FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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Public Equities Spur Rise in State Pensions' Funded Status

By Michael Katz, Chief Investment Officer, July 14, 2023

U.S. state pension plans' aggregate funded ratio increased to 78.2% at the end of the second quarter from 76.3% at the end of the first quarter and 73.6% at the end of 2022, according to financial services firm Wilshire. The ratio is also up from 75.4% at the same time last year. The quarterly change in funding was the result of a 3.4% rise in asset value, which was partially offset by a 0.8% increase in liability value. "The aggregate funded status increased for a third consecutive quarter, with an asset value increase of over 13% during this period," said Wilshire's managing director, Ned McGuire. "The strong performance of the FT Wilshire 5000 contributed significantly to the increase in asset value, marking its strongest performance in the first six months of a calendar year since 2019." The firm attributed the funding improvement to the "robust total portfolio return, nearly reaching double digits, primarily driven by the performance of public equities."

IRA required minimum distributions table 2023

By Bob Haegele, Yahoo Finance, July 14, 2023

The Internal Revenue Service (IRS) lets you put money into a traditional IRA and defer taxes on your contribution and any investment gains all through your career. But this situation doesn't last forever. Eventually, you have to take out minimum amounts annually, known as required minimum distributions, or RMDs, from your account once you reach age 72 or 73. RMDs also apply to employer-sponsored retirement accounts such as 401(k) and 403(b) plans. Technically, that means the RMD must start being withdrawn no later than April 1 following the year you reach that age. In late 2022, Congress passed legislation that raised the age you have to start taking RMDs from 72 to 73 years old starting in 2023. This means that if you turned 72 in 2022, you'll need to take your first RMD by April 1, 2023 and will need to make another one by the end of 2023. If you turn 72 in 2023, you won't have to take an RMD until 2024 (when you turn 73), which will be due by April 1, 2025. How much do you need to withdraw? The exact distribution amount changes from year to year and is based on your life expectancy. It is calculated by dividing an account's year-end value by the estimated remaining years of your lifetime, in a table provided by the IRS. The table in the article is the Uniform Lifetime Table, the most commonly used of three life-expectancy charts that help retirement account holders figure mandatory distributions. The IRA has other tables for beneficiaries of retirement funds and account holders who have much younger spouses.

Public Pension Funded Levels Improve Amidst Rising Interest Rates

Center for Retirement Research at Boston College, July 18, 2023

Since 2019, financial markets have seen unusual turmoil, most recently a sharp rise in interest rates to curb high inflation. Despite volatile asset values, the funded status of state and local pension plans has risen about 2 percentage points since 2023, and 5 points since 2019. That is, the strong performance of other asset classes has more than offset the impact of rising interest rates on fixed-income assets.

U.S. public pension plan funding rises to 78% for fiscal year – CRR

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

The estimated aggregate actuarial funding ratio of U.S. public pension plans improved to 78% during the fiscal year ended June 30 despite continuing volatility that financial markets have been experiencing since the beginning of the COVID-19 pandemic, according to a new brief from the Center for Retirement Research at Boston College. The estimated funding ratio represents an increase of 1.8 percentage points from the estimated ratio of 76.2% as of June 30, 2022, and 5.1 percentage points since the ratio of 72.9% as of June 30, 2019. The aggregate funding ratio can obscure significant variations at the plan level. The brief separates public pension funds into thirds based on the health of their estimated funding ratio. The average among the bottom third plans was 57.6%, while among the middle third was 79.5% and the top third was 91.1% as of June 30. However, the overall improvement in estimated aggregate funding ratio across all public pension plans since the end of fiscal year 2019 is significant since those four years have seen the onset of the pandemic, subsequent stimulus packages, declining interest rates, rising inflation and then rising interest rates.

Fla. police, firefighters can retire early with pensions under new bill

By Jack Evans, C.T. Bowen, Barbara Behrendt, Tampa Bay Times, July 17, 2023

A swath of public worker unions in Florida secured victories in the state's last legislative session. Lawmakers restored major sweeteners to pensions for law enforcement officers, firefighters and others categorized as "special risk" that already pay them 90% of their average best years' salaries in retirement. Now they can once again start collecting those benefits sooner. Under the revised policy, they can retire at age 55 or with 25 years of service, whichever comes first. It's the same threshold those employs had prior to 2011, when legislators cut benefits in the wake of the Great Recession and extended first responders' retirement dates by five years. The perk, projected to cost county governments tens of millions of dollars annually, ultimately passed as part of a larger bill among other changes to the Florida Retirement System. Those include benefits for employees across the board, including expansions to the state's deferred retirement program and increases to retirees' health insurance subsidies. Now counties are grappling with how to pay for those changes. Combined with an annual adjustment to retirement system rates, they're estimated to cost Florida's counties a total of $325 million in the next fiscal year, according to a legislative staff analysis.

Florida anti-ESG law drives health system to consider tobacco investments

By Rob Kozlowski, P&I, July 26, 2023

A Florida hospital system is considering investing in tobacco companies as a result of the state's new anti-ESG law championed by Gov. Ron DeSantis. Fort Lauderdale, Fla.-based Broward Health's pension and investment committee had on its June 28 meeting agenda a vote to terminate its pension and operating funds' investments in State Street Global Advisors' SSGA S&P 500 Index Fund ex-Tobacco and move the assets to the SSGA S&P 500 Index Fund. A memo included with the June 28 pension and investment committee agenda materials said "both the pension and unrestricted funds include a large cap equity index fund, SSGA S&P 500 excluding Tobacco. At the time this investment was selected, the Committee may have considered non-pecuniary factors. Therefore, the Committee should consider a replacement fund, such as the SSGA S&P 500 index fund, at the June Pension and Investment Committee meeting."

Inflation doesn't always produce a bigger pension

By Robert Steyer, P&I, July 17, 2023

Following the Great Recession and extending into the low-interest-rate environment of the 2010s, state legislatures reduced, suspended or eliminated cost-of-living adjustments among public plans in the name of protecting pension systems' health. Their record is decidedly more mixed during the recent run-up in inflation and interest rates, rejecting COLAs for underfunded pension plans and offering one-time supplemental payments to retirees as a compromise between COLAs and nothing. "My general observation is that it seems to be politically easier to reduce COLAs when interest rates and inflation are low," said Keith Brainard, the research director of the National Association of State Retirement Administrators. As inflation has spiked, "legislatures have been slower" to adjust COLA provisions or make changes to one-time payment policies, he added. Inflation presents a dilemma to legislators and pension board executives because they don't know how long or how severe inflation will last, he said. "The longer inflation lasts, the greater the pressure" to restore or increase COLAs. Nationally, the overall estimated funding ratio of the 100 largest U.S. public pension plans improved slightly to 74.8% as of April 30 from 74.5% a month earlier, according to the Milliman 100 Public Pension Funding index. Much of the COLA strategy variations occur in so-called ad hoc plans, which give legislatures and some pension plan boards an opportunity each year to assess or change benefits. An August 2022 survey by the Center for Retirement Research of 220 state and local plans covering 90% of public plan assets showed 24% used an ad hoc approach for setting COLAs. The most frequent COLA strategies were those linked to the consumer price index (35%) and those with a fixed number (29%).

Public Pension Funds Continue to Boost Alts Allocations in Search of Higher Returns

By Mike Katz, Chief Investment Officer, July 24, 2023

Public pension funds have more money in alternative investments than at any point in history, according to a report from the Equable Institute, which warns that “pension funds are addicted to risk.” The nonprofit organization’s State of Pensions 2023 report identified that the risk profiles of U.S. state and local pension funds have changed significantly in recent years, with pension fund alts allocations ballooning to more than $1.6 trillion in 2022 from approximately $100 billion in 2001. Although the authors of the Equable report are clearly wary of the increasing amount of alternative investments public pension funds are holding, the report acknowledges that the institutional investors are facing a Catch-22 situation. “There is no way that pension funds can meet their investment targets using simple stock and bond passive portfolios,” the report stated. “The probability of earning just a 6% return over the next decade is less than 50%.” According to Equable’s research, the share of pension funds’ assets in alternatives has grown to 34% as of 2022, up from an average of 10% between 2001 and 2007. The report found that, as of 2022, there was more than $620 billion from public pension funds invested in private equity, $460 billion in real estate, $310 billion in commodities and other miscellaneous alternative assets and some $240 billion in various hedge fund strategies. The report noted a wide variance in how much state and local pension funds have invested in alternatives. Although most states have between 21% and 36% of their collective pension fund investments allocated to alts, some public pension funds have more than half of their investments in alts.

Council commits to 100% funding of police, fire pensions by 2040

By Bob Seidenberg, Evanston Roundtable, July 25, 2023

Evanston’s Public Safety pensions, at one time among the most underfunded in the state, will be placed on a 100% funding track to reach full funding by 2040. Evanston City Council members unanimously passed the resolution, adopting the Pension Funding Policy for Public Safety Pensions. In the past, official contributions to the funds have fluctuated, often as a result of the city’s other budgetary needs. The newly adopted policy commits the city for the first time to 100% meet the 2040 goal, with other spending needs pushed behind its pension pledge. The pension policy appended to the resolution calls for the city to go beyond the state-required 90% funding by 2040, reaching 100% by that date.

[‘It's not your grandma's retirement plan’: Switching from pensions to 401(k) plans]

By Kristen Beckman, ALM Benefits Pro, July 28, 2023

What started with a simple math error has become a cautionary tale for public employers, some Alaska officials say. The state is grappling with the after-effects of switching to a defined contribution plan from a defined benefit plan several years ago for its first responders, public service employees, health care workers and teachers. The switch to a DC program happened after an actuary’s mathematical mistake resulted in a recommendation to the state legislature not to contribute to the state’s pension fund for two years. This was followed by a plummeting funding ratio for the pension plan and a desperate attempt to right the ship by transitioning to a defined contribution plan in 2006. The impacts of that decision have been far-reaching. Dan Doonan, executive director of NIRS, hosted the webinar, showing while all states are struggling with a tight labor market, Alaska’s workforce challenges are compounded by a decade-long recession and a rapid exodus of working-age Alaskans to jobs in the lower 48 states. Nearly 1 in 5 Alaska state jobs are vacant despite significant efforts to fill them, including offering above-average salaries, hiring bonuses of $20,000 or more and generous relocation packages to lure potential employees to Alaska for jobs. The switch to a DC system is part of the problem, making it both difficult to recruit potential employees to jobs in Alaska as well as incentivizing Alaska’s existing employees to leave, taking substantial value with them. That means many people who come to Alaska for high-incentive jobs are only staying between two and five years.

How Many Bud Light AB Shares Does the Florida Pension Fund Own?

By Giulia Carbonaro, Newsweek, July 22, 2023

As Florida Governor Ron DeSantis has called for the state pension's fund manager to investigate Anheuser-Busch (AB) InBev, the multinational drink and brewing company that owns Bud Light, it remains unclear whether the fund holds these shares directly. The Republican governor and presidential candidate, who has made his stance against what he considers to be a "woke" agenda the focal point of his campaign, said that the state pension fund, with its significant investment in the company, has suffered the consequences of the boycott against Bud Light, which was sparked by the company's decision to offer a sponsorship deal to trans influencer Dylan Mulvaney. The Sunshine state is estimated to own $50 million of AB InBev stock out of a total of $180 million, as reported by Fortune. MarketWatch reported that it's unclear whether the fund owns these shares directly, "though other investment vehicles tied to the plan do." According to MarketWatch, the Florida State Board of Administration's (SBA) latest Securities and Exchange Commission filings showed no record of the pension plan holding AB InBev stock at the end of the first quarter or during the fourth quarter of 2022. But, as of July 14, still according to MarketWatch which cited a spokesperson, an SBA Fund held approximately 819,880 shares worth about $48 million of AB InBev shares on behalf of the pension plan.

State anti-ESG laws create confusion when language is unclear

Ropes & Gray, June 28, 2023

As part of maintaining our state ESG tracking database and map, we focus closely on the terms various states have used to impose restrictions on permissible investment considerations. While the terms and their meanings can vary from state to state, one constant is that they tend to leave room for interpretation and potential confusion. Rob Kozlowski at Pensions & Investments flagged an excellent example of the problems this ambiguity can cause involving a Florida hospital system's pension plan. In response to new state law, the plan is in the process of reevaluating its historic choice of a broadly diversified equity index fund that excludes tobacco. Under long standing DOL principles (which states have traditionally patterned their behavior on), a plan sponsor should be accorded deference for a choice like this as long as the fund is chosen based on its fit as an investment for the plan. Arguably, focusing on whether to use this fund based solely on the new law is a poor use of the plan's resources which could have been avoided if the state issued clarifying guidance on exactly what types of considerations are meant to be in scope for restrictions. We saw a similar dynamic play out under the Trump administration DOL's

ESG rule (which Florida used as a model for key terms like "pecuniary factors"), and these vocabulary issues were only resolved there by eliminating the unclear terms and reestablishing the more traditional focus on neutrality in investing by fiduciaries. All parties benefit when states are clear and crisp about the scope of investment restrictions, especially when those restrictions can represent a shift from historic practice.

2023 ESG State Legislation Wrap Up

K&L Gates, JDSUPRA, July 2023

In January of 2021, Senate Bill 2291 was introduced into the North Dakota state senate. It was considered, adopted, and signed into law three months later in March of 2021. This bill was the first of what would become scores of environmental, social, and corporate governance (ESG)-related bills considered and, in some cases, signed into law in states across the United States. The 2023 state legislative session was particularly busy with respect to these bills, but now that most of the state legislatures are adjourned or in recess, the legislative activity should slow to a point where investment managers can take stock of the new laws and the pending legislation and assess what, if anything, they should do in response. By the Numbers: Adopted ESG-Related Legislation:
22 States that have adopted some form of ESG-related laws, 18 States that have adopted “anti-ESG” legislation
14 States that adopted “anti-ESG” legislation in the 2023 legislative session, 4 States that have adopted “pro-ESG” legislation, and 1 State that adopted “pro-ESG” law in 2023.