FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS NOVEMBER 2023 ON FLORIDA PENSION ISSUES

Prepared by Fred Nesbitt, FPPTA Media Consultant – fnesbitt911@gmail.com

Transparency in Investment Disclosures Helps Promote Effective Public Pension Administration

Issue Brief, Pew, October 31, 2023

State and local pension funds collectively hold more than $5 trillion in assets to pay for promised benefits to workers and retirees. On average, about three-quarters of these assets are allocated to risky investments, including stocks, as well as nontraditional investments such as private equity, real estate, and hedge funds, which collectively are known as "alternatives." Although these types of investments can yield significant returns and help diversify investment portfolios, they also come with elevated risks and hefty management fees. To ensure that pension funds make sound investment decisions that are balanced against risk exposure, policymakers, stakeholders, and the public need complete information on investment performance and costs. However, many plans' disclosures are not sufficiently transparent, leaving stakeholders without the data they need to accurately assess the performance of investment funds. Specifically, this update reviews state fund policy changes related to:
1) Making investment policy statements comprehensive, transparent, and readily accessible to stakeholders.
2) Disclosing bottom-line performance, not only gross of fees but also net of fees, which reflects the return on investments after subtracting fees paid to investment managers. 3) Adopting comprehensive fee-reporting practices for private equity investments, including performance fees. The number of funds following these recommended practices grew from 2016 to 2021, in some cases substantially. But the 73 funds still vary widely in their disclosure of investment costs, demonstrating an ongoing need for better, more consistent disclosure rules to help stakeholders discern how well investments are being managed.

The States With the Lowest & Highest Average Monthly Retirement Income

By Mark Henricks, Yahoo Finance, November 2, 2023

The average household retirement income in the United States is $27,617, according to an analysis by Wisevoter of data from the U.S. Census Bureau's American Community Survey. However, depending on where you live, your local average may be much higher or lower. When broken down by individual states the averages range from a low of $20,542 in Indiana to a high of $43,080 in the District of Columbia. Retirees in the District of Columbia also bring in significantly more than those in the second-ranked state, Alaska, with $36,023. The District of Columbia likely stands out in this ranking in part because it is a high-cost urban area. It also has many well-educated high-income earners, including retired government employees with generous government pensions. In general, Northeast and West Coast states have higher incomes. The Southern and Midwestern states tend to lag behind when it comes to average retirement income. **Florida $30,158**. Only 10 states have a household retirement income of $30,000 or higher.

Public pensions in 'fragile' state in 2023: What's the outlook for all pensions in 2024?

By Kristen Beckman, ALM Benefits Pro, November 3, 2023

State retirement systems remain fragile as of the end of the third quarter with investment performance of state and local pension funds falling short of targets. This is a concerning trend as each year investment returns underperform expectations, a vicious cycle perpetuates wherein contributions are being fully consumed by benefit payments, pension funds rely on investment returns to make up the balance and pre-fund benefits for active members are not being fully funded, according to Equable Institute. State and local pension funds have been impacted by a bear market in 2022 followed by a community bank crash before markets rebounded this past summer. The average funded ratio for U.S. state and local pension funds is expected to improve from 75% to 78.8% this year and unfunded liabilities will decline slightly from $1.59 trillion last year to $1.39 trillion this year, according to Equable Institute's State of Pensions mid-year update. The average investment return for 2023 is 5.6%, according to the report. This represents an improvement from a negative 5.9% return last year but is still below the 6.9% average assumed rate of return for U.S. pension plans. In addition, the average 10-year return is now 7.3%, the lowest it has been since 2018. Positive trends in public pension funding include an increase in the number of state and local plans that assume investment returns below 7%, which leads to more accurate accounting of future liabilities and better contribution in-flows. On the downside, asset allocations continue to shift toward risky alternatives – including private equity, hedge funds and real estate – as pension funds attempt to invest their way out of funding shortfalls.

U.S. corporate pension plan funding ratio climbs to new high for year
By Palash Ghosh, P&I, November 6, 2023

The overall funding ratio at the 100 largest U.S. corporate pension plans edged up to 104.2% as of Oct. 31 – a new high for the year, according to the latest Milliman 100 Pension Funding Index released on Nov. 6. The funding ratio was 103.6% at the end of September. An investment return of -2.68% in October, the third consecutive month of losses, was offset by a significant increase in discount rates to 6.2% from 5.84%, which contributed to the gain. Assets in the index declined by $40 billion in market value, to $1.229 trillion, while the funded status surplus increased to $50 billion.

Closing the gap: Public pensions' key role in retirement security for low-wage workers
By Tom Gresham, ALM Benefits Pro, November 6, 2023

A new research report demonstrates the impact that pensions have in reducing poverty and near-poverty across race, sex and educational attainment. The report, "Closing the Gap: The Role of Public Pensions in Reducing Retirement Inequality," which is from the National Institute on Retirement Security and the UC Berkeley Labor Center, shows that pension income is distributed more equitably by race and gender than private financial assets. Overall, the report found that pension benefits currently are in payment to 23.2 million adults aged 55 and older in the U.S., representing $5.6 trillion in household wealth. That boosts middle-class family net worth by 36% and narrows racial and gender wealth gaps among older families, according to the report. "Pensions remain a critical component of middle-class retirement security and really act as a buffer against growing wealth inequality," said Dan Doonan, executive director for the National Institute on Retirement Security.

Public workers may receive reduced Social Security benefits. There's growing support in Congress to change that
By Lorie Konish, CNBC, November 12, 2023

The American Postal Workers Union, has endorsed the Social Security Fairness Act, a bill proposed in Congress that would repeal Social Security rules known as the Windfall Elimination Provision, or WEP, and Government Pension Offset, or GPO, that reduce benefits for workers had positions where they did not pay Social Security taxes, also called non-covered earnings. The legislation has support from other organizations that represent public workers, including teachers, firefighters and police. The bill has overwhelming bipartisan support in the House of Representatives – 300 co-sponsors – at a time when that chamber has been politically divided. That support recently prompted House lawmakers to send a letter to leaders of the Ways and Means Committee to request a hearing. The Social Security Fairness Act has also been introduced in the Senate, with support from 49 leaders from both sides of the aisle.

[U.S. corporate pension funding remains in surplus for October]
By Rob Kozlowski, P&I, November 8, 2023

U.S. corporate pension plans suffered investment losses during October, and while three new reports disagree about whether funding ratios dropped as a result, all agree that funding surpluses remain. Legal & General Investment Management America estimated the average funding ratio of the typical U.S. corporate pension plan ticked lower to 102.2% as of Oct. 31 from 102.6% a month earlier. In its latest monthly Pension Solutions Monitor, LGIMA said the estimated average funding ratio fell because both global and domestic equities suffered weak performance during October. The pension funding monitor cited the MSCI ACWI Total Gross index and the S&P 500 index dropped 2.9% and 2.1%, respectively, during the period. The monitor estimates plan discount rates increased 41 basis points during October, with the Treasury component increasing 35 basis points and the credit component widening by 6 basis points. LGIMA's Pension Solutions Monitor assumes a typical liability profile using a duration of 12 years and an asset allocation of 50% MSCI ACWI and 50% Bloomberg U.S. Long Government/Credit index.

Ban on state pension investments in Iran-linked businesses headed for DeSantis' desk
By Michael Moline, The Phoenix Flyer, November 8, 2023

The Florida Legislature voted final passage of legislation that broadens the state's ban on investing Florida's $241 billion state pension fund in companies that do business with the Iranian energy and petroleum industries to other sectors of that country's economy. Both chambers voted for the measure during Florida's special legislative session, and the legislation is now headed for Gov. Ron DeSantis' desk. Existing legislation forbids the State Board of Administration — comprising Gov. Ron DeSantis, Attorney General Ashley Moody, and Chief Financial Officer Jimmy Patronis, all Republicans overseeing the pension fund, to invest in companies doing business with the Iranian petroleum industry. Their names go on the "Iran Petroleum Sector List." The bill would expand the petroleum list into a broader "Scrutinized Companies with Activities in Iran Terrorism Sectors List" that would sanction companies that after Jan. 10, 2024, trace more than 10% of their revenues or assets in the Iranian energy and petrochemical but also financial, construction, manufacturing, textile, mining, metals, shipping, shipbuilding, or port sectors. It also targets companies with single or multiple investments of $20 million or more in those sectors of the Iranian economy. Furthermore, these companies would be ineligible for state contracts worth than $1 million or more.

Bipartisan Bill Establishes Fiscal Commission That Could Fast-Track Social Security Cuts
The Street, November 10, 2023

The new Fiscal Stability Act, introduced by Sens. Manchin and Romney, would create a fiscal commission that critics warn could cut Social Security benefits behind closed doors without public input. The Fiscal Stability Act would establish a fiscal commission to address the national debt and make "fast track" changes to Social Security, including potential cuts, according to a ThinkAdvisor report. Nancy Altman, president of Social Security Works, criticized the bill, stating: "The proposed commission is Robin Hood in reverse — multi-millionaire Senators plotting to steal working people's earned Social Security and Medicare benefits behind closed doors." In summary, the new Fiscal Stability Act would establish a fiscal commission empowered to make fast-track changes and potential cuts to Social Security. The bipartisan House version was introduced by Reps. Bill Huizenga, R-MI, and Scott Peters, D-CA.

Public Pensions Frequently Change Their Private Equity Benchmarks. Why It Matters.
By Alicia McElhaney, Institutional Investor, November 13, 2023

As public pensions have put more money into private equity, many have been working to identify benchmarks that will measure their successes and failures fairly. Pension funds could compare their private equity portfolio's performance to what they would have earned in public markets, which would clarify the value of paying fees and carry. At the opposite end of the spectrum, pensions could choose a private equity index, which ostensibly would allow them to compare their managers to peers. But there's a more fundamental problem. According to new research, the benchmarking approach a pension uses tends to change after they bring in new external consultants — which public plans do often. The researchers found that these changes often lead to pensions choosing benchmarks that are easier to beat than the measures they had been using. This matters: Beating or missing return expectations can affect how pension boards determine the plan's asset allocation. Consultants, meanwhile, gain more business when their pension clients beat the benchmarks.

Higher Bond Yields Mean Higher Corporate Pension Funding Levels
By Matt Toledo, Plan Sponsor, November 13, 2023

The funding status of U.S. corporate pension plans increased in October, largely due to a reduction in liabilities stemming from an increase in discount rates, which were offset by negative investment returns. According to some trackers, pension funding status is at its highest point in decades. According to WTW's pension finance tracker, U.S. corporate pension funding is at its highest level since mid-2001, with the funding ratio of WTW's benchmark plan increasing 1.1 percentage points to 110.5% in October. According to Insight Investment, funded status for the top 100 U.S. corporate pension plans increased to 108.1% from 107.5% in the month. Insight Investment found that among the top 100 plans, assets decreased by 3.8% and liabilities decreased by 4.3%, resulting in a 0.6-percentage-point increase in the funded status of the average plan.

Aon: Almost 80% of corporations expect to keep pension plans
By Palash Ghosh, P&I, November 14, 2023

Almost four-fifths (78%) of U.S. private-sector plan sponsors said their long-term objective is something other than pension plan termination, while the remaining 22% expect to terminate their pension plan, according to Aon's U.S. Global Pension Risk Survey. For plan sponsors that seek to maintain their pension plans over the long term, most intend to continue derisking the assets and/or shrink the liabilities through lump sums or partial annuity settlements. An even among respondents that seek to terminate their pension plans, only 12% expect this to occur in two years or less, while more than 50% expect it to happen in six years or longer. Aon noted that U.S. corporations have progressively reduced the size of their pension obligations over the past 10 years through lump-sum and annuity settlements. As of the end of 2012, the average large plan sponsor had a global projected benefit obligation of about 28% of their market cap and a deficit of 11% of market cap. By the end of 2022, those figures had declined to 13% and 2%, respectively.

U.S. public pension funding dips again in October – Milliman
By Rob Kozlowski, P&I, November 15, 2023

The overall estimated funding ratio of the 100 largest U.S. public pension plans declined for the third month in a row in October, once again due to negative market performance, according to the Milliman 100 Public Pension Funding index. The estimated ratio fell to 71.4% as of Oct. 31 from 73.2% a month earlier, driven by an estimated aggregate investment return of -1.9% during the period, with an estimated range of -2.8% to -1.1%. With the third straight month of negative returns, the estimated ratio has fallen to the same point it stood 12 months earlier despite the market rally in the first half of 2023.

State pension plans' funded status improves
By Larry Rothman, P&I, November 20, 2023

The median state pension plan funded status improved last year to 82.6% from 68.5%, according to data provided by Fitch Ratings. The rating agency's adjusted funded measure, which caps the assumed investment return at 6%, was 73.5% vs. 60.2% in 2021. States dropped their assumed rate of return in 2022, continuing a trend going back at least several years. Last year, the average fell to 6.88% compared with 7.6% in 2015. The number of states making at least 100% contributions compared with the actuarially determined amount continued its upward trend. There were 36 states making full contributions last year vs. 25 in 2016.