FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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Florida pulls $2 billion in investments from BlackRock fund

By Staff and wire report, Orlando Sentinel, December 1, 2022

Florida will pull $2 billion from BlackRock, the largest asset-management firm in the world, over concerns expressed by Republican leaders that its investment policies will put social reforms over investment returns. State Chief Financial Officer Jimmy Patronis announced Thursday the state will immediately freeze about $1.43 billion in long-term securities and about $600 million in short-term overnight investments managed by BlackRock because of the firm's use of Environmental, Social, and Governance standards, known as ESG. Republican leaders in Florida and across the country have targeted ESG ratings, an investment strategy used to calculate the risk of long-term investments. Under ESG, fund managers can consider whether climate change will affect a business' profits in the future. Governance factors examine conflict of interest policies, executive compensation and other safeguards to protect against corporate scandals. Social factors take into account whether employees are paid equitably. New House Speaker Paul Renner, R-Palm Coast, also has made combatting ESG a priority. During an address to the House during a Nov. 22 organization session, Renner called for investment changes by the state to move away from Wall Street companies that have adopted "radical environmental and diversity goals."
Editor's Note: There were a huge number of stories of ESG investing – from both the opponents and proponents. Most mentioned Governor DeSantis in the articles. I did not include all of these as the information was basically repetitious. ESG investing will continue to be a hot button item in 2023 as state legislature meet in session.

It's Official: U.S. Retirement Plans Can Consider ESG Factors

By Emily Steinbarth and Kris Nelson, Advisory Investments, December 3, 2022

After years of uncertainty around how U.S. retirement plans could consider ESG factors, the dust is finally settling. It's official: A Nov. 22 rule issued by the Department of Labor (DOL) allows retirement plans to consider financially material ESG factors when selecting investments and exercising shareholder rights. What's more, the neutrality of the final rule increases the odds the rule will endure under future administrations. Following the headlines, you'd be tempted to say yes, this is just another volley in a politicized ESG landscape. But as others have noted, the final rule features notably more neutral language than the 2020 rules or even the original proposed rule. It does not favor or disfavor products with an ESG focus. Differences between the proposed and final rule provided notable examples, such as removing reference to specific ESG considerations which may have given the impression these things had to be considered. In our view, this attempt at political neutrality will increase the likelihood that the rule sticks under subsequent administrations. Ultimately, the issue of integrating ESG factors and funds into investment plans may prove less political than the headlines would have us believe. This latest rule puts the ball squarely in the hands of fiduciaries to exercise their own best judgment in considering ESG factors when making investment decisions on behalf of ERISA plan participants and beneficiaries. This rule applies to ERISA plans.

New Research Finds Pension Plans Alone Often Don't Provide Retirement Income Adequacy for State and Local Government Employees

NIRS Study, November 2022

A first-of-a-kind analysis finds that retirement is growing more challenging for public sector workers. State and local employees in a typical public defined benefit (DB) pension plan need to save about four to six percent of their salary on their own to ensure adequate retirement income. The report also finds that defined contribution (DC) plans provide less retirement income than DB plans in a typical cost-equivalent conversion for career employees. These findings are detailed in a new study released today by the National Institute on Retirement Security (NIRS) and **Aon**, The Real Deal for the Public Sector: Retirement Income Adequacy Among U.S. Public Sector Employees. "This new report illustrates the growing challenge of retirement. With longer lives, healthcare costs increasing faster than wages, and more modest expectations of investment markets, even workers with a DB plan would be wise to have additional resources to shore up a secure retirement," Doonan said. "This is particularly true for workers with less generous benefits, for women, and for younger workers. Rising costs are a major culprit, particularly healthcare costs, and this means that public employees must save more on their own to ensure a secure retirement. Fortunately, most public employers offer a range of supplemental savings programs that help set aside additional money for retirement."

Public-Sector Workers Face Retirement Income Shortfalls Without Supplemental Savings

By Noah Zuss, Plan Sponsor, December 12, 2022

Longer lives, rising health care costs, and wages not keeping up with inflation mean that even public-sector workers retiring with a defined benefit plan, Social Security and a retiree medical benefit could fall short of retirement income adequacy without adding supplemental savings, new research found. The National Institute on Retirement Security report, "The Real Deal for the Public Sector: Retirement Income Adequacy Among U.S. Public Sector Employees," investigated the individual retirement income shortfall or surplus for participants of the average public defined benefit plan, considering whether they pay into Social Security and/or are offered a retiree medical plan. The nonprofit's research was published in partnership with Aon.

New Social Security Website Designed for Easier Use

By Alex Ortolani, Plan Sponsor, December 7, 2022

The Social Security Administration launched a redesigned website for the more than 180 million Americans a year who use the website to apply for their benefits, check their eligibility and order Social Security cards. The website, SSA.gov, was redesigned with the goal of people finding what they need more easily, understanding their benefits and reducing in-person visits. The administration also said that people not yet receiving benefits can use their online account to get a personalized Social Security statement that provides their earnings information as well as estimates of their future benefits. People can sign up for an account at www.ssa.gov/myaccount/.

IRS reminds those over age 72 to start withdrawals from IRAs and retirement plans to avoid penalties

Observateur, December 13, 2022

The Internal Revenue Service reminded those who were born in 1950 or earlier that funds in their retirement plans and individual retirement arrangements face important upcoming deadlines for required minimum distributions to avoid penalties. Required minimum distributions, or RMDs, are minimum amounts that many retirement plan and IRA account owners must generally withdraw annually after they reach age 72. Account owners can delay taking their first RMD until April 1 following the later of the calendar year they reach age 72 or, in a workplace retirement plan, retire. RMDs are taxable income and may be subject to penalties if not timely taken. The RMD

rules require traditional IRA, and SEP, SARSEP, and SIMPLE IRA account holders to begin taking distributions at age 72, even if they're still working. Account holders reaching age 72 in 2022 must take their first RMD by April 1, 2023, and the second RMD by December 31, 2023, and each year thereafter.

Corporate Pension Plan Funding Remains Up in 2022, Despite November Drop

By Dusty Hagedorn, Plan Sponsor, December 14, 2022

For the month of November, pension funding statuses declined by 1.4 percentage points from 105.5% to 104.1%, while assets increased by 5.1% and liabilities increased by 6.5%, according to Insight Investment. During the month, the average discount rate fell by 55 basis points to 5.05% in November from 5.61% in October. The change in rates is primarily due to the change in the risk-free rate, while spreads decreased considerably during the month. Equity markets had a strong month, with global equities and the S&P 500 rising 7.8% and 5.6%, respectively. Plan discount rates were estimated to have decreased roughly 62 basis points over the month, while the Treasury component decreased 43 basis points and the credit component tightened 19 basis points. Overall, plans with a traditional "60/40" asset allocation increased 6.1%, and liabilities rose by 6.7%.

U.S. public pension funding improves in November – Milliman

By Rob Kozlowski, P&I, December 15, 2022

The overall estimated funding ratio of the 100 largest U.S. public pension plans rose to 74.7% at the end of November thanks to positive market returns, according to the Milliman 100 Public Pension Funding index. During the month of November, Milliman estimated that public pension plans had an aggregate investment return of 4.7%, with an estimated range of 2.5% to 7.2%. It was the second month in a row that estimated funding ratios rose because of market returns. Milliman estimated that the overall ratio had risen to 71.6% as of Oct. 31 from 69.3% a month earlier. During the month of October, Milliman estimated that public pension plans had an aggregate investment return of 2.8%, with an estimated range of -1.3% to 5.3%. A total of 24 plans were estimated to be below 60% as of Nov. 30, the same as Sept. 30 when Milliman last released public pension funding index data. Also as of Nov. 30, a total of 16 plans had ratios between 60% and 70% (up from 15 as of Sept. 30), 18 plans were between 70% and 80% (down from 26) and 23 plans were between 80% and 90% (up from 16).

GOP vs. ESG: Why Florida Gov. Ron DeSantis, Republicans are fighting 'woke' ESG investing

By Jessica Guynn, USA TODAY, December 19, 2022

Why do Republicans have a problem with ESG? The GOP says the nation's top money managers are pursuing an ideological agenda at the expense of financial returns in violation of their fiduciary duty. In an effort to stop public pension funds from using ESG as a consideration when making investment decisions, red states from Texas to West Virginia have pulled billions from BlackRock and other money managers despite concerns that doing so may hurt financially. They've also launched investigations into the influence of big money managers on everything from reducing emissions to racial justice. A group of 19 state attorneys general is investigating the role of banks in a coalition to cut greenhouse gas emissions. They say banks are favoring companies that follow a "woke climate agenda." Republicans are advancing bills in a number of states to boycott companies that embrace sustainability. And House Republicans say they plan to investigate ESG in congressional hearings next year. A leader in the anti-ESG movement is **Florida Gov. Ron DeSantis**, a likely 2024 GOP presidential contender who has scored political points by waging a war against corporate "wokeness," from legislation curbing how private employers offer diversity training to feuding with Walt Disney over its opposition to state legislation banning classroom discussion of gender identity and sexual orientation. Florida is considering sweeping legislation and pulling more state funds from BlackRock next year, the state's chief financial officer Jimmy Patronis and state Representative Bob Rommel told Bloomberg. Some 63% of voters surveyed said the government should not set limits on ESG investments,

Democrats because ESG investments are a social good and Republicans because doing so would interfere with free markets.

Florida's pension fund facing serious "structural challenges"

By Brian Burgess, The Capitolist, December 18, 2022

A final annual investment report on the health of Florida's Retirement System is due before the end of the year, but state officials responsible for overseeing the retirement savings of tens of thousands of state workers say the plan remains financially stronger than most other states. A preliminary report posted just two months ago included a slide claiming that the Florida Retirement System's (FRS's) "funded status remains strong," but the very same slide contains a graph showing that FRS continues to suffer from an ongoing decline in its funded ratio, meaning that the fund has more financial obligations to current and future retirees than it can actually pay. "The FRS Pension Plan's funded status continues to be in actuarial deficit," reads the bottom of the slide, in sharp contrast with the headline at the top. The included graph also reveals that in 2008, Florida's Pension System was fully funded at 107 percent of its obligations before suffering a significant drop off from which it has not recovered. But immediately after the financial crisis that hit in late 2008, the value of the Florida Pension System portfolio plummeted 18.6 percentage points, from 107.1 percent down to just 88.5% the next year. Almost 15 years later, the situation has gotten worse, not better. This year, FRS hit its lowest point in more than a quarter-century, at just 83.4 percent funded. Two decades ago, the retirement system held a surplus of over $13 billion in assets and stood at 118 percent funded. Today, FRS finds itself $36 billion in debt with only 82 percent of the assets on hand needed to pay out benefits over the long-term, which represents a net change in position of almost $50 billion in just 20 years.

Public pension funds could be the next champions of sustainable finance

By Taylor Pearce, OMFIF, December 19, 2022

Despite persistent promises to cut greenhouse gas emissions and transition to a net zero economy, institutional investors have been slow to take up environmental, social and governance investment. As climate risk becomes more acute, public funds are finally starting to walk the walk when it comes to sustainable finance — OMFIF's 2022 Global Public Pension report revealed that public pension and sovereign funds are leading the way on financing the sustainable transition among institutional investors. In particular, the deep pockets of public pension funds, their long-term time horizons and a mandate to serve their members make them a better fit for sustainable investment — as well as transition finance — compared to their peers. Data from GPP 2022 show that climate change was funds' second most reported major concern over the medium to long term, after inflation. Most funds (80%) reported climate change as within their top three medium to long run concerns, making it a more important factor than geopolitical tensions (70%), demographic trends (32%) and low equilibrium interest rates (27%). There is enormous potential for public pension funds to lead the way in financing some of the most daunting challenges of the net zero agenda, including transition finance. Their pockets are deep — the latest data available indicate that just among the largest 100 public pension funds globally, assets under management totaled $17.4tn — and many funds have already indicated willingness to channel capital toward sustainable projects. In order to unlock pension funds' full potential as pioneering ESG investors, however, regulatory measures which bridge data gaps will be crucial.

Rising Markets Boost U.S. Public Pension Funding

By Michael Katz, Plan Sponsor, December 21, 2022

Strong market gains during October and November helped the estimated funded levels of the 100 largest public pension plans in the U.S. rebound to 74.7%, as of Nov. 30, from 71.6% a month earlier, according to consulting firm Milliman's public pension funding index. It was a sharp turnaround from September, when poor market performance erased more than five percentage points from the funded ratio during the month alone. The aggregate

asset value of the pension funds increased by approximately $158 billion to $4.225 trillion as of the end of October, then increased by approximately $200 billion to $4.417 trillion as of the end of November. The gap between the estimated assets and liabilities for the pension funds narrowed to $1.496 trillion at the end of November, from $1.808 trillion at the beginning of October, thanks in large part to investment returns of 2.8% and 4.7% in October and November, respectively.

Florida is now the fastest-growing state in the country, census shows

By Bill Kearney, South Florida Sun-Sentinel, December 23, 2022

Florida is now the fastest-growing state in the Union, according to the U.S. Census Bureau's estimates. Between 2021 and 2022, Florida's population increased by 1.9% to 22,244,823. The last time the Sunshine State earned the distinction was in 1957. Florida is also the third most populous state, behind only California and Texas. Florida's population density has increased by 800%, skyrocketing from 51.7 people per square mile in 1950, when we were the 29th most densely populated state, to 401.4 per square mile in 2020. Florida's population is nine times what it was in 1946. We are currently the 10th most densely populated state. While our population rate was at its lowest in 2020, during the onslaught of the COVID-19 pandemic, 2021 and 2022 saw an influx of new residents from other areas of the country, and the real estate market reflected that change.

Important, new, year-end changes impacting employers and their employee benefit plans

Published in McAfee & Taft ERISALINC, December 28, 2022

Congress passed the highly-anticipated retirement plan legislation known as "SECURE Act 2.0." SECURE Act 2.0 includes a number of new rules and opportunities for employers and their qualified retirement plans, including two important provisions. **Increased age for required minimum distributions**. The current age at which a qualified retirement plan must start forcing distributions for many participants is age 72. For any individual who attains age 72 after December 31, 2022, and age 73 before January 1, 2033, the new applicable age is 73. For an individual who attains age 74 after December 31, 2032, the applicable age is 75. **Increased catch-up contribution limit for ages 60-63**. For 2022, participants who were at least 50 years old were able to save an additional $6,500 (on top of the $20,500 limit that applied to all participants). This limit increases to $7,500 for 2023. Starting with the 2025 tax year, SECURE Act 2.0 pushes the limit even further for individuals between the ages of 60-63 to the greater of (a) $10,000, or (b) 150% of the regular catch-up amount for 2024.
Editor's Note: The SECURE Act has many pension provisions, some affecting public plans and others only private sector plans. Below are two articles about the Act:
10 Secure 2.0 Act Measures Included in $1.7T Spending Bill | ThinkAdvisor
How SECURE 2.0 Will Benefit Public Sector Workers - 401(k) Specialist (401kspecialistmag.com)
Additionally, this link provides a section- by-section analysis of the new law.

Retirement Plans Become New Battleground for ESG

By Leslie Norton, Morningstar, December 15, 2022

Retirement savings plans are becoming the new battleground for environmental, social, and governance investing and sustainable investing. At the same time that the U.S. government is removing barriers to using ESG in 401(k) plans, Republican-controlled states are increasingly adopting policies that oppose the use of ESG factors and approaches in investing, which could have effects outside their own states. These crosscurrents will challenge investors and the fiduciaries who serve them and could have consequences for younger employees just beginning to save for retirement. The new rule by the Department of Labor, which administers the Employee Retirement Income Security Act of 1974, or Erisa, allows retirement plans to treat sustainability as any other relevant factor, based on the fiduciary standards of prudence and loyalty. The new rule makes clear that these factors may include climate change and other ESG issues, although it doesn't mandate including them. Thomas Kuh, head of Morningstar's ESG indexes strategy, notes that the popularity of ESG, particularly with younger investors, may

eventually settle the debate. “The waters have been muddied,” Kuh says. “However, in the long run, it’s going to be futile to try and use political means to override fiduciary duty.”

‘Stay tuned’: Kathleen Passidomo joins Gov. DeSantis, GOP leaders in ESG, BlackRock opposition

By Renzo Downey, Florida Politics, December 15, 2022

New Senate President Kathleen Passidomo is on board with Gov. Ron DeSantis and other leading Republicans’ plan to isolate Florida’s investments from social considerations, and she expects legislation to come next year. State leadership is unified in its opposition to “woke” investment practices called environmental, social and corporate governance standards, more commonly known as ESG. In Florida, the opposition is an effort so far driven by DeSantis and Chief Financial Officer Jimmy Patronis, with support from House Speaker Paul Renner. With Passidomo’s blessing and a GOP supermajority in both the House and Senate, lawmakers are all but certain to pass an ESG bill next year. Passidomo’s position puts her squarely in line with Renner, her House counterpart. Renner was an early critic of ESG and joined DeSantis this summer when the Governor declared his intent to crack down on the practice. He reiterated his commitment against “ESG’s political dogma” during his speech after being sworn in as House Speaker last month.