FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS JUNE 2022 ON FLORIDA PENSION ISSUES
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Florida pension fixes in budget are great but only the first step

By Adrian Moore and Richard Hiller, Sarasota Your Observer.com, June 16, 2022

Recognizing a significant shortcoming in the Florida Retirement System's Investment Plan, the state legislature recently took substantial action to address the problem by passing House Bill 5007, which was signed by Gov. Ron DeSantis. It is generally recognized that a defined contribution structured retirement plan needs a contribution rate of between 12% and 15% of a worker's salary (where employees participate in Social Security) to produce an income that is likely to maintain the employee's standard of living once they are in retirement. For teachers and most other non-safety public workers in Florida, the contribution rate in the Florida Retirement System's Investment Plan has been 3% by the employees and 3.3% by the employer, for a total of 6.3%. Unfortunately, this is effectively half of the total contribution necessary to effectively fund an appropriate retirement income. With the passage of House Bill 5007, the Florida Retirement System's Investment Plan is much closer to being a model of effective public retirement plan design. Florida policymakers should now seize the opportunity to take the necessary step — increasing employee contributions to 6%, thereby having a total contribution rate into the plan of over 12%, putting the contribution rate in line with best practices.

Major Florida legislation improves the state's default defined contribution plan

Reason Foundation, Washington Examiner, June 13, 2022

Nearly seven months after Florida Gov. Ron DeSantis released his "Freedom First Budget" recommending an improved defined contribution retirement benefit for teachers and most public employees statewide, House Bill 5007 (HB 5007), which grants a 3% benefit increase to all active plan members, is now law. Over 180,000 educators, administrators, and other government workers participating in the default Florida Retirement System Investment Plan are slated to receive the additional 3%, effective July 2022. With this move, Florida continues to demonstrate its commitment to maintaining a retirement system that works for both taxpayers and public workers. It will align the state's default defined contribution retirement option offered to most newly hired public workers with private-sector retirement contribution best practices. This will have the long-term effect of mitigating financial risk to taxpayers while improving employees' ability to contribute to a secure, future retirement no matter how long they work in public service. In combination with previous reforms, the Florida Retirement System Investment Plan (FRS IP) rate changes in House Bill 5007 make Florida a leader in providing attractive, choice-based, and affordable benefits to an increasingly flexible and diverse workforce. The change also improves the footing of the state's defined contribution plan, which plays a critical role in addressing the financial risks borne by public employers and taxpayers.

Florida's pension fund 'solid' amid market volatility

By CBS Miami Team, CBS News Miami, June 22. 2022

Florida's pension fund remains "solid" despite growing pressure from global market conditions, Lamar Taylor, interim executive director of the State Board of Administration, said Wednesday. Taylor, in a brief conference call with Gov. Ron DeSantis, Attorney General Ashley Moody and Chief Financial Officer Jimmy Patronis, said overall assets handled by the board are down 6.25 percent from the start of the current fiscal year, which will end June 30. The pension fund is off $18.8 billion. While part of the decline is a result of $600 million a month in benefit payments, economic conditions, including inflation, are a major factor. Taylor said it's important to maintain exposure through "real assets," such as real estate, commodities, infrastructure and energy. "Last year, we had almost a 30 percent return," he said. "Of course, we knew that was not going to be what you'd see year to year. So, we expect volatility, and we plan for that in our asset allocation. I think we are in good shape."

Federal proposals would impact Florida's retirement fund | Opinion

By Trevor Wagener, Tallahassee Democrat, June 6, 2022

Congress is currently considering shortsighted proposals like S. 2992 that attempt to clamp down on tech companies that operate online platforms and marketplaces. However, lawmakers and other critics fail to recognize the real victims of their efforts: hard-working Americans counting on pensions to see them through their retirement years. Radical proposals to overhaul federal antitrust laws would cost some 27.9 million teachers, firefighters, nurses, and other public employees almost $4,000 per person in lost retirement benefits. Here in Florida, it would hurt even more, with a long-term impact of $4,146 each, according to an analysis by the Computer & Communications Industry Association. Compliance with restrictions in these federal proposals would significantly increase operating costs for regulated businesses, which in turn would reduce the value of the companies' stocks and other securities. State and local pension plans are large shareholders in many of these tech companies, so if the companies suffer, their shareholders – including public sector pension and retirement plans – suffer. The reality is that pension plans like the FRS Pension Plan manage the retirement savings of 1 in 7 American workers, many of whom will depend on their pensions to make ends meet when they stop working. And the pension plans are heavily invested in the very companies targeted by the legislative proposals. An estimated 86% of state and local government employee pension plans include five major tech companies – Google, Facebook, Apple, Microsoft, and Amazon – among their top 10 holdings.

Major Florida legislation improves the state's default defined contribution plan

By Pension Integrity Project, Washington Examiner, JUNE 13, 2022

Nearly seven months after Florida Gov. Ron DeSantis released his "Freedom First Budget" recommending an improved defined contribution retirement benefit for teachers and most public employees statewide, House Bill 5007 (HB 5007), which grants a 3% benefit increase to all active plan members, is now law. Florida continues to demonstrate its commitment to maintaining a retirement system that works for both taxpayers and public workers. It will align the state's default defined contribution retirement option offered to most newly hired public workers with private-sector retirement contribution best practices. This will have the long-term effect of mitigating financial risk to taxpayers while improving employees' ability to contribute to a secure, future retirement no matter how long they work in public service. With the help of several key stakeholders in the state, including Gov. DeSantis' office, legislative leaders such as State Sen. Jeff Brandes and State Rep. Jay Trumbull, and local groups like Americans for Prosperity-Florida, we were able to raise awareness of the issue in preparation for the 2022 regular session. The law also included an unrelated policy provision that expanded law enforcement officers' access to an existing Deferred Retirement Option Program (DROP) for those participating in the traditional FRS pension system. Gov. Ron DeSantis and members of the state legislature deserve recognition for their work to bring the Florida Retirement System one step closer to becoming a model for public retirement systems around the country.

Seminole council approves firefighter contract with salary boosts, higher minimums, lower pension contributions

By Carl Diorio, Tampa Bay Newspapers, June 3, 2022

he City Council has approved unanimously a new three-year contract with city firefighters that provides for a total 11% in "merit pay increases." With the new contract, Local 2896 also will continue to make strides in lowering the percentage of pay members must contribute to the firefighters' pension fund. In the first year, that percentage — which was 15% before 2018 — will be reduced from 12.5% to 12%. Then in 2023-24, it will be lowered to 11% and in 2024-25 to 10%.

IRS changes affect Indian Shores police pension

By Jeannie Carlson, Tampa Bay Newspapers, June 22, 2022

In order to maintain the Indian Shores Police Officers' Pension Trust Fund tax qualified status, changes were made to the town ordinance regarding the police officers' retirement system. During council discussion, a council member asked if the changes were originating on a local or national level. Council member responded that it came from the IRS, so it was national. On Jan. 1, 2020, the Internal Revenue Code was altered to change the minimum distribution age, raising it from 70½ to 72. The town's ordinance was amended to reflect that increase in required retirement age in this new ordinance.

Daytona Beach's City Commission gives initial approval for new incentives for police and fire

By Susan Cerbone, Ormond Beach Observer, June 17, 2022

For several years, police departments across the country have struggled to recruit, hire and retain officers to fill their ranks. The Daytona Beach City Commission took the first steps to approve several new strategies aimed to attract recruits and entice more officers to stay. Daytona Beach currently has 41 vacancies in its police department with 242 budgeted sworn positions. Commissioners will also consider amending the pension plan to reduce the number of years to reach normal retirement from 25 years to 20. Daytona Beach firefighters are also slated to receive across-the-board raises, and the years reduced to reach normal retirement from 25 years to 20, with City Commission final approval expected on July 6. Daytona Beach's Fire Department has 105 certified firefighters.

Pension Funds Push for More Disclosure Rules for Private-Equity, Hedge Funds

By Heather Gillers, Stock XPro, June 6, 2022

Pension plans and other institutional investors are embracing a federal proposal that would force hedge funds and private-equity funds to provide more disclosures to investors. University endowments, insurance funds and retirement funds serving teachers and firefighters are urging the Securities and Exchange Commission to move forward with a proposed rule that would ensure private-fund investors receive annual audits and quarterly statements. The rule, which has been heavily criticized by the private funds and Republicans, would also prohibit fund managers from passing along certain legal costs and limit the funds' ability to insulate themselves from lawsuits. State and local retirement systems and other government investment funds control more than $5 trillion in combined assets. But they say that as capital has flooded into private markets in recent years, fierce competition over in-demand managers leave them at a growing disadvantage. Pension funds, anxious to drum up enough cash to cover the promises they made to investors, hope that the potentially higher returns offered by hedge funds and private-equity firms will help close funding gaps and limit how often they have to take the politically unpopular step of increasing retirement contributions from state and local governments and their workers. Pension plans' private-equity holdings alone likely equate to about half a trillion dollars, according to data from Preqin and the Federal Reserve. Pension funds make less money on their private-equity investments than other types of institutional investors do. The average annualized return for big public pension plans for the 20 years ended June 30, 2021, was 11.8%, according to an analysis of data from the Boston College Center for Retirement Research. Annualized returns for private-equity funds tracked by the data-analytics firm Burgiss for the same period were 13.4%.

[Governance Issues Loom Over US Pension Funds]

By Bailey McCann, Chief Investment Officer, June 2, 2022

Fiscal year 2021 was a great year for public pensions. According to funding data from Pew Charitable Trusts, a decade of increasing pension contributions was bolstered by the reopening rally of 2021. As a result, public pensions in all 50 states saw their funding ratios top 80%, the highest level since before the Great Recession. By the end of fiscal 2021, public pensions had made the greatest progress in a century toward closing the gap between plan funding and liabilities. While this data is positive, it may also be indicative of a high watermark in pension funding and stability. Pew's forward-looking projections suggest that pensions are more likely to struggle to meet their 7% return targets. Why? Equity market volatility, rising inflation and low fixed-income yields all play a role, but so does fund governance. Increased contributions and a prolonged stock market rally have provided public pensions with significant cover in recent years. But choppy markets will make it harder for pensions to paper over structural issues that haven't been fixed, even if the top-line numbers look better on paper. Making improvements to pension fund governance in the U.S. is a tall order, and getting to something resembling the Canadian model seems unlikely. But some reforms already happening at the margins that could get U.S. pension funds closer.

[US Labor Department Sued After Warning 401(k) Providers About Allowing Crypto Investments]

By Cheyenne Ligon, Coin Desk, June 2, 2022

The U.S. Department of Labor (DOL) issued a controversial warning to 401(k) plan fiduciaries to "exercise extreme care" before considering adding cryptocurrencies to a retirement plan's investment menu. Today, the agency is being sued for it. California-based 401(k) provider ForUsAll filed suit against the DOL alleging the agency violated the Administrative Procedure Act (APA) by issuing guidance without following the correct procedures. Those procedures, argued ForUsAll, would have required the guidance to go through a time-consuming notice and comment period. The DOL skipped that step because it feared the impact of Super Bowl commercials that encouraged investors to put their retirement savings into crypto, and hurried the guidance out ahead of that event, alleged the plaintiff. Aside from deviating from the proper procedure, ForUsAll claims the DOL's "arbitrary and capricious" warning against crypto and threat of an "investigative program" against plans that offer such investments could set a "concerning precedent for future announcements by any Administration about what investments are permissible."

[Legacy Debt in Public Pensions: A New Approach]

By Jean-Pierre Aubry, Center for Retirement Research at Boston College, June 2022

This brief – the second of two – takes a historical view of public pension underfunding to motivate a more transparent funding policy going forward. It builds on a key finding from the first brief – that some pension funds are still burdened by unfunded liabilities accumulated before modern actuarial funding. This so-called "legacy debt" poses a different policy challenge than other sources of unfunded liability because it reflects the cost from an older way of managing promised retirement benefits. And, because it stems from a much earlier era, it does not fit well within the modern framework that is designed to allocate costs to the period when benefits were earned. Given the challenges that legacy debt poses, this brief presents a new approach that separates the funding of legacy liabilities from other pension liabilities, while valuing liabilities in a manner more consistent with modern accounting and finance. Hopefully, the new approach provides a clearer way forward for government employers, employees, and taxpayers. [Click here to full the full brief.]

[FBI Shuts Down Marketplace Selling 24 Million Social Security Numbers]
By Corinne Reichert, CNET, June 8, 2022

The FBI, Department of Justice and Internal Revenue Service have shut down a series of websites that they allege were selling 24 million Social Security Numbers, names and dates of birth of people living in the US. The SSNDOB Marketplace made about $19 million in revenue while it operated, according to an announcement from the agencies Tuesday. Working with local police in Cyprus and Latvia, they executed seizure orders on June 7 against four domain names associated with the SSNDOB Marketplace. "Identity theft can have a devastating impact on a victim's long-term emotional and financial health," Darrell Waldon, a special agent with the IRS' Criminal Investigation agency, said in a statement. "Taking down the SSNDOB website disrupted ID theft criminals and helped millions of Americans whose personal information was compromised."

Here are the changes Americans are willing to make to fix Social Security, survey finds
By Lorie Konish, CNBC, June 8, 2022

Now a new survey from the University of Maryland's Program for Public Consultation aims to find out how public voters who lean either Republican or Democrat would change the program. That was increasing the level of income at which Social Security payroll taxes are applied. In 2022, that includes up to $147,000 in income, which is adjusted each year. However, there are proposals that call for reapplying those payroll taxes for people with wages over $400,000. The results showed 81% of survey respondents supported this strategy, which would eliminate 61% of the shortfall. That included 79% of Republicans and 88% of Democrats. Another equally popular strategy with survey respondents is reducing benefits for high earners, which also had 81% support. That included 78% of Republicans and 86% of Democrats. This would reduce the amount of benefits the top 20% of earners receive, and would reduce the shortfall by 11%. The survey also found 75% of respondents would support gradually raising the retirement age to 68 from the current age of 67. That included 75% of Republicans and 76% of Democrats. Such a move would reduce an estimated 14% of the shortfall. There was also strong support for increasing the payroll tax, with 73% of respondents. Currently, employers and employees each pay a tax of 6.2% of wages. The simulation called for raising that to 6.5%, which would help eliminate 16% of the shortfall. Support was split with 70% of Republicans and 78% of Democrats. Benefit increases were also supported by respondents affiliated with both parties. Raising the minimum benefit was the most popular of those options, with 64% support. That included 59% of Republicans and 71% of Democrats. That change would bring the minimum benefit for someone who has worked for 30 years up to $1,341 from $951, thereby increasing the shortfall by 7%. Survey respondents also supported changing the way annual cost-of-living adjustments are determined, with 55%, to a measurement that better reflects the goods and services older adults buy. That included 55% of Republicans and 59% of Democrats. That change would increase the shortfall by 12%. The survey also found support among 53% of respondents for increasing benefits for beneficiaries over age 80 by 5%. That included 53% of Republicans and 56% of Democrats. Such a change would increase the shortfall by 5%.

401(k) plans are failing middle-class Americans
By Mary Beth Franklin, Investment News, June 9, 2022

A new report finds that the tax breaks designed to encourage Americans' retirement savings disproportionately benefit high-income households and do little to assist middle-class families. More than half of the tax breaks for defined-contribution plans, such as 401(k)s and individual retirement accounts, go to those whose income puts them in the top 10%, according to new research from the National Institute on Retirement Security, a nonprofit, nonpartisan organization established to contribute to informed policymaking. The report documents how current tax incentives fail to promote adequate retirement security for the middle class. It considers the impact of factors including marginal tax rates, retirement plan participation and income distribution on retirement savings levels. The research also offers potential solutions that could enhance retirement security for middle-class families.

[Delivering Pensions Amid The Rumble Of Artillery In Ukraine]
By Borys Sachalko, Radio Free Europe, June 10, 2022

In Ukraine, a crowd gathers to get their monthly pension payments in cash amid the rumble of artillery nearby. These people used to travel to a neighboring town to get their money, but the road is now too dangerous. Instead, local officials travel to them under armed guard.
Editor's Note: This video shows how pensions are being delivered in the Ukraine during the war. We never think about this as our pensions are mostly direct deposit into our bank accounts – it happens seemly each month and there is never a worry about the check being on time or the amount.

Pension investors launch campaign against dual-class share structures
By Tommy Wilkes and Simon Jessop, Reuters, June 13, 2022

Leading UK and U.S. pension investors managing more than $1 trillion have launched a campaign to stop companies using dual-class share structures that concentrate voting power in the hands of certain shareholders at the expense of others. Launched by British railways pensions scheme Railpen and the non-profit Council of Institutional Investors (CII), others backing the Investor Coalition for Equal Votes (ICEV) include the New York City Comptroller's Office and the Washington State Investment Board. Companies with dual-class structures have two or more types of shares with different voting rights - usually one with greater voting rights for founders or early investors, and another for other shareholders with less voting power. The imbalance means most investors have less control over how the company is run and can make it harder to collectively push back on issues such as executive pay and corporate strategy.

401(k) Crypto Investment Restrictions Eyed by Labor Regulators
By Austin R. Ramsey, Bloomberg Law, June 14, 2022

Regulators are considering whether to issue a rule that would address the appropriateness of cryptocurrency in 401(k) plans, Labor Secretary Marty Walsh told a House panel. In response to a line of questioning about recent strongly worded guidance advising plans against allowing digital coin assets in workplace 401(k)s, Walsh told the House Education and Labor Committee that the department is "looking at potentially going through a rulemaking process on the industry as a whole." Rulemaking would raise an already controversial bar the department set when it issued guidance threatening an "investigative program" against employers who allow participants to access crypto assets through their 401(k) plans. The guidance triggered fierce resistance from alternative investors hungry to extend their reach to workplace retirement savers.

Here's the Public Pension Anti-Herding Portfolio
By Julie Segal, Institutional Investor, June 22, 2022

In a new paper, Richard Ennis, founder of consultant EnnisKnupp, argues that U.S. public pensions have failed to leverage the $6 trillion they have in assets to become what he calls the lowest-cost producers of investment returns. Instead, they have herded into an expensive portfolio model, which includes a huge allocation to alternative investments and which has failed to deliver good risk-adjusted returns. Public pensions now have an average exposure to equities of approximately 70 percent in highly diversified portfolios. That in and of itself isn't bad. But their herding behavior has also resulted in "more than a trillion dollars [in] alternative investments after alts ceased adding value to institutional portfolios more than 10 years ago," wrote Ennis in the paper, called "A Universal Investment Portfolio for Public Pension Funds: Making the Most of Our Herding Ways." Given the failures, Ennis is calling for an asset manager to create and market what he calls a Universal Investment Portfolio for Public Pension Funds. The passive model would mirror how pension funds in the aggregate are allocated, with expenses falling as assets under management grow. Ennis projects that the model, which would have 28.6 percent in U.S. bonds, 51.8 percent in U.S. stocks, 7 percent in international stocks with currencies hedged, and 12.6

percent in non-U.S. stocks, could potentially rank in the top quartile of funds because of its low costs. And it could be profitable for an asset manager.