, even as it presents some challenges for the entities that participate in such plans. The median assumed return in 2021 is 7.20%, according to a report published early in May by the National Association of State Retirement Administrators, down roughly 1 percentage point since 2000, as the investment managers charged with managing trillions of dollars for municipal retirees have adapted to a more challenging market environment. Public pension administrators must figure out how much their plans will need to pay out for every retiree that comes through the system, for decades into the future — and how they will reach that number, using contributions from current employees and employers, as well as investment returns. All else equal, if a pension system is assumed to earn less from investing, that means it must take in more from municipal employees and employers. Every year, pension system actuaries calculate that amount and translate it into the "bill they send to the city." Most public-finance observers believe that what's most important is that state and local entities have solid plans in place and stick to them. Some municipalities have avoided the kind of sticker shock facing Milwaukee by gradually ramping up contributions over time. In contrast, some of the poster children for poor pension management, like New Jersey, ran into trouble when they allowed themselves to skip annual payments starting in the late 1990s. Now, the state plan is less than 40% funded, and some early budget figures suggest making the full payment deemed necessary by actuaries will take up 15% of the state budget. The full list of a few hundred systems' investment return assumptions tabulated by NASRA is here. The 10 plans with the smallest return assumptions and the largest are noted in the table below.

Social Security COLA for 2022 Expected to Be Biggest Since 2009

By Ginger Szala, Think Advisor, May 12, 2021

The annual cost-of-living adjustment, or COLA, for Social Security benefits in 2022 — typically announced in October — could be 4.7%, the highest since 2009, based on Wednesday's Consumer Price Index announcement, according to Social Security and Medicare policy analyst Mary Johnson of The Senior Citizens League. The Social Security Act ties the annual COLA to the Consumer Price Index for Urban Wage Earners and Clerical Workers, known as CPI-W. This inflation measure rose 4.7% from 12 months ago and 0.9% in April, the Bureau of Labor Statistics announced.

[House passes bill establishing retirement system to keep law enforcement officers in Alaska]

By Joe Plesha, Alaska Native News, May 19, 2021

The Alaska House of Representatives voted to pass legislation that would provide a new retirement incentive to help attract law enforcement officers and firefighters to have careers in Alaska. Currently, Alaska is one of two states that does not offer public safety workers any form of defined benefit retirement options. As a result, fire and police departments here have become training grounds for other states as the lack of adequate retirement is a key factor in the flight of public safety professionals. The new plan would create a hybrid retirement system that incorporates a defined benefit pension while maintaining defined contribution health benefits. A series of built-in "levers" provide the Alaska Retirement Management Board with the flexibility they need to adjust the plan accordingly if it ever becomes less than 90 percent funded.

Editor's Note: I was personally involved in the campaign to stop the elimination of DB plans in Alaska. All I have to say now, is, "I told you so." These legislators never listen and it always come back to bite them. The big issue in Alaska then was not pension costs, but was health benefit costs, which were part of the pension plan.

[Hard Lessons From the Coming Public Pension Plan Shortfall]

By Mark Hulbert, The Street, May 25, 2021

I predict that state and local government balance sheets, already reeling from the pandemic, will be devastated in coming years by the stock and bond markets' disappointing returns. That's because these governments' pension plans are based on unrealistic assumptions about how those markets will perform in the future, and are therefore woefully underfunded. In fact, even with their optimistic assumptions, those funds are already underfunded. Their "actuarial funded ratio" (the ratio of the actuarial value of their assets to the actuarial value of their liabilities) is just 71.5% currently. These plans are hoping to make up their actuarial deficits by earning outsized investment returns. I'm willing to bet their earnings instead will fall far short of historical averages, and they will have to make up the shortfall either by raising taxes, cutting services, or declaring bankruptcy. According to the National Association of State Retirement Administrators (NASRA), the average state and local pension plan is currently assuming it will earn long-term investment returns (the next 20 or 30 years) of 7.13% annualized. To understand why that's unrealistic, let's review the expected future returns of each of the major categories of the average state and local government pension plan's asset allocation: Public equities: 47%. Given how overvalued the stock market currently is, there is a good possibility that it will go nowhere over the next decade or two — if not worse. Fixed income, including cash: 25%. Unlike the situation with stocks, we can be highly confident what bonds' long-term return will be: It will be very close to their current yield, which is 2.90% annualized.

[State pension system 100% funded]

By Clint Wolf, Beloit Daily News, May 25, 2021

Great news: Wisconsin's public pension system, administered by the Department of Employee Trust Funds (ETF) with assets managed by the State of Wisconsin Investment Board (SWIB), is one of the best-funded pension systems in the nation. A National Association of Retirement Administrators survey ranked Wisconsin's ETF and the retirement systems of South Dakota and Tennessee at or above 100% funded.

[Public pensions don't have to be fully funded to be sustainable, paper finds]

By Andrea Riquier, Market Watch, May 28, 2021

The way state and local governments have always accounted for their pension costs is backwards, suggests a new working paper, and its proposal for reversing that represents a sea change for public finance. "Fully unfunded, pay-as-you-go (PAYGO) pension systems can be fiscally sustainable," the paper argues. Put in plainer English, there's no reason that municipalities need to have money in the bank to pay the entirety of their calculated current and future benefits now. Pensions can be seen as what the authors call "implicit debt," like Social Security benefits, rather than an explicit commitment that must be paid off in a certain period of time. State and local liabilities can also be likened to the federal government’s deficit and debt. Most economists think that as long as those numbers stay constant as a share of the economy, it’s not problematic. The goal, in other words, should be to keep a municipality’s contribution at an amount that’s sustainable for the current year’s budget, as well as a hypothetical city budget in 30 years.

[Shareholders fight to rein in risk by demanding transparency into public companies’ political spending]

By Eleanor Laise, Market Watch, May 19, 2021

In more than a decade of pushing companies to disclose their political spending, the New York State Common Retirement Fund has never had a year like this. The nearly $250 billion pension fund faced off in early May against Duke Energy Corp. DUK, whose board of directors opposed the New York fund’s proposal asking the company for more detailed disclosure of its direct and indirect political spending. Duke shareholders were tepid on the pension fund’s political-spending proposals in years past, voting them down in 2019 and 2020. This time, the proposal passed with 52% of the vote. That victory came on top of the pension fund’s successes earlier this year with companies like Molson Coors Beverage Co. TAP, and FirstEnergy Corp. FE, whose agreements to more comprehensively disclose political spending resulted in the fund’s withdrawing its shareholder resolutions. If the fund can win majority shareholder support for its proposal at the cruise operator Royal Caribbean Group RCL early next month, it will have batted a thousand in its political-spending disclosure push this proxy season.