FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS JULY 2022 ON FLORIDA PENSION ISSUES
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DeSantis urges Florida not to invest pension funds in 'woke' companies

By Jim Turner, Sun-Sentinel, July 27, 2022

Continuing to target what he calls "woke" corporations, Gov. Ron DeSantis wants to prohibit state investments that use "environmental, social and governance" ratings to judge companies. DeSantis plans to have the State Board of Administration direct its pension-fund managers against "using political factors when investing the state's money." ESG policies have drawn criticism from Republicans across the country. SG involves investors who consider a wide range of issues before investing in a company, such as its climate-change vulnerabilities; carbon emissions; product safety; supply-chain labor standards; privacy and data security; and executive compensation. Billionaire Elon Musk called ESG a "scam" after his company Tesla was removed from the S&P's ESG index. DeSantis also said he intends to work during the 2023 legislative session with incoming House Speaker Paul Renner, R-Palm Coast, to put into law ESG prohibitions. A group called DeSantis Watch, a joint project from Florida Watch and Progress Florida that is critical of the governor, issued a statement that said DeSantis' proposal does "the bidding of his large corporate donors and billionaire supporters."

City Commission sets reduced preliminary millage rate: Second consecutive year for rate reduction

By Jan Thornburg, City of Sarasota, July 28, 2022

The City Commission reduced the millage rate Tuesday for a second consecutive year following extensive review of the proposed Fiscal Year 2022-23 budget. The City's pension plans are healthy with low unfunded liabilities. The closed firefighters plan and general employees' pension plans are funded at 98% and 76.7% respectively, while the police officers' pension is 91.3% funded. "Because of the tough decisions made by this City Commission and past commissions, the City is fiscally sound," said City Manager Brown. "The pension plans are well funded. We continue to have a very good bond rating and healthy fund balance."

Milliman: Public pension plans' funding dips slightly in May

By Palash Ghosh, P&I, June 29, 2022

The estimated funding ratio of the 100 largest public defined benefit plans in the U.S. inched down to 78.4% at the end of May from 78.6% at the end of April, according to the latest Milliman 100 Public Pension Funding. The "relatively stagnant market" of May provided a "reprieve" for these plans after the volatility experienced between February and April this year, Milliman said in a news release. The funding ratio was as high as 85.5% at the end of the fourth quarter of 2021. In addition, the deficit between the estimated assets and liabilities widened by a "correspondingly modest amount," to $1.259 trillion at the end of May from $1.243 trillion at the end of April. The index's asset value remained "essentially unchanged," inching down to $4.566 trillion at the end of May from $4.567 trillion at the end of April. The pension funds actually gained a bit of market value, about $7 billion, but had "very slightly higher" net negative cash flow of about $8 billion.

[State pension plan funding plunges 11.3 points in Q2 – Wilshire]
By Rob Kozlowski, P&I, July 8, 2022

U.S. state pension plans' aggregate funding ratio plummeted 11.3 percentage points during the second quarter to 70.1% as of June 30, according to Wilshire Advisors estimates. The drop in the estimated aggregate funding ratio from 81.4% as of March 31 resulted from a 13.4% decrease in asset values along with a 0.5% increase in liability values, according to Wilshire. As of June 30, 2021, Wilshire's estimated aggregate funding ratio for U.S. state pension plans was 83.4%. Ned McGuire, managing director at Wilshire, said in a news release that while the main story for the second quarter was the significant decline in domestic equities, all asset classes experienced negative returns due to concerns over higher inflation and the continuing Russia-Ukraine war. Wilshire's assumed asset allocation of U.S. state pension plans is 31% domestic equities, 23% core fixed income, 17% international equities, 14% real assets, 9% private equity and 6% high-yield fixed income.

Public pension benefit dollars provide substantial economic impact on rural communities, small towns across U.S.
National Institute on Retirement Security, Press Release, July 12, 2022

As many small towns and rural communities across America face shrinking populations and growing economic challenges, a new report finds that a positive economic contributor to these communities is the flow of benefit dollars from public pension plans. In 2018, public pension benefit dollars represented between one and three percent of GDP on average in the 2,922 counties in the 43 states studied. These findings are detailed in a new study released by the National Institute on Retirement Security, Fortifying Main Street: The Economic Benefit of Public Pension Dollars in Small Towns and Rural America. The research illustrates the impact of benefit dollars from public pension plans according to several different measures: as a percentage of GDP by county; as a percentage of total personal income by county; and by categorizing counties as metropolitan, small town (micropolitan) or rural. This study builds on previous research, adding significantly more states and examining data in 43 states from a majority of public pension plans in the states.

Public-Sector Pensions Weathered Pandemic
By Jean-Pierre Aubry and Kevin Wandrei, Squared Away Blog, July 12, 2022

The economic turmoil in the early months of the pandemic – a plunging stock market and soaring unemployment – posed a real threat to state and local government pension funds and the workers who rely on them. One group was particularly vulnerable: public-sector workers who aren't covered by Social Security and lack the backstop of the federal government if their employer pension plans get into trouble. The Center for Retirement Research has some good news for these 5 million noncovered workers living in 20 states. Their pension plans got through the first two years of the pandemic unscathed. In dollar terms, government contributions to these defined benefit pension plans actually increased during COVID. That and a roaring stock market in 2021 significantly improved their financial condition. Of course, this sunny report is clouded by what is happening to the stock market now – it has reversed course and dropped 20 percent this year. But the researchers' assessment is that COVID was not the financial disaster many had feared for the public-sector workers who aren't covered by Social Security.

Report: Unfunded state public pension liabilities projected to increase to $1.3 trillion for FY22
By Bethany Blankley, The Center Square, July 18, 2022

Unfunded state public pension liabilities are expected to increase to $1.3 trillion in fiscal 2022 if investment returns in the stock market are 0% or less, according to a new report published by Reason Foundation's Pension Integrity Project. When fiscal 2022 pension financial reports are made public, the unfunded liabilities of 118 state public pension plans are expected to exceed $1 trillion in 2022, the analysis projects. The fiscal year ended June 30. Early indicators point to investment returns averaging around -6% for fiscal 2022 for many public pension systems as stocks tumbled because of soaring inflation and other factors, according to the analysis. A -6% return translates to $1.3 trillion in aggregate unfunded liabilities of state-run public pension plans, nearly double what it was in fiscal 2021 of $783 billion. The aggregate funded ratio of the state pension plans would fall to 75% funded in 2022 from 85% funded in 2021. The 2022 Public Pension Forecaster, available to the public for free, allows users to preview changes in public pension system funding measurements for major state-run pension plans.

Here's How Badly the Market Crash Has Hurt Pension Funds

By Jessica Hamlin, Institutional Investor, July 20, 2022

Public pension plans in the U.S. saw significant losses in 2022 as interest rates rose and stock markets tanked. In its annual state of pensions report, Equable Institute, a non-profit that provides public pension research and information, found that in the fiscal year ending in June 2022, the aggregate funded ratio of statewide and municipal public pensions plans dropped by 6.9 percentage points — a loss of about half of 2021's gains. In fact, the report said this drop is the largest single-year decline in the funded ratio since the 2008 financial crisis. Equable estimated that the average return for 2022 will be a loss of 10.4 percent. According to the report, this will be the first negative average for public pension plan returns since 2009. Thanks in part to 2021's massive growth, the average ten-year returns comes out to 7.5 percent — above the assumed rate of return of 6.9 percent. From 2001 to 2021, asset allocations at pension funds have shifted away from low-risk fixed income investments like bonds to higher-risk strategies, like hedge funds and private equity. As of 2021, private equity investments comprised over 10 percent of pension portfolios.

Pension funds need broader metrics to assess plan health – NCPERS study

By Rob Kozlowski, P&I, July 22, 2022

The National Conference on Public Employee Retirement Systems announced the results of a study intended to broaden the understanding of what constitutes a healthy public pension system. The results have been published in a new report, "Measuring Public Pension Health: New Metrics and New Approaches," which outlines three new metrics to help guide decisions by managers and policymakers in determining the health of state and municipal pension funds. The three metrics the study suggests public pension funds use are: #1 - Scaled liability, which measures pension liabilities against the economy that supports it; #2 - UAL stabilization payment, which creates an objective measurement of the plan's cash flow; and #3 - Risk-weighted asset value, which measures asset value against a plan's ability to withstand market downturns given its cash flow and asset allocation. Simply using the present value of assets to measure the health of the plan can mask some of the risks in managing a pension fund. The current measures can also exaggerate some of the risks that public pension funds face. One example of that is that the motivation of insisting on full funding comes from the risk of the sponsor being liquidated, and with public funds, the sponsor can't be liquidated.

Crypto plunge is cautionary tale for public pension funds

By: Steve Karnowski, WPTV West Palm Beach, July 10, 2022

When the Houston Firefighters Relief and Retirement Fund bought $25 million in cryptocurrencies, with the fund's chief investment officer touting their potential, retired fire Capt. Russell Harris was concerned. Harris, 62, has attended the funerals of 34 firefighters killed in the line of duty. He was already worried about his pension after an overhaul by state and city officials cut payments as they grappled with the ability to pay out benefits. He didn't see crypto, unproven in his eyes, as an answer. The plunge in prices for Bitcoin and other cryptocurrencies in recent weeks provides a cautionary tale for the handful of public pension funds that have dipped their toes in the crypto pool over the past few years. Most have done it indirectly through stocks or investment funds that serve as proxies for the larger crypto market. A lack of transparency makes it difficult to tell whether they've made or lost money, let alone how much, and for the most part fund officials won't say. But the recent crypto meltdown has prompted a larger question: For pension funds that ensure teachers, firefighters, police and other public workers receive guaranteed benefits in retirement after public service, is any amount of crypto investment too risky?

[IRS Launches 90-Day Pre-Audit Window to Correct Retirement Plan Errors]

By Stephen Miller, SHRM, June 25, 2022

The IRS has launched a pilot compliance program that gives plan sponsors a 90-day window prior to an IRS audit of their tax-qualified retirement plan, such as a 401(k) or defined benefit pension, to fix any discovered errors. The program enables participating plans to pay either no penalty fee or a lower fee for voluntarily correcting any errors. The IRS announced the program in its June 3 Employee Plans newsletter, accessible on the agency's Employee News webpage. The pilot program will notify plan sponsors by letter that their retirement plan was selected for an upcoming examination, the IRS said. The letter gives plan sponsors a 90-day window to review their plan's document and operations to determine if they meet current tax-law requirements. If a plan sponsor does not respond within 90 days, the IRS will contact them to schedule an exam. The announcement instructed plan sponsors to review and find mistakes in the plan's documents or operations, and to self-correct these mistakes using the IRS Voluntary Correction Program (VCP) under the Employee Plans Compliance Resolution System (EPCRS).

The next financial hammer to fall: Public pension funds

By Merrill Matthews, Opinion Contributor, The Hill, June 28, 2022

The public pension situation could get really messy in the near future. There are currently about 300 state-administered and nearly 6,000 locally-administered public retirement plans, according to PublicPlansData, a project of the Center for Retirement Research at Boston College and the MissionSquare Research Institute. Those public pension systems have 14.7 million workers (e.g., state and local government employees, teachers, police and fire departments) and 11.2 million retirees. Collectively, those systems had some $4.5 trillion in assets at the end of 2021. After six months of stock and bond market declines, those assets have likely dropped significantly, putting public pension plans in financial stress. It’s a pattern we’ve seen over and over again. Public pension systems, often pressed by government employee unions, underfund their plans and overpromise their returns. Like a Ponzi scheme, those systems can get by when the markets and the economy are good.
Editor’s Note: The Hill is a widely read newspaper in Washington, DC on Capitol Hill.

Private equity allocation helps public pension plans

By Larry Rothman, P&I, July 13, 2022

U.S. public pension plans had 11% of their assets invested in private equity, and 89% had some amount allocated to the asset class, according to the American Investment Council's 2022 Public Pension Study. Public equity and fixed income, combining for 68%, had the largest share. The median 10-year annualized private equity return among public pension funds that the AIC examined was 15.1%. This return was better than other major asset classes, such as public equities' 11.8%. For the 10 years ended June 30, 2021, Illinois State Board Investment's 19.8% annualized return from private equity investments led all public pension funds, edging out the West Virginia Investment Management Board's 19.7%, according to the AIC study.

10 States That Receive the Most Social Security

By John Csiszar, Yahoo Finance, July 16, 2022

Social Security benefits are paid out through a complex formula that factors in how much a taxpayer earned during their working career and at which age they file for benefits. When taken en masse, the average Social Security retirement payout for all retired workers as of January 2022 was $1,657, but the maximum possible benefit reached $4,194. To determine which states received the most Social Security, GOBankingRates accessed data from the Social Security Administration regarding the total benefits paid by state, along with the number of Social Security beneficiaries in each state. For purposes of this analysis, only Old-Age, Survivors and Disability Insurance, or OASDI, was included. Supplemental Security Income (SSI) was not considered. States are ranked in reverse order, with the state receiving the most Social Security ranked No. 1. Ranked #2. **Florida**: Total Social Security Received: $6.94 billion: Total Number of Recipients: 4,840,275. Georgia was ranked #10 and California #1.

Editor's Note: Again, this shows the economic impact on a state's economy of retirees receiving a fixed income, especially during recessions and downturns in the economy.

Missouri Treasurer pleads for legislature to address ESG influence on public pensions

By The Center Square Staff, Just The News, July 16, 2022

The Missouri legislature needs to examine who is making investments of taxpayer funds held in public pensions, according to the state treasurer. Scott Fitzpatrick, a candidate for the Republican nomination for state auditor, believes a top legislative priority should be acting on the state's investment relationships with any Environmental, Social and Governance (ESG) Funds through public pension systems. Fitzpatrick said state government must take back control of how funds are being managed and proxy votes cast.

CALPERS Logs Decade-Worst 6.1% Loss as Stocks and Bonds Dive

By John Gittelsohn, Bloomberg, July 20, 2022

California Public Employees' Retirement System, the biggest US pension fund, lost 6.1% on its investments in the latest fiscal year, its worst performance in more than a decade. The drop was driven by a 13.1% decline in publicly traded stocks and 14.5% slide in fixed-income securities, according to preliminary results posted on Calpers' website. The pension fund's private equity and real assets, which are a smaller part of the portfolio, delivered positive returns of 21.3% and 24.1%, respectively. Those figures, however, are as of March 31 and don't fully reflect the recent sale of $6 billion of private equity assets, a portion of which will be included in fiscal 2023 results. The fiscal year ends on June 30. The last time Calpers reported a negative return was in 2009, in the wake of the financial crisis, when the portfolio plunged 23.4%. The annual return target for Calpers is 6.8%. The fund's five-year average returns are 6.7%. The fiscal 2022 loss leaves Calpers with 72% of its long-term funding needs.

Pension unfunded liabilities rising with market volatility

By Joel Kranc, Benefits Pro, July 21, 2022

The markets giveth and the markets taketh away. Unfunded liabilities for state pension funds are expected to climb from $783 billion in 2021 to $1.3 trillion in 2022. The funded ratio of state pensions would fall from 85% last year to 75% in 2022. That's according to the Reason Foundation, which states that after the market expansion of 2021 helped pensions; the rather lackluster performance of markets this year could see an average rate of return for state pensions at -6%. Should that be the case, Reason Foundation estimates that some of the nation's largest pension funds, California, New York, Texas, Ohio, **Florida** and Illinois, would see their unfunded pension liabilities jump by more than $20 billion compared to 2021. The significant levels of volatility and funding challenges pension plans are experiencing right now support the Pension Integrity Project's position last year that most state and local government pensions are still in need of reform, despite the strong investment returns and funding improvements in 2021. The Foundation stated three reasons for pension reform, including: 2021 investment returns will have limited impact on long-term pension funding; Long-term returns are expected to remain low; Many plans remain vulnerable to increasingly volatile market outcomes. Also, the Foundation notes that many observers mistook a single good year of returns as a sign of stabilization in what was a bumpy couple of decades for public pension funding. However, this year's returns, as well as the growing signs of a possible recession, "lend credence to the belief that public pension systems should lower their return expectations and view investment markets as less predictable and more volatile."

[Story calls for defined benefits in response to high state worker vacancies]

KINY, July 22nd, 2022

Juneau, Alaska (KINY) - With nearly one in five jobs in Alaska state government vacant, Juneau Representative Andi Story called for a return of defined benefits. Story noted that some employees come to Alaska to get trained and then go down south. One example was teachers, another was public safety. Certainly, if you talk to our public safety, our troopers, our police officers, they've so much feel like they are training Washington State's police officers." The legislature had passed HB 226, which seeks a 5% pay hike for nonunion state employees. Story was asked if that will help. "We're trying that right now in many areas across the state bonus for Department of Corrections $10,000 bonus for certain positions there. So obviously, that is incentives that state government is using. We need to be paying affordable, livable wages. We just approved the contract negotiations, so some public employees will see an increase" Story also expressed disappointment in Governor Dunleavy's veto of several million dollars intended to pay hiring and retention bonuses.
Editor's Note: When Alaska eliminated their DB, we warned them of the consequences. Sadly, the legislators who voted to kill the plan are not now in office and the current elected officials are left with this crisis.

[Report: 2022's losses negate last year's funding progress for public pensions]

By Andy Castillo, American City and County, July 25, 2022

Despite economic hardships brought about by the pandemic, American municipalities and states managed to reduce the funding shortfall of their public pension funds last year. But with looming financial uncertainty and the market turning downward, a new report finds that nearly all of those gains will be erased by the end of the year. "There should be little surprise that America's pension funds have taken a financial hit this year, swinging backward the year following some of the best investment returns in history," reads the report from Equable Institute, "State of Pensions 2022." The aggregate funded ratio increased to more than 84 percent of communities, according to the analysis. This year, the average ratio is projected to decline to 77.9 percent. Unfunded liabilities will increase from $1 trillion at the end of last year to $1.4 trillion—representing the largest single-year drop in funded ratio since the Great Recession. Notably, much of the nation's most severe pension fund challenges are focused in select areas. The five states with the most unfunded liabilities—California, Illinois, New Jersey, Texas and Pennsylvania—have a combined shortfall of $557 billion, far more than the rest of the country combined ($376 billion). Illinois alone has unfunded liabilities equaling $186 billion. The spike isn't surprising given how governments paid down public pension funds over the last year. The report notes that, given the unprecedented amount of federal money that's been flowing to local governments since the pandemic began, many dipped into supplemental, rainy-day funds or budget surpluses to make one-time contributions.

[Largest U.S. public pension plans' funding ratio falls in June – Milliman]

By Rob Kozlowski, P&I, July 28, 2022

The overall funding ratio of the 100 largest U.S. public pension plans fell to 74% as of June 30 from 78.4% one month earlier, according to the Milliman 100 Public Pension Funding index. During the month of June, Milliman estimated the public pension plans had an aggregate investment return of -5.1%, with an estimated range of -7.5% to -2.3%. For the 12 months ended June 30, the annualized return was 20%. As a result of the poor investment returns, estimated assets fell to $4.31 trillion as of June 30 from $4.57 trillion as of May 31, while estimated liabilities rose slightly to an estimated $5.84 trillion from $5.83 trillion. Of the 100 plans measured by the index as of June 30, 19 plans had funding ratios above 90%, compared with 27 a month earlier; while 26 plans were below 60% funded, up from 21 as of May 31. A total of 16 plans had ratios between 60% and 70%, 20 plans were between 70% and 80% and 19 plans were between 80% and 90%.

[2022 is hurting your public pension – the average funded ratio may see the 'largest single-year decline' since 2008]

By Alessandra Malito, Market Watch, July 20, 2022

Falling stock prices and rising food and energy prices during the first half of 2022 has been unkind to pensions. The public pension system could see its largest single-year decline in its funded ratio since the 2008 Great Recession, with the aggregate funded ratio dropping from 84.8% to 77.9% and unfunded liabilities jumping from under $1 trillion to $1.4 trillion this year, according to Equable Institute, a nonprofit focused on the country's retirement security through pensions. Public pensions had done particularly well in 2021, when unfunded liabilities fell below $1 trillion, but inflation, geopolitical tensions and a bear market in stocks SPX, +1.42% and tumbling bond prices may reverse that momentum. A pension's funded status measures the fund's financial obligations and its current assets. **When a plan is fully funded, it is expected to pay out full benefits to current and future beneficiaries.** Pension plans have long been underfunded, and some states have even proposed or enacted changes to reduce the burden of these costs by lowering benefit levels and increasing age and service requirements, according to the Urban Institute. This year, along with worries about pension stability or market volatility diminishing their investment returns, retirees also have to worry about inflation eroding any benefit they do get, experts said. Seventeen states had pensions with a funded status of between 90% to 100% in 2021, including Maine, **Florida**, New York and Idaho, but that number could drop to only seven states in 2022, and others will fall farther behind, according to Equable's projections. Healthy public plans are doing well in part because of increases in employer contribution rates, risk-sharing policies and stronger commitments to making contributions. Asset allocations across the public pension system moved toward riskier investments, including hedge funds and private-equity strategies – now up to 14.9% from 8% in 2008, mostly at the expense of public equities and fixed income. Many public pensions do not have cost-of-living adjustments, which increase the benefit retirees get every year to keep up with inflation (similarly to Social Security benefits). Even when these plans do offer a COLA, they're not guaranteed nor do they always actually align with what retirees are experiencing happening with their everyday expenses. The average COLA was 1.58% in 2022 for inflation-adjusted pensions, compared with Social Security's 5.9% adjustment. That gap has the potential to be even wider, as inflation accelerated to a 41-year record rate of 9.1% in June.

Editor's Note: I highlighted one sentence in red in this report. Interesting definition of fully funded – and makes one believe if the plan is less than 100% pre-funded, pension benefits will be cut.