FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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PENSION NEWS CLIPS JUNE 2023 ON FLORIDA PENSION ISSUES

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14 YEARS OF PENSION CLIPS

Fourteen years ago, FPPTA sent out its first pension clips. Then FPPTA CEO Ray Edmondson wanted to make sure our members knew what was being reported in the news about pension plans. He felt those opposing us knew – so we should also know, and be able to respond with accurate, factual information to correct misinformation. So, we decided to send out these clips on a regular basis. The first Pension Clips (June 2009 contained stories about Florida plans under headlines such as: "Will Public Worker Benefits Bankrupt All of Us?" and "Gathering Pension Storm Could Drown Taxpayers in Debt." There were several stories about specific plans and benefits: Fort Lauderdale, West Palm Beach, Hollywood, FRS, Pensacola, Tampa, and Jacksonville.

In many ways the headlines and stories have not changed. Since June 2009, FPPTA has distributed pension clips every month for the past 14 years. A special thank you to many of you who have called to my attention pension stories in the media. Below are the latest pension clips for June 2023. The pension clips are an educational tool for trustees, administrators and corporate members. Knowledge is power. Enjoy.

Funding ratios for U.S. corporate pension plans increase in May

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

U.S. corporate pension plans saw their funding ratios increase in May thanks to falling liability values offsetting asset losses due to negative non-U.S. equity returns during the month, according to three new reports. Wilshire Advisors estimated the aggregate funding ratio of U.S. corporate plans increased 0.8% percentage points to land at 99.8% as of May 31. Liability values declined further than asset values after U.S. Treasury yields rose, primarily due to debt ceiling negotiations and continuing anticipation regarding the Federal Reserve, according to Wilshire. "Notably, the FT Wilshire 5000 index experienced gains in May driven by a small number of companies with significant positive returns," said Ned McGuire, managing director at Wilshire, in a June 2 news release. "With May's month-end funded ratio estimate of 99.8%, U.S. corporate pension plans are nearing full funding in aggregate, reaching the highest level since year-end 2007."

Florida anti-ESG law will have little effect on FSBA – legal expert

By Rob Kozlowski, P&I, June 6, 2023

Florida's recent anti-ESG law prohibits actions that are not occurring in practice and should have little to no impact on the investment management of the Florida State Board of Administration, one legal expert said. Heather N. Wyckoff, partner at private capital law firm Schulte Roth & Zabel, said in an interview that the law doesn't define ESG and simply says money managers can't risk the profitability of the investments they make, which is already universally practiced by managers that offer the kinds of commingled funds and separate accounts in which SBA invests. The law formalized the changes to the SBA investment policy that Mr. DeSantis and his fellow board trustees approved in August. Notably, in the first quarter of 2023, the SBA committed $200 million to Blackstone Green Private Credit Fund III, the latest in Blackstone's series of green-energy credit funds. Ms. Wyckoff said the law is essentially redundant, since managers are already managing money solely for that purpose. "From our perspective, managers are really, when they're managing money for clients, they're already doing that in their day to day," Ms. Wyckoff said. She also noted the law is a reason the term "ESG" is far too broad and being "anti-ESG" isn't technically possible because it applies to too many parts of a business's operations, whether it's how a firm manages money to its own staffing policies related to diversity, equity and inclusion.

[Florida lawmakers avoid large-scale reforms to state's pension system]

By Andrew Powell, The Center Square, June 9, 2023

Florida public retirees will get some improvements in their benefits, but larger, structural improvements to the state's defined benefit pension system were not pursued by lawmakers this session. The Florida Retirement System's 629,073 members will receive a cost-of-living adjustment that they last received in 2011 and first responders will have their retirement age lowered. Pensions took a backseat this session as the Legislature focused primarily on abortion, affordable housing, the budget, the death penalty, election integrity, lawsuit limits, immigration, firearms, education expansion, and LGBTQ issues, with many pension bills dying in committee. HB 3 passed this legislative session and prohibits state pension funds from being invested into companies that use environmental, social, and governance policies into financial decision making. This applies to all funds of the state Treasury, all local government retirement plans, investment of local government surplus funds, and funds raised by citizen support or direct-support organizations. Any person or entity responsible for making investment decisions is prohibited from undermining the interests of the beneficiaries to other objectives.

Clearwater police, fire chiefs can get pension and salary if rehired, council votes

By Natalie Weber, Tampa Bay Times, June 10, 2023

The Clearwater City Council voted to pass an amended ordinance allowing retired police and fire department employees who are rehired as chief to collect both a pension and a salary. The ordinance previously prevented retired police and fire employees from collecting retirement benefits if rehired by their agency. The new ordinance carved out an exception for police and fire chiefs and passed without debate among city council members.

Looking to future, public plans cut assumed rates of return

By Robert Steyer, P&I, May 8, 2023

Through good times and bad, public pension plans have been reducing their assumed rates of return for more than a decade, a recognition that they must be more conservative for the long term. But the pace of rate-cutting has eased in recent months among the 131 public pension plans tracked by the National Association of State Retirement Administrators as plan executives evaluate the impact of inflation, said Keith Brainard, NASRA's research director. High inflation would have to be chronic before plan officials would consider raising rates, he said. "Public pension plans are waiting to see if inflation is transitory or secular," said Mr. Brainard, adding that he couldn't speculate on how long secular — or chronic — inflation would have to continue to prompt assumed rate of return revisions. Even as inflation rose, some public pension plans reduced their assumed rates of return: Jacksonville (Fla.) Fire Police & Fire Pension Fund announced in February it was cutting its rate to 6.5% from 6.9% based on a review of the $2.7 billion pension plan's investment policy statement. The $33.7 billion Pennsylvania State Employees' Retirement System, Harrisburg, announced in June 2022 a rate cut to 6.875% from 7%, which took effect Dec. 31. The latest NASRA data show the average assumed rate of return for public plans is 6.93% as of Dec. 31, down from 8% for the 2001 fiscal year, with the sharpest decline coming after the 2008-2009 recession. During this period, the median rate dropped to 7% from 8%. The pension fund rate cutting is based on internal and external forecasts usually extending 20 to 30 years, plus analyses of workforce demographic trends and plans' asset allocation strategies. The plans are pursuing a Goldilocks strategy in which the actuarial porridge has to be just right — neither too high nor too low.

Florida Hopes to Retain Employees With Expanded Pension Benefits

By Jeffrey Schweers, Orlando Sentinel, June 28, 2023

Florida Gov. Ron DeSantis and state lawmakers are gambling that an expansion of government employee retirement benefits that take effect Saturday will keep veteran teachers, firefighters, police and other crucial public employees from leaving their jobs. The expansion of the Deferred Retirement Option Program could prove lucrative for career government workers and educators, who will be able to draw pensions while continuing to work for eight to 10 years instead of the current limit of five years. But it comes at a high cost to the state agencies, universities and colleges, school districts, counties, cities and other government agencies that participate in the state retirement system. They will pay an extra $350 million a year as employer contribution rates go up, bringing their total contributions for 2023-24 to $3.1 billion. Expanding the program comes at a time when the Florida Pension Fund continues to struggle financially. Chronically underfunded for years, the pension fund reportedly has a $38 billion deficit and can only cover 82 percent of its outstanding benefits.

Snapshot: The Effect of the DB to DC Shift in Alaska

By John Iekel, ASPPA, June 5, 2023

The shift from defined benefit plans to defined contribution plans is not new. It may be less common in the public sector, but it is not unknown among public employers. A recent study looks at what that has meant for the Alaska education sector. The National Institute on Retirement Security (NIRS) in "Alaska Teacher Recruitment and Retention Study: Options and Analysis Supporting Retirement Plan Design" examines the effect that shift has had on retention and recruitment in the teacher workforce in Alaska. It draws on data from the Alaska Retirement Management Board, the body that assumed fiduciary responsibility for the Alaska state retirement systems' assets as of Oct. 1, 2005. The NIRS says that the number of members of the Teachers Retirement System (TRS) plans (DB and DC combined) fell by 8% from 2005 to 2021. And the drop was sharper among teachers with 15 years of service or less—the number of teachers with 0-4 years of service fell by 11% during that time, and the number of those with 5-14 years fell by 18%. Further, the drop in the TRS was sharper than among the Alaska Public Employees' Retirement. System as a whole. Retention of employees with more than 15 years of service was higher. The NIRS says that changing the retirement plans for Alaska public employees and the TRS not only did not address the funding shortfall, it also created recruitment and retention challenges.

U.S. public pension funds look to ramp up scenario modeling, stress-testing spending

By Rob Kozlowski, P&I, June 8, 2023

The vast majority of U.S. public pension funds plan to increase spending on scenario modeling and stress testing in the next two years, according to a report from Rotterdam, Netherlands-based risk management consultant Ortec Finance. According to interviews conducted in February with 50 fund executives overseeing a total of $1.315 trillion in assets, 90% plan to increase spending on those items to help manage market volatility. Ninety percent of public pension fund executives said they are confident that inflation is on the decline, with 52% saying they believe inflation could be 3.3% or lower by the end of 2023, while 10% said they believed inflation would be over 6% in that time frame. The vast majority — 86% — say their pension funds are well hedged against inflation, with 26% saying they believe they're "very well" hedged.

US Public Pensions 'Convinced' Inflation is on Path to Moderation

By Noah Zuss, Plan Sponsor, June 9, 2023

U.S. public pensions are looking to the future by planning for the possible impact of further economic and market shocks, according to a report from Ortec Finance. Although public pensions have been bruised, many are preparing for the future viability of the retirement funds, Ortec found in research published this month. "The degree of uncertainty is extremely high for U.S. public sector pension plan sponsors, but there is genuine optimism that lower inflation will become well-established, with very few managers expecting it to be as high as it currently is within a year or two," states Marnix Engels at Ortec Finance. Analysts at the nonprofit Equable Institute say that despite the investing and economic challenges of 2022, U.S. public pension funds are currently in better shape than before the COVID-19 pandemic. The Ortec study examined a range of issues to grasp the attitudes of public pension managers on risk management, inflation hedging and stress testing and what U.S. public pension managers believe will happen to inflation.

Access to DB Plans Low, But Holding Steady

By John Iekel ASPPA, June 13, 2023

A minority of private-sector employees has access to defined benefit plans, but good news— according to the Bureau of Labor Statistics (BLS), the percentage that do is holding steady. The BLS in "Characteristics of Defined Benefit Retirement Plans in 2022" says that 15% of private-sector employees had access to a DB plan in March of last year. But while that number is low, it is no worse than the most recent previous year for which that data is available, 2020. Drilling down, the BLS reports that in March 2022, of the 15% of private-sector employees whose employers offered a DB plan: 11% participated in it; and 37% of those who participated in a DB plan were participating in one that was open to new employees. The BLS also suggests that participation in DB plans that were open to new employees was higher among small private-sector employers than large ones. To wit: A strong majority of participants in such plans offered by employers with fewer than 100 employees took part—57% of employers with 50 or fewer employees and 75% of employers with 50-99. But just 27% of participants in such plans offered by employers with 500 or more employees took part.

US Corporate Pensions Rebound to Fully Funded Status

By Michael Katz, Chief Investment Officer, June 13, 2023

The funded ratio for the 100 largest U.S. corporate pension plans rose to 100.7% in May from 99.6% at the end of April, despite an average investment loss of 1.5% during the month, according to consulting and actuarial firm Milliman's Pension Funding Index. The increase was attributed to a 27-basis-point rise in the discount rate, the benchmark corporate bond interest rate used to value pension liabilities. The discount rate rose to 5.19% from 4.92% during the month.

House GOP retirement fund bill takes aim at ESG investing

By Emily Wilkins, CNBC, June 21, 2023

House Republicans are continuing their attempt to pump the brakes on so-called "woke" investing with new legislation that could place limits on financial advisors and retirement funds. Rep. Andy Barr, R-Ky., will introduce a bill that would target funds that consider environmental, social and governance issues, known as ESG. Barr's measure would update the Employee Retirement Income Security Act to require retirement funds to focus only on maximizing profits, limiting the ability to invest in ESG options. Retail investors would also need to be notified if their financial advisors invested their funds in an ESG. In addition, advisors would need to disclose the difference in fees and performance between ESG funds and a similar index. Proponents say ESG investing is intended to promote the social good, although critics say it hurts investors. "Environmental, social and governance investing has become a cancer and a fraud within our capital markets, steering retail investors, sometimes unwittingly, into lower-performing, less diversified and higher-fee funds," Barr told CNBC.
Also see: New House Bill Suggests ESG Is to Blame for Underfunded Pensions

[Half of anti-ESG bills in red states have failed in 2023 as campaign pushes on]
S&P Global Market Intelligence, June 28, 2023

At least 165 bills and resolutions against environmental, social and governance investment criteria were introduced in 37 states between January and June 2023, according to a new report, despite legislative analyses that pointed to billions of dollars in potential losses. The policy debate over using ESG criteria to assess investment risks and opportunities struck statehouses nationwide. But the well-organized campaign to outlaw ESG-based investing ran into resistance from business groups worried about government overreach and bankers who warned they violate free market principles. Lawmakers in some states got cold feet. So far, 83 — or just over half — of the anti-ESG initiatives have failed while 19 bills have become law and six resolutions were passed, said the June 22 report from Pleiades Strategy, a climate risk consulting firm. The North Carolina Legislature overrode a veto from the state's Democratic governor June 27, securing the 20th anti-ESG law so far this year. Most states have wrapped up their 2023 sessions, although a handful of states have year-round legislatures. Two bills are awaiting action by governors, and 12 bills are pending, the report found. Another 42 will automatically be reintroduced in 2024, although that does not mean they will be acted on.

[Anti-ESG sentiment in the US weakens ESG markets]
Economist Intelligence, June 29, 2023

Anti-ESG sentiment has been rising in the US, owing to a pushback against it in Republican states. This is likely to dent the rebound in sustainable finance in the US. The outcome of the 2024 election will determine if the pushback will have a deep, lasting effect. Although several states have pulled out their assets from Blackrock, the fund manager's state assets of Texas and Florida make up a small amount of its total assets under management. Municipal bond underwriters have also been in the centre of the anti-ESG backlash. Data from the first quarter of 2023 shows that ESG bond issuance in the US dropped considerably compared to the first quarter of 2022. Republican states such as Texas and Florida have been paying out higher yields after banning municipal bond underwriters such as JPMorgan and Citibank. This is likely to increase the tax burden in these states, given that they also have huge debts. If the backlash persists, it may even cause a downgrade in the states' debt ratings.