FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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"Trying the best we can:" Police shortage extends beyond law enforcement

By Victoria De Cardenas, CW34, October 28, 2022

Yesterday, I took over 200 phone calls alone and that's just one person," said Natasha Thomas. Thomas has been answering emergency calls in Port St. Lucie for 16 years. The emergency operation center in St. Lucie County has 20 open positions. There's less manpower in the call center and on the streets. "Today's society and the mindset is keep shifting from job to job to job. And keep advancing, advancing, advancing as you go. In our line of work, it doesn't work that way," said Lt. Abollo. The pension that comes with police work isn't as enticing, as it once was added Lt. Abollo. "I've had young officers tell me 'I don't know if I want to go the rest of my career, the rest of my life, being in a profession that is being looked down on,'" said Chief Bolduc. And Florida has found a way to address those concerns with the Law Enforcement Recruitment Bonus Payment Program. The program would offer up to a $5,000 bonus to those newly employed with the state. And so far, there are seven potential recruits for the Port St. Lucie Police Department, but there are 32 positions still open.

Florida receives 'B' in latest Truth in Accounting fiscal report

By Andrew Powell, The Center Square, October 27, 2022

Florida is improving financially, but still placed in the middle of the pack in a new report on state finances across the U.S. Truth in Accounting ranks all 50 U.S. states on their financial performance. Florida checks in at the upper-end of the middle of the pack at No. 18. Statistically, Florida improved on a financial level, however, there were "deceiving" factors that led to the state dropping in Truth in Accounting's rankings. "While it appeared that Florida bettered its standing from 2020, moving from a Sinkhole State to a Sunshine State, the data can be deceiving. Based upon the state's latest audited financial report for fiscal year 2021, Florida had $6.5 billion available to pay future bills. The resulting surplus of $900 for each Florida taxpayer earned it a 'B' grade from Truth in Accounting." Truth in Accounting's FSOS report also notes that the Sunshine State's surplus was a factor in an increase of value in public employees' retirement plan assets, which is only used to pay pension benefits. The report highlights the main reasoning behind Florida's financial improvements, stating that the COVID-19 pandemic and federal stimulus packages associated with it gave the Sunshine State "fiscal improvement."

Florida Leaders Rejected Major Climate Laws. Now They're Seeking Storm Aid.

By Christopher Flavelle and Jonathan Weisman, NY Times, October 4, 2022

Hurricane Ian's wrath made clear that Florida faces some of the most severe consequences of climate change anywhere in the country. But the state's top elected leaders opposed the most significant climate legislation to pass Congress — laws to help fortify states against, and recover from, climate disasters, and confront their underlying cause: the burning of fossil fuels. Senators Marco Rubio and Rick Scott voted against last year's bipartisan infrastructure law, which devotes some $50 billion to help states better prepare for events like Ian, because they said it was wasteful. And in August, they joined every fellow Republican in the Senate to oppose a new climate law that invests $369 billion in reducing greenhouse gas emissions, the largest such effort in the country's history.

At the same time, Republican Gov. Ron DeSantis has blocked the state's pension fund from taking climate change into account when making investment decisions, saying that politics should be absent from financial calculations. In the aftermath of Ian, those leaders want federal help to rebuild their state — but don't want to discuss the underlying problem that is making hurricanes more powerful and destructive.

[In Focus: ESG becomes a political battleground in the US]

By Jean-Baptiste Andrieux, Money Marketing, October 18, 2022

Environmental, social and governance (ESG) metrics in the US have never been as established as they are within Europe. From a performance perspective, research by Investment Metrics last year found high-ESG European stocks outperformed much more often than high-ESG US stocks did. In fact, high-ESG US stocks did not outperform the general market. Confluence managing director – performance, risk and analytics Damian Handzy explains that the difference may reside in investor sentiment and demand. While European investors have shown receptiveness to ESG issues, their US counterparts are more reserved. ESG is controversial not only among investors. It has also become a political battleground. Recently, the state of Florida passed a resolution that banned pension funds from taking ESG metrics into consideration in their investment process. Instead, the resolution states, investment decisions must be based only on "pecuniary factors". Florida governor Ron DeSantis said: "With the resolution we passed, the tax dollars and proxy votes of the people of Florida will no longer be commandeered by Wall Street financial firms and used to implement policies through the board room that Floridians reject at the ballot box. 'ESG investment' has become a catch-all term that means different things to different people and unfortunately has become political for some.

[Report: Public sector employees facing financial hardship due to inflation, housing costs]

By Andy Castillo, City & County, October 14, 2022

Coming off two years of the pandemic, economic uncertainty and financial hardship is being driven by inflation concerns, prompting consumers to change spending habits and some public sector employees to rethink their retirement plans. A new survey of more than 1,000 public sector employees from MissionSquare Research Institute found that 84 percent of public sector employees have anxiety about the impact of economic conditions and market volatility on their personal financial security. Further, 48 percent said high inflation and rising housing costs (37 percent) "are triggering lower retirement savings," a statement from the research organization says. The survey was conducted last month by Greenwald Research. In regards to financial hardship in retirement, 81 percent expressed concern about whether or not they'll have enough to live comfortably in retirement, or be able to stretch it out for long enough. Because of those concerns, 72 percent said they weren't sure if they could retire on time and 70 percent expressed concern over having enough emergency savings.

[Analysis of American Workers Shows Retirement Plan Type Influences Spending Habits]

By Paul Mulholland, Plan Advisor, September 27, 2022

A new report by the Public Retirement Research Lab and JP Morgan demonstrated that public-sector workers whose primary retirement account is a defined benefit account tend to spend a higher ratio of their earnings than those with a defined contribution account. The study found that across all income quartiles, defined benefit plan participants spend a higher ratio of their income than defined contribution or hybrid plans. At the lowest quartile, defined benefit participants spent 117% of their income vs 108% for non-defined benefit, and at the highest quartile, defined benefit participants spent 90%, vs 83% for non-defined benefit participants. The authors speculated that this gap is likely because workers with a defined benefit plan have a retirement that is based on a formula, rather than market performance, and is perceived as lower risk. This reduced risk makes them feel more comfortable spending larger percentages of their total income. The study noted that some state and local government employers are exempt from Social Security if they offer a retirement plan that is at least as generous as Social Security itself. They tested if Social Security coverage affected worker spending between the two categories, and found that it did not. The main finding of the study was that public-sector employees who have a defined benefit pension fund tend to spend a higher ratio of their total earnings than their non-defined benefit counterparts.

Memphis may restore 1978 pensions for police, fire

By David Royer, Shay Arthur, News Channel 3, September 28, 2022

Memphis officials announced a plan to restore pensions for police and fire employees that they say will help with recruiting and retaining first responders. Mayor Jim Strickland will seek city council approval to allow police and firefighters to have the option to choose the city's 1978 pension plan, or the 2016 pension plan. The change would take effect in July 2023. Currently, 1,000 firefighters, police officers, and dispatchers would qualify to make the change as well as future employees. Officers who had left the Memphis force had gone to other departments because of better benefits. The city has been working to recruit police and firefighters by increasing pay, offering bonuses and incentives, and stepping up recruiting efforts. A change in pension plans a few years ago has made it more difficult. The city is able to offer the 1978 pension plan because of a change in sales tax approved by voters in 2019 that is bringing in an extra $60 million to $70 million. Police and firefighter associations campaigned in favor of a referendum to increase sales tax to retain first responders.

Pa. city council restores LEO pension plan in response to staffing crisis

By Mike Crowley, The Meadville Tribune, October 4, 2022

A pension reform policy considered key to the city of Meadville's (PA) future financial stability just a few years ago was eliminated in a move officials described as a response to an ongoing public safety crisis. Meadville City Council members voted 4-0 to approve a four-year labor agreement with the union that restores traditional pensions for members of the union that represents the city's police officers. The agreement takes effect next year and continues through 2026. The vote came after Chief Michael Tautin delivered a "state of the department" address that painted Meadville as unable to compete against other municipalities in the region for police staffing. Without a change, he said, Meadville Police Department soon would not be able to field enough officers to patrol the city around the clock. "These guys are working so much overtime," he said, "it's putting strains on marriages, fathers aren't seeing their kids, they're here constantly. They're to a breaking point where they're tired. They're just — they're tired. If we don't do something soon to change this, I can't staff the streets 24 hours. I can't ask any more than I am." The department is currently three officers short of the full complement of 22 staff members. Even as new officers have been hired, others have resigned. In one recent case, an officer resigned before having completed his initial training period. Six officers resigned over the past year to take similar positions with other departments in the region, and in each case, the department's lack of a traditional pension was cited as a primary motivation.

OPINION: Alaska is paying the price for its poor retirement system changes

Opinion Piece, Anchorage Daily News, October 9, 2022

I am a lifelong conservative and I vote based on candidates who value fiscal responsibility. I also support restoring a defined-benefit pension for Alaska's public employees. Our teachers, troopers, firefighters and plow truck drivers not only deserve a decent retirement, but it makes good financial sense for Alaska. Why are so many Alaska teachers and school administrators leaving? At least one factor is the retirement system. Alaska is the only state in the country where teachers and administrators hired after 2006 can't earn a pension, and are not enrolled in Social Security. The fact that Alaska teachers are not enrolled in Social Security is a surprise to many. The Alaska Territorial Teachers Retirement System and Anchorage Police and Fire Retirement System opted out of Social Security in 1951. No teacher, administrator or Anchorage police officer or firefighter alive and working today was involved in this unfortunate decision. Not only does Social Security provide benefits in old age, but it also provides death and disability coverage. Right now, if an Alaska teacher is catastrophically injured off the job, they are totally uncovered, by the state of Alaska and by Social Security. When Alaska eliminated the option to earn a pension, there was a national effort to move states away from pensions. Many states like Alaska that changed have restored at least the option or choice to earn a pension. These states have also adopted modern “risk-sharing” tools to protect the state from unfunded liabilities and ensure the solvency of their pension funds. Almost every other state that we are competing with for public safety and public education employees are offering a pension option.

The IRS Waiver of the Excise Tax for 2021 and 2022 RMDs

By Denise Appleby, The Street, October 19, 2022

The IRS recently issued Notice 2022-53, announcing an automatic waiver of the 50% excise tax on 2021 or 2022 required minimum distributions (RMDs) not taken by the deadline. This waiver applies only to inherited accounts that are IRAs, defined contribution plans, 403(b)s, and governmental 457(b)s, for which the heirs (beneficiaries) of those accounts are designated beneficiaries or successor beneficiaries who are required to take annual RMDs under the new 10-year rule.

Private equity losses loom for pension plans

By Jean Dondo, Web Push, September 28, 2022

Public pension funds have already been hit with substantial losses in 2022. And things are probably going to get worse following a reckoning in a complicated corner of the global investing scene. According to the Wall Street Journal, those funds in the U.S. have yet to consider the second quarter returns on private equity and other illiquid investments. The funds oversee US$5 trillion in retirement savings for the country's teachers, firefighters, and other public employees. The losses are a further illustration of how there is almost nowhere to hide in the current market turmoil, and that even the investments that are typically regarded as safe havens are losing value. For many years, public pensions have struggled with funding. Over the past few years, more people have looked to private equity and other unconventional investments to fill their inconsistencies. Public pension funds will determine the second-quarter performance of their private-market assets over the next weeks and months as they receive estimates from investment managers. The secondary market, where investors can buy and sell private equity assets halfway through the investments' lives, is already showing warning signs. Based on information gathered,they found investors who purchased private equity assets on the secondary market this year paid, on average, 86% of the value assigned to those assets in 2021. It's common for assets to trade at a discount in secondary markets, but this was the lowest amount recorded since data collection started in 2016.

U.S. corporate pension plans' funding ratios remain high in September

By Rob Kozlowski, P&I, October 4, 2022

U.S. corporate pension plan funding ratios remained high at the end of September as falling liabilities continue to offset a challenging market return environment, according to four new reports. In a quarterly report released Monday, MetLife Investment Management said the estimated average funding ratio of companies in the Russell 3000 that sponsor defined benefit plans was 100.7% as of Sept. 30, up from 98.5% as of June 30. MetLife's average allocation for the tracked companies is 49% fixed income and cash, 33% equities and 18% alternatives. In another monthly report, Aon said the aggregate funding ratio of S&P 500 companies that sponsor defined benefit plans increased to 93.9% as of Sept. 30 from 93% a month earlier. Aon said pension assets returned -6.8% during August and the interest rates used to value pension liabilities rose to 4.97% from 4.23%. In it monthly report, Legal & General Investment Management America estimated the average funding ratio of the typical U.S. corporate pension plan was 95.6% as of Sept. 30, the same as a month earlier. Finally, in a fourth report, this time covering Canadian defined benefit plans, Mercer estimated the median funding ratio of the plans in its database fell slightly to 108% as of Sept. 30 from 109% as of June 30.

[Great Recession Strengthened Public Pension Systems, Report Says]
FA Staff, Financial Advisor, October 5, 2022

State and local government retirement systems successfully navigated the global financial crisis from 2007 to 2009 and were able to attain pre-recession asset levels within about six years, a new report says. The research by the National Institute on Retirement Security (NIRS) also found that these pension plans adopted strategies in reaction to the Great Recession that allowed them to ensure long-term resilience. The report noted that public pension plans across the nation suffered significant losses as a result of the Great Recession, which lasted from 2008 to 2009. It took years for pension plans to recover and, as a result of the financial shock, many of them took on a more conservative approach, mainly by lowering their assumed rates of return, improving mortality assumptions and shortening their amortization periods. Researchers found that the median government pension plan took until 2013 to recover its fiscal 2007 asset levels, while the majority of plans were able to achieve this type of recovery by 2014. NIRS also reported that, as of the end of last year, pension plan assets were 88% above 2007 levels and $3.8 trillion had been paid out in benefits since the Great Recession. There were also $89 billion in plan withdrawals over that period of time. Beyond the recovery of assets, researchers said a key development since the Great Recession has been the way pension plans carry out their business.

These Are The World's Best And Worst Pensions in 2022
By Amy Bainbridge, Bloomberg, October 11, 2022

Iceland, the Netherlands and Denmark again took the top three rankings in this year's Mercer CFA Institute Global Pension Index. But the report recommended that retirement ages need to be lifted almost everywhere in the face of mounting threats from aging populations, ballooning government debt and low birth rates. "What we're also finding with increased education in many countries, is people are entering the workforce a bit later," David Knox, the report's lead said in an interview. "You can't enter the workforce later, retire at the same age and live longer. Something has to give." The current economic environment of reduced wage growth, rising inflation and reduced investment returns in many asset classes is also placing additional financial pressures on retirement income systems, the report found. The report's top three countries, while not immune to global economic headwinds, were again found to have sustainable and well-governed systems with a healthy mix of public and private sector pensions and a "high level of integrity." The US ranked 20th of the 44 countries surveyed. As fertility rates decline and people live longer, the United Nations predicts the portion of the world's population aged 65 or over will rise from 9.7% this year to 16.4% in 2050. Retirement ages among the countries surveyed ranged from 55 to 68.

Social Security benefits to jump by 8.7% next year
By Stan Choe, US News & World, October 13, 2022

Millions of Social Security recipients will get an 8.7% boost in their benefits in 2023. The cost-of living adjustment means the average recipient will receive more than $140 extra a month beginning in January, according to estimates released Thursday by the Social Security Administration. The boost in benefits. the biggest in 40 years, will be coupled with a 3% drop in Medicare Part B premiums, meaning retirees will get the full impact of the jump in Social Security benefits.

US Public Pensions Unlikely to Face UK Pension-Style Crisis
Fitch Ratings, October 14, 2022

U.S. state and local pensions are unlikely to face the sudden liquidity crisis that U.K. corporate pensions are confronting given their different approaches to valuing liabilities and the resulting differences in investment strategies, Fitch Ratings says. However, U.S. public pension funds' investment return assumptions incentivize higher yielding asset investments, posing the risk of deeper losses in a market downturn. State and local government pensions discount their liabilities using the same fixed long-term investment return rate that they assume for their assets, whereas U.K. corporate pensions discount their liabilities using variable, market-based rates. To avoid having market rate variability affect U.K. pension liabilities, and thus their parent corporations' balance sheets, U.K. pensions engage in liability-driven investing (LDI) strategies that use leverage, an approach not commonly used by U.S. plans. LDI strategies typically rely on interest rate derivatives that involve long-dated U.K. bonds to match their long-term obligations. The investment return assumption used by U.S. state and local government pensions is a fixed rate, but this presents its own set of risks, most notably incentivizing the search for higher yield, exposing assets to higher volatility. Fitch views this as a central concern for state and local pensions, particularly as investment return assumptions remained unrealistically high, despite incremental decreases during a decade of low inflation and variable returns. U.S. state and local pensions will see weaker asset performance as higher inflation, geopolitical uncertainty, and higher interest rates are priced into asset values. Fitch's latest Global Economic Outlook anticipates a mild U.S. recession next year, with deeper recessions in some parts of the globe.

How Pension Plans Evolved Out of the Great Financial Crisis

By Dusty Hagedorn, Chief Investment Officer, October 17, 2022

Public pension funds were not spared from the carnage of the Great Financial Crisis, as assets and funding statuses eroded between December 2007 and June 2009. From 2009-2013, there was a significant dip in the aggregate percentage of required contributions paid. When the economy recovered, states and other plan sponsors normalized their contribution levels. Most plans recovered their losses between 2011 and 2014, three to six years after the market bottom. Despite the recession and subsequent loss of value, plans continued to pay out over a trillion dollars in benefits to subscribers during the period. In addition to adjusting assumptions in models, since 2009, plans have moved toward a shortening of amortization periods. Prior to 2009, over 70% of plans utilized a 30-year amortization schedule. These changes help to decrease unfunded liabilities, helping plans arrive at, or approach, full funding status. In 2008, the median assumed investment return was a bit above 8%, whereas today the median investment assumption return is 7%. Plans have used the past 10 years of recovery and equity growth to introduce more conservative assumptions to their models. Total assets of U.S. state and local pension plans have doubled since 2009. Temple commented on the success of professional management saying, "we saw equities rally 113% from the lows in 2009. From 2009 to 2015, plans allocated away from public equities to other asset classes, moving their gains, selling high and buying low, [and by doing so] serving their stakeholders very well."

Market slide puts dent in public pension funding in September – Milliman

By Rob Kozlowski, P&I, October 21, 2022

The overall estimated funding ratio of the **100 largest U.S. public pension plans** dipped to 69.3% at the end of September due to very poor market performance during the month, according to the Milliman 100 Public Pension Funding index. During the month of September, Milliman estimated that public pension plans had an aggregate investment return of -6.6%, with an estimated range of -3.3% to -9.6%. The estimated funding ratio as of Aug. 31 had been 75%, down from 77.3% a month earlier as markets in August swooned after a modest recovery in July. A total of 19 plans had an estimated funding ratio of 90% or above as of Aug. 31, while 24 plans were estimated to be below 60%. As of Sept. 30, a total of 15 plans had ratios between 60% and 70% (down from 17 a month earlier), 26 plans were between 70% and 80% (up from 17) and 16 plans were between 80% and 90% (down from 23). As a result of the dreadful month of market returns, estimated assets fell to $4.08 trillion as of Sept. 30 from $4.4 trillion a month earlier, while estimated liabilities rose slightly to an estimated $5.88 trillion from $5.87 trillion.

Pension Funded Status Up, While Risk Transfers Expected to Rise

By John Iekel, ASPPA, October 19, 2022

The funded status of the **100 largest corporate defined benefit plans** improved by $31 billion in September, says Milliman in its Milliman 100 Pension Funding Index. The $31 billion improvement is attributable to the drop in plan liabilities that resulted from higher corporate bond interest rates used to value them, says Milliman. And that increase, in turn, spelled an increase in the funded status surplus — which by the end of September stood at $122 billion. Not only did funded status improve, so did the funded ratio of those 100 top plans. From Aug. 31 to Sept. 30, it rose almost three percentage points from 106.3% to 109.2%. And Aon's Pension Risk Tracker says that by the start of October, the funded ratio of pension plans run by the S&P 500 stood at 93.7%, a 0.7 percentage point increase from one month before. And the improvements were not isolated to September — funded status for the Milliman 100 improved by $36 billion in the third quarter of 2022. And their funded ratio rose by 3.3 percentage points in that quarter from 105.9% on June 30 to 109.2% three months later.

Market Volatility Cuts Public Pension Funded Ratios

By Michael Katz, Plan Sponsor, October 26, 2022

"Very poor market performance" erased more than five percentage points from the 100 largest public pension funds' funded ratio in September alone, according to consulting firm Milliman, which reported that the aggregate funded ratio for the funds fell to 69.3% from 75.0% at the end of August. During the month, as investments lost an average of 6.6%, the deficit between the estimated assets and liabilities rose to $1.808 trillion from $1.467 trillion at the end of August. The firm said that losses for individual plans during the month ranged from 3.3% to 9.6%. As of September 30, the Milliman 100 PPFI asset value decreased to $4.075 trillion from $4.401 trillion at the end of August, and the plans' aggregate market value fell approximately $318 billion during the month, on top of approximately $8 billion in net negative cash flow. Milliman also said that the total pension liability continued to grow to an estimated $5.883 trillion as of the end of September, up from $5.868 trillion as of August 31. The falling markets sent seven of the 100 plans below the 90% funded at the end of September, leaving 12 plans above the benchmark, down from 46 at the end of 2021. At the same time, seven plans fell below the 60% funded level during the month, raising the total number of plans under that threshold to 31 from 18 at year-end 2021.