FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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Florida Senate president targets local governments
By Jim Turner, News Service of Florida, December 6, 2021

Senate President Wilton Simpson is backing a controversial proposal that could open local governments to more lawsuits, while also suggesting lawmakers might revisit a vetoed effort to end the state's no-fault auto insurance system. Lawmakers will start their annual 60-day session on Jan. 11. Simpson suggested Thursday that they could revisit a Senate proposal that would have blocked new government employees from enrolling in the traditional pension system and required them to enroll in a 401(k)-style plan. The issue fizzled in the House during the 2021 session.
Editor's Note: The "Report of the Florida Local Government Efficiency Task Force" issued May 3, made the following recommendation. If the recommendation is enacted and FRS goes DC - all our local employees could suddenly find themselves in a DC account as opposed to a DB plan. Recommendation from the report: "To address financial efficiency issues associated with operating local government pension plans, the task force encourages the Legislature to assemble a related task force. This task force would be charged with examining issues related to **migrating local government pension plans to the Florida Retirement System**. In particular, the task force should identify anticipated transition considerations, such as amortizing any unfunded liabilities of those local pension plans."

Pension Fund Sues Peloton Over Alleged False Statements
By Michael Katz, Chief Investment Officer, December 3, 2021

The Florida-based City of **Hialeah Employees' Retirement System** has filed a securities class action lawsuit against exercise equipment and media company Peloton for allegedly making false and misleading statements by promising the growth it achieved during the COVID-19 stay-at-home mandates would continue. The lawsuit also named Peloton CEO John Foley, President William Lynch, and Chief Financial Officer (CFO) Jill Woodworth as defendants. According to the complaint, investors were focused on whether the "massive growth and financial success" Peloton experienced during the pandemic were sustainable and would continue post-COVID-19. They were also focused on the company's inventory levels and what those levels indicated about demand, as well as whether growth would decline once vaccines were approved, businesses reopened, and gyms reopened. The complaint said the company and its top executives "repeatedly, falsely assured investors that Peloton's recent success was not primarily due to COVID-related increased demand, but rather that the company's growth and financial results were sustainable and would continue post-COVID." Lawyers for the pension fund argue that as a result of the disclosures, the price of Peloton common stock fell $9.75 per share, or 8.5%, to a closing price of $104.34 per share on Aug. 27 from a closing price of $114.09 per share on Aug. 26.

[Meet The Marathon Manager Helping Tampa's First Responders Retire Rich]

Jason Bisnoff, Forbes, December 22, 2021

Across America, scores of municipal pension funds remain scandalously underfunded. But not the **pension fund of Tampa's police and firemen**, thanks in large part to Jay Bowen, whose no-frills approach to stock picking has protected and served them for more than 45 years. As the sole asset manager of Tampa, Florida's firefighters' and police officers' $2.7 billion pension fund, Bowen has staked his success on focus and stamina. His firm—Bowen, Hanes & Company—is not only the first responders' sole asset manager, but the pension fund makes up nearly 80% of the Atlanta money manager's $3.5 billion in assets. His fund's balanced strategy—a mix of roughly 70% equities, 30% fixed income—has returned 15% (net of fees) over the last three years and 13.5% over the last five years, versus 13.7% and 12.4% for the benchmark index, respectively. That puts the boutique mana-ger in the top 1 percent of comparable pension plans, according to data from the Wilshire Trust Universe Comparison Service. Over 47 years the fund has logged equity returns of 14.8%, outpacing the S&P 500's 12.6% total return. In the last year, Tampa's police and firemen have been treated to a 32% return. Even more importantly, actuarial reports show that their pension is 94% funded, compared to 71% among municipal pensions, according to Wilshire.

[Florida Pensions Agree to Settle Perrigo Lawsuit for $31.9 Million]

By Michael Katz, Chief Investment Officer, December 3, 2021

Pharmaceutical company Perrigo has agreed to pay $31.9 million to settle a class action securities lawsuit led by two Florida pension funds that accused the company of misleading investors regarding a $1.9 billion Irish tax bill. Lead plaintiffs the **City of Boca Raton General Employees' Pension Plan and Palm Bay Police and Firefighters' Pension Fund** had alleged that Perrigo, which is operationally based in the US and domiciled in Ireland, "made material misrepresentations and omissions" to investors regarding a €1.636 billion ($1.9 billion) tax liability assessed by the Irish government. The case centers on a disclosure Perrigo made after the stock market closed Dec. 20, 2018, announcing that its subsidiary received a notice of amended assessment from Ireland's tax authority saying it owed the €1.636 billion in back taxes. Shares of Perrigo fell 29% the following day to $37.03 from $52.36. According to the complaint, the $1.9 billion tax liability was the largest such tax assessment in Irish history, and a "catastrophic result for a company with just $400 million in cash on hand." The complaint also alleged that Perrigo had kept investors in the dark about an audit findings letter it received nearly two months earlier from Irish Revenue saying that the company owed significant back taxes.

[How can a city get away with stealing roughly $50,000 from two former police officers?]

By Rachel Heimann Mercader, Naples Daily News, December 18, 2021

The former officers are U.S. Army Veterans who bought back their military service credits by paying the City of Naples over half of their yearly salaries in a lump sum. The 'Military Buyback Program' is a benefit for all veterans with active-duty military service time to receive credit for their military service time to be added to their years of civil service with the government and increases their retirement annuity. When the two retired within the last year, department officials told them they would receive the bare minimum benefit equal to 42% of their final average compensation. But there is a problem. The military years they bought back were not enough to raise their benefit over 42%, a minimum both officers say is already hard to survive off. Since they did not benefit from their buyback, they asked to be refunded, but the city said no. The discussion on military buyback refunds for Gallagher and Harp has come up during all four pension board meetings this year. Each time the board decided to push the discussion to the next meeting.

Employee pension plans urgently need guidelines, not more bailouts

By Mark J. Warshawsky, The Hill, December 30, 2021

To avoid another congressional bailout, it's time to enact legislation to protect the pensions of all state and local government employees. In the past 20 years, across the board, the funded status of state and local government employee pension plans has worsened while the cost burden on taxpayers has increased significantly. According to Boston College estimates as of May, the average funded ratio (assets divided by liabilities) of these plans was estimated to be about 75 percent in 2021, down from 76 percent in 2010, despite overall good investment returns and down from ratios over 100 percent in 2000. This average hides a range of funded ratios across the country, from 15 to 117 percent in 2021. Analysis shows that the range has grown wider over time, with the lower funded plans struggling and falling behind. To prevent the current bad situation from getting worse, to allow for slow but steady improvements, I recommend that Congress take the following steps: #1 - Require the accurate and prudent measurement of plan assets and liabilities, and disclose them plainly to taxpayers and workers. Importantly, include the use of yields on taxable state government bonds as the discount rates. #2 - Impose federal funding requirements, following those used in accounting for private pension plans. If the state/local economy is growing with or above national trends, full funding and quick amortizations would not be imposed. #3 - If a plan is poorly funded, it must be closed to new workers. Existing workers should be given the option to not participate in it, and the plan should be replaced by a defined contribution plan, as is nearly universal in the private sector.
Editor's Note: Mark J. Warshawsky is a senior fellow at the American Enterprise Institute and these are his opinions and not those of The Hill newspaper.

Florida taking action against Communist China and 'woke' corporations

By The Center Square Staff, December 30, 2021

The state of Florida is taking action against the communist country of China and "woke corporations" operating in the state, Gov. Ron DeSantis says. The state will investigate its holdings in Chinese companies and "retake control of its shareholder proxy voting from ideology-crazed investment funds," the governor said. DeSantis made the announcement after holding a meeting with two other State Board of Administration trustees, Florida's Chief Financial Officer Jimmy Patronis and Attorney General Ashley Moody. All three comprise the Board of Trustees and have ultimate oversight over the SBA, its two chief officials and more than 200 professional investment and administrative support staff. The three trustees voted to make several significant policy changes impacting how the SBA invests the proceeds of the state's retirement system investment plan and over 30 funds the SBA is tasked with overseeing by state statute. The governor, Patronis and Moody voted to revoke all proxy voting authority that had previously been given to outside fund managers, clarifying that all fund managers should act solely in the financial interest of the state's funds. They also announced that they would be conducting a survey of all of the investments of the Florida Retirement System to determine how many assets Florida has in Chinese companies.

ILLINOIS POLICE, FIREFIGHTERS PUSH BACK ON STATE CONTROL OF PENSIONS

By Patrick Andriesen, Illinois Policy, December 6, 2021

A court ruling as soon as December will determine the fate of a 2019 law Gov. J.B. Pritzker championed to consolidate about 650 local police and firefighter pension funds from across Illinois under state management by mid-2022. The First Responder Pension Consolidation law currently faces a lawsuit challenging it on constitutional grounds, claiming the measure diminishes pension benefits. The law is aimed at easing shortfalls in Illinois' local public safety pensions by merging more than $16 billion in assets from the 650 retirement plans into two funds, one for police and one for firefighters. While Pritzker said the measure would cut costs and improve returns for recipients, three dozen current employees and retirees, along with 18 local retirement plans, filed the lawsuit in February. They are seeking to maintain local control over pension management.

[Do Public Pensions Need a Shift in Investment Strategies?]

By Rebecca Moore, Plan Sponsor, December 7, 2021

Public employee pension funds, endowment funds and other nonprofit institutional investors in the U.S. have underperformed properly constructed, passively investable benchmarks by a wide margin since the global financial crisis of 2008, contends Richard Ennis in an EnnisKnupp research paper. A composite of 46 large public funds underperformed a passively investable benchmark by 155 basis points (bps) per year for the 12 years ended June 30, 2020. The composite underperformed the benchmark in 11 years out of 12, according to his findings. With public defined benefit (DB) pension plans' holdings of $4.5 trillion, Ennis figures that underperformance of 155 bps per year costs stakeholders nearly $70 billion a year. Ennis says the "extreme diversification" of public pension funds makes them more costly, "with poor prospects for keeping up with a passively investable benchmark over time." The paper, How to Improve Institutional Fund Performance, is available here.

Pew's Fiscal Sustainability Matrix Helps States Assess Pension Health

Pew Issue Brief, December 10, 2021

The combined effect of a decade of increasing pension contributions and the strong market rally of 2021 has had a stabilizing effect on state pension plans. Taken together, these factors contributed over half a trillion dollars to current plan assets. The result: a 50-state funded ratio of over 80% and total pension debt nationally of less than $800 billion at the end of fiscal year 2021, according to estimates by The Pew Charitable Trusts. This represents the highest funded ratio since before the Great Recession and the largest progress in closing the state pension plan funding gap this century. Although recent market performance has improved the balance sheets of state retirement systems, policymakers must continue to manage pension funds through economic and market uncertainty. Pew's fiscal sustainability matrix can help them maintain and improve the financial health of public pensions and ensure that plan obligations are funded in a way that guarantees that promises made to pensioners are sustainable for government budgets. Pew's analysis reveals actions that states can take now to strengthen their systems, including setting assumed rates of return that reflect the new market outlook, monitoring cash flows to protect assets from depletion, adopting risk-sharing features to minimize contribution volatility, and—perhaps most importantly—making steady and annual progress in paying down unfunded liabilities.

Alaska is at risk of an educator exodus

By Ben Walker, Anchorage Daily News, December 7, 2021

On the state level, the continued devotion to the disastrous Tier III Teacher Retirement System defined-contribution plan, the lone defined-contribution plan for public school educators left in the United States, has made Alaska the worst place for educator retirement in the entire country. This has created the "tourist teacher." Tourist teachers come to Alaska and gain experience and training, as well as the school district's investment in their Tier III accounts, only to leave mid-career, leaving our communities and our children with the disruption and cost, estimated at more than $20 million a year. It gets worse. Alaska educators not only don't have a defined-benefit pension but are also excluded from Social Security. That's right: In addition to only what amounts to a 401K and the associated risk, educators working with students right now will have no Social Security upon retiring and don't even have a choice to pay into it. But in order for us to continue to prioritize students, Anchorage educators should be prioritized with a contract that respects our education and expertise, salary and benefits that keep up with the cost of living, as well as a retirement that incentivizes us to teach, and stay, in Alaska.

Pension-izing employer-sponsored defined contribution retirement plans

By Katie Kuehner-Hebert, Benefits Pro, December 13, 2021

Calls for "pension-izing" employer-sponsored retirement plans are increasing, but what exactly does that mean for workers, employers, benefit advisors, recordkeepers and other stakeholders? We will soon as a society feel the

impact of decreased DB pension prevalence. According to the Center for Retirement Research at Boston College, among American households headed with an individual born in 1945, just over 50 percent were covered by a DB pension. For households headed by a person born in 1952, only 30 percent were covered, and for those headed by someone born in 1979, that percentage dropped to about 10 percent. So, while members of the Greatest Generation currently in retirement rely heavily on these DB benefits, most boomer households will not be so fortunate.
Editor's Note: The easiest way to pensionize a DC account is to convert it to a DB plan.

Record Returns Not Enough to Ensure Public Pension Stability

By Michael Katz, Chief Investment Officer, December 15, 2021

Despite logging average returns of 27.5% during fiscal year 2021, state pension plans still face a large funding shortfall and might have billions more in unfunded liabilities not yet recognized on their books, according to a recent report from nonprofit Equable Institute. It will be important for state pension boards to use the historic returns to "buy down" their investment assumptions and "put themselves in a less vulnerable funding position in the coming years with more muted investment returns." Equable Institute forecasts that the aggregate funded ratio will increase to 80.8% in 2021 from 70.9% in 2020 thanks to the record investment returns. It also projects the $1.49 trillion pension funding gap from 2020 will decrease to $1.12 trillion for fiscal year 2021. However, the report also said that despite these and several positive indicators for US public pensions' funded status, state retirement systems will have to steer through a new era of inflation and a changing investment return environment heading into 2022.

Proposed changes to the U.S. retirement system are still on the table in Congress. Here's where things stand

By Sarah O'Brien, CNBC, December 20, 2021

There's bipartisan backing for measures in both the House and Senate that would build on the 2019 Secure Act, which aimed to increase both the ranks of savers and retirement security. While progress on the proposals has been slow, there's hope for action in 2022, say supporters. The Secure Act changed when required minimum distributions, or RMDs, from retirement accounts must begin to age 72, from 70½. Under the House proposal, those mandated annual withdrawals wouldn't have to start until age 73 in 2022, and then age 74 in 2029 and age 75 by 2032. Similarly, the Senate proposal would raise the RMD age to 75 by 2032. It also would waive RMDs for individuals with less than $100,000 in aggregate retirement savings, as well as reduce the penalty for failing to take RMDs to 25% from the current 50%. Both the House and Senate proposals aim to expand those amounts, although the specifics differ a bit. The House provision would adjust annual catch-up amounts based on inflation, and would expand the 401(k) catch-up to $10,000 for individuals who are age 62, 63 or 64. Workers enrolled in so-called SIMPLE plans would be allowed $5,000 in catch-up contributions, up from the current $3,000. All catch-up contributions to 401(k) plans and the like would be treated as Roth contributions — i.e., after tax. Current law allows workers to choose whether to make those contributions on a pretax or Roth basis (assuming their company gives them the choice).

Historic NYC Pension Fund fossil fuel divestment heralded as model for others

By Jessica Corbett, Red Blue Green, December 23, 2021

New York City Comptroller Scott M. Stringer and trustees of major public pensions funds announced a $3 billion divestment from fossil fuels. New York City leaders in January 2018 committed to divesting major public pension funds from fossil fuel reserve companies within five years, and have urged others to follow suit. Stringer and trustees of the New York City Employees' Retirement System (NYCERS) and the New York City Board of Education Retirement System (BERS) revealed that those funds "have completed their process of divesting approximately $1.8 billion and $100 million in securities, respectively," bringing the total for all funds to approximately $3 billion. Stand.earth earlier this month published what it called a "first-of-its-kind" analysis

exposing how U.S. public pension funds are "bankrolling the climate crisis." The advocacy group and fund beneficiaries nationwide responded to the findings by demanding divestment from fossil fuel holdings as well as investment in "just and equitable climate solutions."
Editor's Note: Of all the funds listed in the report, none was in Florida.

Dramatic DB to DC Shift, Graphically

By John Iekel, ASPPA, December 29, 2021

A new report from the Congressional Research Service (CRS) provides an illustration of the shift from defined benefit plans to defined contribution plans that has taken place in the last 40 years in private sector pensions. In 1975, there were 27.2 million active participants in private-sector DB plans, and 11.2 million in private-sector DC plans. In 2019, says the CRS, there were 12.6 million active participants in private-sector DB plans, and 85.5 million in private-sector DC plans. In 2021, says the report, 68% of private-sector workers had access to either a DB or DC plan, or both; 15% had access to a DB plan, while 65% had access to a DC plan.