FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS APRIL 2023 ON FLORIDA PENSION ISSUES
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HB3 Passed by State Legislature

The Florida legislature approved HB3 that Revises provisions relating to deposits & investments of state money, retirement system & trust fund assets, & public funds; defined contribution plans; bonds; government contracts; financial institutions; consumer finance; money services businesses; & unfair & deceptive trade practices. The bill was approved by the House of Representatives on March 24 by a vote of 80 yes and 31 no. It was then approved by the Senate of April 10 by a vote of 23 yes and 12 no. It now awaits the governor's signature to become law. Click here to read the staff analyses of the bill. See related article in the Citrus County Chronicle.

Miami fire and police pension plan adds infrastructure target after allocation review

By Rob Kozlowski, P&I, April 21, 2023

Miami Firefighters' and Police Officers' Retirement Trust created a new target to core infrastructure and increased its target to private debt following an asset allocation review. The changes are the creation of a 3% target to core infrastructure and an increase in the private debt target to 3% from 2%, to be funded by the elimination of the 2% target to non-core infrastructure and the reduction of the U.S. Treasuries target to 5% from 7%. Targets that will remain the same are 32% domestic equities, 22% international developed markets equities, 18% investment-grade fixed income, 9% real estate, 4% private equity, and 2% each bank loans and high yield bonds.

Florida State Board doing asset allocation study to diversify away from global equity

By Rob Kozlowski, P&I, April 5, 2023

Florida State Board of Administration is conducting an asset allocation study for the $183.9 billion Florida Retirement System. The board's investment advisory committee will likely vote on recommendations at its June 27 meeting, which will then be taken to its three trustees for approval at a subsequent meeting, spokeswoman Emilie Oglesby said in an email. Ms. Oglesby did not say whether any specific asset class changes are being considered. Investment consultant Aon Investments USA is assisting with the study. In a presentation included with March 28 investment advisory council meeting materials, Aon said it had initiated an asset allocation review in December and since then has collaborated with SBA investment staff on "updated capital market assumptions, equity risk premium and implementation constraints to generate updated efficient frontiers, followed by updated liquidity analysis and asset-liability projections." In the presentation, Aon provided an efficient frontier portfolio analysis, which included scenarios with caps on alternatives of 18% and 26%.

Legislature votes to close 'defined benefit' pension plan

By Dave Thompson, Prairie Public Broadcasting, April 25, 2023

The North Dakota Legislature has voted to end the state's "defined benefit" pension plan for new hires – replacing it with a "defined contribution" plan. This came about because of a projected underfunded liability for the current plan estimated to be $1.9 billion. "We're at an historic moment in our state's history," said Rep. Scott Louser (R-

Minot). "Passage of HB 1040 provides the pension reform that has long been an issue in our state, leading us to the $1.9 billion unfunded liability."Louser said moving away from a "DB" plan for new hires will ensure the "obligation and promise" is maintained for every current and retired employee. House Majority Leader Mike Lefor (R-Dickinson) argued that new hires want the portability of a defined contribution plan. The House vote was 76 to 17. The Senate has passed HB 1040 earlier, 28 to 19.
Editor's Note: We will see how long it takes for the state to realize their mistake and then try and correct it. See the article below by Dan Doonan for experiences from other states, the next article about Jacksonville and the Florida's legislature concerns about not being able to attract and keep employees.

Closing Pensions For Public Workers Has Proven A Mistake

By Dan Doonan, Forbes, April 27, 2023

A measure to close North Dakota's public pension plan is headed to Governor Doug Burgum's desk for signature. Before enacting the measure, the state's chief executive would be wise to look at the experience of other states that have made such a drastic move. **State leaders have learned the hard way that ending pension benefits comes with little to be gained and a big price to pay.** More specifically, states that shifted new employees from defined benefit pensions to defined contribution or cash balance plans experienced increased costs for taxpayers without significant funding improvements. Also, moving away from pensions results in cuts to public employees' retirement security, while government employers face increased challenges hiring and retaining staff to deliver essential public services. In fact, a recent series of case studies takes a deep dive on the experiences in four states that closed their pension plans in favor of alternative retirement plan designs: Alaska, Kentucky, Michigan, and West Virginia.
Dan Doonan is the executive director, National Institute on Retirement Security. Dan will be speaking at the FPTA annual conference in June.

How do you feel about bringing back pensions for new police officers and firefighters in Jacksonville?

By Jim Piggott, News4JAX, April 27, 2023

Six years ago, Jacksonville passed pension reform, raising the sales tax by one cent to pay off pension debt which now over $2 billion. The city started using 401a which is similar to 401k for new hires. **But new hires are going elsewhere according to unions where pension are used.** Both Donna Deegan and Daniel Davis say they want to look at maybe joining the Florida Retirement System. The city would pay into that instead of the 401s. News4JAX spoke with union leaders who says this is good because, for example, firefighters now have 20 vacancies and a small hiring pool.

Budget conference: Senate moves on House pension padding plan, but without COLA sweetener

By Gary Rohrer, Florida Politics, April 29, 2023

Facing troubles recruiting and retaining employees throughout state government, lawmakers are moving to hike state worker salaries by 5% across the board and boost pension payouts. In April 29 budget talks on SB 7024, the Senate moved closer to a House plan to increase benefits in the Florida Retirement System (FRS), but top Senate budget negotiator Doug Broxson, a Gulf Breeze Republican, said a plan to restore annual cost of living adjustments was too expensive. But the Senate did agree to remove the restrictive window to enter the Deferred Retirement Optional Program (DROP), which allows retirement-age workers to continue accruing benefits while still working, and extend the time employees can participate in DROP from five years to eight years. The interest rate applied to an employee's monthly benefit would also jump from 1.3% to 4%. All were parts of the House plan, but the Senate also extended the time for teachers to participate in DROP to 10 years, starting June 30.

[Corporate DB plans still hard to beat, JPMAM's chief of institutional strategy says]
By Rob Kozlowski, P&I, April 12, 2023

You're a U.S. corporation, your frozen defined benefit plan is fully funded, and now it's time to get rid of it, right? One expert says perhaps not. U.S. corporate defined benefit plans are healthier than they've been in decades, and companies should think about keeping them so they can take advantage of surplus assets, said Jared Gross, head of institutional portfolio strategy at J.P. Morgan Asset Management. The profile of corporate DB plans has diminished significantly over the past several decades, especially following a disastrous first decade of the 21st century that saw returns crash and funding ratios plummet following what Mr. Gross called the "tech wreck" of the early aughts. While the Pension Protection Act of 2006 was meant to remedy funding problems — especially among airline companies — the global financial crisis of 2008 brought funding levels crashing down and motivated companies to get out of the pension business. According to J.P. Morgan Asset Management's recent analysis, over half of the 100 largest corporate DB plans now have funding ratios of 100% or over.

The Sustainability of State & Local Pensions: A Public Finance Approach
Center for Retirement Research at Boston College, April 11, 2023

The brief's key findings from recent research are as follows. Many experts favor full prefunding of state and local pensions to maintain fiscal sustainability, which means big contribution hikes. This analysis explores an alternative: stabilizing pension debt as a share of GDP. Under current contribution rates, baseline projections show no sign of a major crisis in the next two decades even if asset returns are low. Yet, many plans will be at risk over the long term of exhausting their assets, so action will be needed. Plans can reach a sustainable footing by stabilizing their debt-to-GDP ratio, with much smaller contribution hikes than under full funding.

Increased Pension Fund Liabilities Overrode Investment Returns in March
By Remy Samuels, Plan Sponsor, April 11, 2023

With the collapse of Silicon Valley Bank in March and a sharp decrease in fixed income yields, most analysis firms found that corporate pension funding statuses fell last month. However, not all analysts agreed on this finding, as one firm reported that funded ratios increased slightly in March. Wilshire Associates reported that the aggregate funded ratio for U.S. corporate pension plans decreased marginally, at an estimated 0.6 percentage points, month-over-month in March to end the month at 99.1%. This slight decrease in funded status resulted from a 3.4% increase in liability value partially offset by a 2.7% increase in asset value, according to Wilshire. Although the aggregate funded ratio is estimated to have decreased by 0.6% in March, the aggregate funded ratio is estimated to have increased by 1.6% and 1.4% in the first quarter and over the trailing 12 months, respectively.

Public pension fund costs not impacting public education resources, study says
By Rob Kozlowski, P&I, April 14, 2023

State government spending on public pension funds is not taking resources away from spending on public education, according to new research from the **National Conference on Public Employee Retirement System**. The 2023 research update — "Do Pension Expenditures Impact Education Spending?" – examines pension contribution data, education expenditures, revenues and the overall economy and finds that education funding grew at an annual rate of 2.48% during the period between 1993 to 2019, compared to the growth of pension-related spending at an annual rate of 0.82%. The research update is a reaction to recent claims that the money spent on public pension funds is having an adverse effect on education funding. NCPERS cites a March 2022 study by the Opportunity Institute that claimed California spent 13% of its education budget on pension benefits for teachers, up from 5.6% ten years previously. In the study, the institute claimed that the average teacher would have earned nearly $20,000 if pension costs had not increased. In his research update, Mr. Kahn says the study overlooks increases in healthcare costs and other employee benefits, and says the focus of the institute's study was simply promoting the idea of closing CalSTRS' defined benefit plan. In the research update, Mr. Kahn argues that it is highly unlikely that pension funding could ever displace education funding.

Milliman: U.S. public pension funding rises in March

By Rob Kozlowski, P&I, April 18, 2023

The overall estimated funding ratio of the 100 largest U.S. public pension plans improved to 74.5% as of March 31 from 73.6% a month earlier, according to the Milliman 100 Public Pension Funding index. During the month of March, Milliman estimated that public pension plans had an aggregate investment return of 1.8%, with an estimated range of 0.7% to 2.8%. While February was a down month, strong returns in January contributed to an overall increase in the estimated funding ratio during the first quarter from the year-end ratio of 72.6% at the end of 2022. Yet despite this positive news, 24 plans remain less than 60% funded, while only 17 are more than 90% funded, the same results we saw in February. As of March 31, a total of 18 plans had ratios between 60% and 70% (down from 20 as of Feb. 28), 21 plans were between 70% and 80% (down from 22) and 20 plans were between 80% and 90% (up from 17).

US pension system ranked 5th out of 75 countries

Investment Observer, April 23, 2023

Allianz Group released the Allianz Global Pension Report 2023, which ranked the US pension system as one of the world's best pension systems in the world. In the report, Denmark tops, the USA is ranked fifth while the top 10 includes Taiwan and New Zealand. The United States' pension system ranked fifth overall with a score of 2.9. The score means the US ranks behind the best country Denmark that had 2.2, while The Netherlands (2.6), Sweden (2.6) and New Zealand (2.8) completed the top four. In the top 10 best pension schemes in the world are also Taiwan, Israel and Belgium. The countries ranked 8th, 9th and 10th with a score of 2.9, 2.9 and 3.0 respectively. Notable takeaways also included forecasts for the global old age dependency ratio to rise significantly after Covid 19, war and energy crisis. Old age dependency ratio estimated to rise to 26.3% by 2050 globally, and 38.9% in the US. 17% of world population to be 65 years or older by 2050.

Social Security's Financial Outlook: The 2023 Update in Perspective

Center for Retirement Research at Boston College, April 25, 2023

The key findings from this study on Social Security are the following. The 2023 Trustees Report showed a slight increase in the 75-year deficit and the depletion of the retirement trust fund moved up to 2033. The prospect of a 23-percent benefit cut only 10 years away should focus our attention on restoring balance to the program. The "Missing Trust Fund," a result of paying excess benefits to early generations, provides a strong case for some general revenue financing. Workers would contribute the amount required in a funded system, and general revenues would compensate for the "Missing Interest." Thus, the historical burden would be distributed more broadly, but the sense that workers pay for their own benefits would remain.

Surprising Findings About State Plans' Impact on Private-Sector 401(k)s

By John Sullivan, ASPPA, April 28, 2023

While the retirement plan industry generally applauds the introduction and adoption of state-sponsored retirement plans, the possibility some could compete with and "crowd out" private plans due to how the legislation is structured is an ongoing concern. However, in some states, the opposite is true. Several factors, including competition for skilled workers, tax breaks, and—yes — the availability of a state-sponsored plan, are causing more small businesses to offer private-sector 401(k)s to their employees. In California, Oregon, and Illinois specifically, the first three states to mandate plans for uncovered workers, state plans appear to boost private plan adoption. In California, adoption is growing faster than the national average, according to Pew Charitable Trusts' data. It added that while state plan critics have questioned whether state programs might "entice" employers with plans to drop them to move workers to the state programs, it does not appear to be happening. "All three states had plan termination rates below the rate for the nation as a whole in 2021. And the changes in states with automated savings programs appear to be in line with the overall national trend."