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PENSION NEWS CLIPS FEBRUARY 2024 ON FLORIDA PENSION ISSUES

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

Senate passes legislation establishing a defined benefits retirement system for public employees and teachers

January 31, 2024

The Alaska State Senate passed Senate Bill 88, sponsored by Senator Cathy Giessel (R-Anchorage), to create a newly defined benefit system for public employees and teachers and provide an option for current Tier IV employees to convert their defined contribution plan to the new pension retirement system. The legislation gained broad bipartisan support with ten additional co-sponsors. Over the past 11 years, Alaska has seen an outmigration of its population, losing nearly 34,000, or seven percent, of working-age Alaskans. Meanwhile, Alaska's aging population has grown by three percent. In a recent presentation to the Alaska legislature, the state of Alaska recognized that its department vacancies have climbed to 26%. On top of that, municipalities are struggling to fill maintenance and operations, police and fire, and other positions to deliver essential services. One primary reason that has been cited for recruitment and retention issues is the lack of a quality retirement system that public servants can depend on once they retire. *(Namely, a defined benefit plan).* In 2006, the state of Alaska transitioned into a defined contribution plan, similar to a 401(k)-retirement plan, and it was believed that retirees would earn the same level of retirement as the prior defined benefits system. An initial analysis by the Division of Retirement and Benefits concluded that if a state worker who has spent 20 years under the defined contribution plan were to retire today, the employee would only receive 32% of their average earnings, compared to 40.3% under the prior defined benefits system – a difference of $8,000 a year.

OPINION: If we want to keep good teachers in Alaska, we need defined-benefit retirement

By Brian Mason, Anchorage Daily News, February 5, 2024

Good opinion piece on how Alaska has lost young teacher when they eliminated their DB plan.

Public Pensions Are Mixing Risky Investments with Unrealistic Predictions

By Lee Simmons, Stanford Business, February 1, 2024

More than 20 million Americans are covered by state and local government pensions. Unlike the 401(k) plans found in the private sector, these "defined benefit" plans promise to pay retirees a set amount of money every month for the rest of their lives. For most public workers, these generous programs are a cornerstone of their financial security; for many, they're one of the main attractions of government jobs. Yet the plans, by their own reckoning, are underfunded to the tune of $1.6 trillion. That shortfall would leave them 75% funded, which may not sound too dire. But that figure vastly understates the issue, says Joshua Rauh, a finance professor at Stanford Graduate School of Business. Rauh estimates that unfunded pension liabilities are actually closer to $5.1 trillion, which translates to an overall funding ratio of less than 50%.

National report issues cautionary tale after ND pension overhaul

By Mike Moen, Public News Service, February 5, 2024

Starting in 2025, North Dakota will close its public pension plan for new hires - who will instead be offered a 401k-style benefit. National researchers say these decisions are likely to create more problems. The Legislature last year approved switching to a "defined-contribution plan" for future public workers, amid concerns about the size of North Dakota's pension system shortfall. The National Institute on Retirement Security is out with a new analysis of similar moves made by other states. The organization's Executive Director Dan Doonan said there's no guarantee of lasting improvements. "I think a lot of people think of this as like a fresh start, like, 'Oh, what do we want to offer?'" said Doonan. "But the reality is the existing plan will be there for many decades and still have obligations to pay out current workers and retiree benefits." Doonan pointed to Alaska, with higher turnover for those hired after its pension plans closed because they might feel undervalued. That state is now debating whether to switch back. Lawmakers supporting North Dakota's move argued it was thoroughly vetted with long-term thinking. But Doonan and other skeptics said they worry North Dakota will go down the same path as other states in having to deal with unintended consequences.

U.S. corporate pension funding stays well above 100% in January – 3 reports

By Rob Kozlowski, P&I, February 5, 2024

U.S. corporate pension funds still showed a healthy funding surplus at the end of January despite tepid returns outside of domestic equities. Wilshire Advisors estimated the aggregate funding ratio of U.S. corporate plans reached 106.1% as of Jan. 31, up from 105% a month earlier. The change was driven by a 1.9-percentage-point drop in liability values, which was partially offset by a 0.7-percentage-point drop in asset values. The two decreases rounded to a funding hike of 1.1 percentage points, Wilshire said.

U.S. Public Pensions Highly Vulnerable to Market Correction

Fitch Ratings, February 5, 2024

Investment volatility has re-emerged as a key concern for defined benefit public pension plans since the pandemic began, signaling the risk that market corrections can set back progress in stabilizing funded ratios and trigger higher contributions, Fitch Ratings says. Asset values surged in 2021 followed by sharp reversal in 2022 and a rebound in 2023. Based on audits of almost 100 major state pension plans, fiduciary plan assets rose a median of 24.4% in fiscal 2021, then fell 7% yoy in fiscal 2022. For major plans reporting fiscal 2023 audits to date, fiduciary plan assets are showing modest gains, near or just below the average investment return assumption (IRA) of about 6.9%. While fiscal 2021 market returns were remarkably positive, recent market gyrations underscore the vulnerability of pensions to market shocks. We do not anticipate a market downturn similar to the Global Financial Crisis (GFC), when average returns fell 7.7% in 2008 and 17.9% in 2009, but a severe market correction would pressure funded ratios and require plans and governments to once again correct course to stabilize plans.

Fully funded? 97% of corporate pensions will reach 'healthy' status within 10 years

By Tom Gresham, ALM Benefits Pro, February 7, 2024

An annual report found that corporate pensions largely were in strong financial shape in 2023 despite a challenging and dynamic macro environment. Among the most notable findings of the Prudent Pensions Report was that 97% of corporate pensions are on track to achieve full funding without a significant draw on corporate cash within the next 10 years. That marks a sharp boost from 2022, when the figure was 86%. The report is the result of the analysis of approximately 500 pension plans in the U.S. large-cap Russell 1000 Index based on the firms' latest disclosures as well as market and interest rate movement in 2023.

A New Bill Aims to Fix Social Security by Eliminating Taxes on Benefits

By: Pete Grieve, Money, February 7, 2024

A small group of lawmakers wants to eliminate taxes on Social Security benefits as part of a proposal they claim could help fund the flagging program. Benefits are generally not taxed at the federal level for people whose only source of retirement income is Social Security. The bill would eliminate federal taxes on benefits at all income levels. State Social Security taxes — paid by some beneficiaries in nearly a dozen states, would be unaffected. The You Earned It, You Keep It Act would also bring in more tax revenue by raising the cutoff point when Americans are no longer subject to payroll taxes that go toward Social Security. Currently, the 6.2% Social Security tax applies to a max of $168,600 of wages. The bill would add Social Security taxes on earnings above $250,000. Stephen Goss, chief actuary at the Social Security Administration, said the bill would help Social Security stay solvent, buying two decades of time for a program heavily relied upon by older adults and people with disabilities, among others.

Here's What's Wrong With Ending 401(k) Tax Breaks to Fund Social Security: ICI Economist

By John Manganaro, ALM Think Advisor, February 8, 2024

An American Enterprise Institute paper published in January by the prominent policy researchers Alicia Munnell and Andrew Biggs immediately sparked a debate with its straightforward but provocative argument: Congress should end tax breaks for workplace retirement plans and IRAs and direct the newfound revenue to fund Social Security. Such accounts primarily benefit the wealthy, who already enjoy relative security in retirement, the paper purports, and the Social Security program, upon which lower-income Americans rely heavily to avoid poverty in retirement, is on the fast track to insolvency. So, why not do the difficult but necessary thing and sacrifice tax-free growth in more affluent people's 401(k)s to save an essential anti-poverty program for the elderly?

Additional discussion of the issue: **What if the government abolished your 401(k)? Economists say accounts aren't worth it** By Daniel de Visé, USA TODAY, February 8, 2024.

Plan sponsors seek out external cybersecurity firms for identifying, addressing risks

By Courtney Degen, P&I, February 8, 2024

With cybersecurity now a crucial issue in the retirement industry, some plan sponsors are turning to external firms to help prevent the next cyberattack. And for large plans with more than $1 billion in assets, there's been a "slow uptick" in the use of external cybersecurity firms. According to data collected from Pensions & Investments' survey of the 200 largest retirement plans, 12 public retirement funds disclosed they use an external cybersecurity vendor for their defined benefit plans, while four disclosed they use a vendor for their defined contribution plans. The retirement plans that use them often do so to supplement their own cybersecurity programs. External firms can help "with the development, the implementation, (and) the maintenance of all the security programs that (plans) have," said **Hank Kim, executive director and counsel for the National Conference on Public Employee Retirement Systems.** Specifically, many plans seek out "third-party 360 cybersecurity reviews," where a firm will conduct a review of both the plan's cybersecurity policies and procedures, and ensure that such policies are being followed by the plan's vendors, which can include their record keeper, custodian, managed account provider and investment consultant.

U.S. retirement plans recover half of 2022 losses amid no-show recession

By Douglas Appell, P&I, February 12, 2024

U.S. retirement plans last year clawed back roughly half the ground lost the year before when the start of a Federal Reserve rate hiking cycle sent high-flying stock and bond prices tumbling. Pensions & Investments' latest annual survey of the 1,000 largest U.S. retirement plans showed their combined assets rebounding 7.1% to $13.02 trillion over the 12 months through Sept. 30, following a record plunge of 13.9% the previous year. Assets of the largest 200 plans, meanwhile, rose 6.9% to $9.45 trillion, a little more than half the prior year's 13.4% drop.

US Corporate Pension Plans Continue to Improve Funded Status in January

By Matt Toledo, Chief Investment Officer, February 12, 2024

Following a market rally in 2023 that boosted the funded status of corporate defined benefit plans in the U.S., that strength has continued into 2024. According to several pension trackers, the funded status of the plans continued to increase in January. The WTW Pension Index, which tracks the performance and funded status of a hypothetical 60/40 plan, rose to 108.8 in January, up 1.2% from the closing figures from 2023. WTW attributed this performance primarily to a rise in discount rates, supplemented by investment returns. The 60/40 tracked portfolio returned 0.4% in January. Liabilities increased to negative 0.8% during the month, resulting in a 1.2% change in the index. WTW also tracks several other hypothetical pension portfolios. According to the index, portfolios with 20% and 60% allocations to fixed income returned 0.6% and 0.2%, respectively. A 60/40 portfolio with an emphasis on longer-duration fixed income lost 0.5%.

Don’t redirect pension funds

By James Hohman, Mackinac Center, February 14, 2024
Michigan Gov. Gretchen Whitmer wants to take $670 million out of the state’s pension debt payments and spend it elsewhere. Michigan legislators should be careful. Underfunded pension debts have a long history of wreaking havoc with state budgets. Lawmakers, employees, unions and citizens should all want to catch up on what taxpayers owe to public retirees. The system is supposed — and required by the state constitution — to be prefunded. Unfortunately, Michigan lawmakers have not lived up to this requirement. Instead of putting in the dollar to pay for what was earned, they set aside just 64 cents of what they needed, according to the state’s most recent actuarial valuation. This is not a recent problem. Lawmakers have had enough cash to cover all pension expenses in just one of the past 49 years.
***Editor’s Note**: Will they never learn?*

Research Shows 4-Year Low for Admin Fees in Public Sector Plans

By Paul Mulholland, Plan Sponsor, February 13, 2024
Asset management and administrative fees for public sector pension funds fell sharply in 2022, according to a survey conducted by the **National Conference on Public Employee Retirement Systems** and Cobalt Community Research. The survey was conducted from September through December 2023 and included 157 public pension funds (82 local, 75 state) with approximately 1.38 million members and $2.3 trillion in assets. Of the plans, 91% were defined benefit plans, and 115 participated in the same survey in 2022. Seventy-one percent of respondents responded using data from their pension fund’s 2022 annual report and 28% used data from their 2023 annual report. According to the survey, average investment management fees fell to 0.39% in the 2023 survey from 0.49% in the 2022 edition. The new level represents a four-year low for the survey that has been conducted for the last 13 years. Administrative expenses, including investment management, fell to 0.56% from 0.64%.

U.S. public pension plans’ average funding ratio declines to 75.4% in 2023: survey

By Staff, Benefits Canada, February 22, 2024
The average funding ratio for U.S. public pension plans declined to 75.4 per cent in 2023, compared to 77.8 per cent in the previous year, according to a new survey by the National Conference on Public Employee Retirement Systems. The report, which was based on responses from nearly 160 public pension funds with roughly US$2.3 trillion in combined assets under management, found the average return for plans was negative 1.9 per cent. The diminished investment returns were attributed to sharp declines from global fixed income (negative 7.1 per cent) and domestic fixed income (negative seven per cent). U.S. equities offered a negative 2.1 return in 2023, while global equity netted a 0.4 per cent return. Real estate (eight per cent) and private equity (6.7 per cent) assets saw the largest investment returns for the year. According to the report, investment returns (63 per cent) were the largest contributor to pension fund revenue. Employer contributions (28 per cent) rose by four per cent compared to 2022, while member contributions (nine per cent) remained flat.

Funding for the 100 Largest U.S. Public Pension Plans Dropped in January

By Michael Katz, Plan Sponsor, February 29, 2024
Flat investment returns helped reduce the estimated aggregate funded level of the pension funds of the 100 largest U.S. public plan sponsors by $33 billion in January, according to consulting firm Milliman, as the plans’ funded ratio declined to 77.7% at the end of the month from 78.2% a month earlier. The deficit between the plans’ assets and liabilities, as tracked by the Milliman 100 Public Pension Funding Index, increased during January to $1.389 trillion at the end of the month from $1.356 trillion at the start of the month. Milliman estimated the 100 plans had an average investment return of 0% during January, with results for individual plans ranging from a 1.0% loss to a 1.1% return. The static market performance meant there was no change in the number of plans with funded levels above 90%, nor was there a change in the number of plans with funded levels below 60%. The total asset value of

the plans decreased to $4.837 trillion, as of January 31, from $4.857 trillion as of the end of December 2023. The $20 billion drop was due to an approximately $11 billion loss in market value, in addition to net negative cash flow of approximately $9 billion. Meanwhile, the estimated deficit between the assets and liabilities widened to $1.389 trillion at the end of the month from $1.356 trillion at the end of December.

Tax package in the Florida House could put Jacksonville city budget back in pre-pension reform chaos

By Jake Stofan, Action News Jax, February 22, 2024
Jacksonville's state lawmakers are worried pension reform approved by voters in 2016 could be at risk, potentially exposing the city to massive budget shortfalls. It's all due to 15 words in the Florida House's 58-page tax package. The small change could cause the city to lose up to 34 years' worth of tax revenue it was counting on to sure up the pension fund for current and retired police, firefighters and other city employees. Jacksonville's budget was in crisis, with pensions making up 20 percent of annual spending, before former Mayor Lenny Curry managed to get pension reform through the Florida Legislature and approved by Jacksonville voters in 2016. A key piece of that plan was levying a half penny sales tax as long as 44 years to sure up the pensions and free up other city revenues for other purposes like infrastructure. But the provision in the tax package would require any sales tax levied to pay for municipal retirement plans to sunset ten years after initially being approved by voters.

Opinion: The Costly Consequences Of Reinstating COLA In Florida's Pension Plans

By Skylar Zander, Florida Daily, February 10, 2024
Florida's leaders have tirelessly promoted reforms paving the way for financial stability in the Florida Retirement System and advancing the state's pension plan. Now a legislative proposal would put this at risk by reinstating cost-of-living adjustments in the current pension system. We simply cannot afford to let the progress Florida has made over the years go to waste. If passed, House Bill 151 or the Florida House proposed budget would significantly impact Florida's economy by inflicting an estimated $67 billion burden on the state budget over the next 10 years. Lawmakers should weigh the substantial risks tied to an automatic cost of living adjustment for all FRS beneficiaries, including that all taxpayers will be held responsible for funding this benefit in perpetuity, and at an ever-increasing cost. Also, the Florida legislature's staff analysis shows this proposal will cost $2.4 billion per year.
Editor's Note: Opinion piece by Skylar Zander, Americans for Prosperity-Florida State Director.

Florida lawmakers look to scrap China-linked investments

By News Service of Florida, Tampa Bay Times, February 14, 2024
The Florida House rolled out a proposal to divest an estimated $277 million in state pension fund investments in Chinese state-owned companies. The proposal, approved by the House State Affairs Committee, would require the State Board of Administration to develop a plan for selling holdings tied to Chinese companies by Sept. 1 and complete divestment within one year. The State Board of Administration invests state money, including in the pension fund.

Wall Street Journal singles out Sen. Cathy Giessel for rebuke over push to restore costly state pensions

By Suzanne Downing, Must Read Alaska, March 1, 2024
The Wall Street Journal's editorial board says that while other states are being crushed by unfunded pensions for public workers, **smart states like Florida** are de-risking by moving to defined-contribution plans. Alaska is going the other direction, however, in large part due to the efforts of Sen. Cathy Giessel. "That makes it all the more strange that Alaska may risk its future by returning to defined-benefit pensions," the board wrote in an editorial, weighing in on Senate Bill 88, which would return the state to a pension system for state employees and teachers. Instead of an individual retirement account, the idea is to return to the pension system, in which the state becomes obligated to pay retirees a fixed amount annually. The pension checks would be inflation-proofed, which means they'd continue to go up each year. Retirees with 30 years of service would be paid about 63% of their final three years of salary, for the rest of their lives. "The state Senate approved the defined-benefit plans last month, but the House is more skeptical and Republican Gov. Mike Dunleavy hasn't taken a definite position. It should be an easy

choice. Public-worker pensions create incentives for ever-higher taxes as current politicians seek near-term political support by adding to taxpayer liabilities that have to be paid on some future Governor’s watch. Down that road lies New Jersey or Illinois,” the editorial concluded.