FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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Public pension funds abandon 8% dreams

By Robert Steyer, Pensions&Investments, September 30, 2019

When it comes to public pension plans' assumed rates of return, what is rare today was quite common less than 10 years ago. Only three of 129 public plans tracked by the National Association of State Retirement Administrators have assumed rates of return at 8%. In 2010, by contrast, 59 plans had assumed rates of return of 8% and another 30 had rates higher than 8%, said Alex Brown, NASRA's research director. As recently as 2015, NASRA reported that 24 plans had rates of 8% and four had rates exceeding 8%. A common theme for reducing the assumed rates of return has been the low-interest-rate environment. Among the plans tracked by NASRA, the median assumed rate dropped to 7.25% this year from 8% in 2010 and 7.5% in 2015.

Appeals court rules Miami city employees can't claim breach of contract against retirement trusts

By Marian Johns, Florida Record, October 1, 2019

Florida's Third District Court of Appeal has ruled the city of Miami, its firefighter and police retirement trust and its board of trustees have sovereign immunity from the breach of contract claims filed by former and current city employees who allege an ordinance passed in 2010, threatened their vested pension benefits. According to the Sept. 18 ruling, the appeals court reversed a trial court's ruling that the defendants in two separate cases, which the court consolidated for appeal, were not entitled to sovereign immunity. The plaintiffs in the cases are current and former Miami police officers and city of Miami civilian employees. The defendants include the city of Miami Firefighters' and Police Officers' Retirement Trust and Plan, its board of trustees and the City of Miami Civil Employees' and Sanitation Employees' Retirement Trust and Plan and its board of trustees. The plaintiffs alleged they were given "incorrect advice" regarding entering the Deferred Retirement Option Program (DROP) relating to the city's passage of a "financial urgency" ordinance and told they would get a reduction in their pension benefits if they did not retire or enter DROP, according to the district court filing. The defendants were represented by attorneys Robert Klausner and Adam Levinson of Klausner, Kaufman, Jensen & Levinson and Paul Daragjati.

[Hollywood taxpayers stuck spending millions on extra pension payouts]

By Susannah Bryan, Sun Sentinel, October 1, 2019

Taxpayers are on the hook for millions thanks to Hollywood's rare but lucrative retirement perk — one offered by only five cities in the state. Known as the 13th check, it's a payout that comes due in years when the pension funds do well. In 2016, the 13th check payouts cost Hollywood $9 million. Over the years, individual payments have been as low as $200 and as high as $26,000, based on how well the pension funds did that year. The city has agreed to pay $4.3 million to cover the cost of the 13th check owed to the retired general employees, who never got their 2012 check because of the lawsuit. The city also has agreed to pay $12.36 million toward payments that have come due since the lawsuit was filed. Those payments do not begin until 2021 and will be made over a five-year period. Fire union officials negotiated the 13th check benefit in 1998, with police arranging the same perk in 2000 and general employees in 2002. From then until 2015, the most recent year available, the cost of sending a 13th check to Hollywood's retired police officers totaled $21.34 million. The cost of sending the benefit to firefighters came to $13.22 million. The good news: Hollywood has halted the benefit for new employees. The bad news: Hollywood's unfunded pension liability is hovering at $487 million, with all three of the city's pension plans funded at 60 percent. Hollywood officials are somewhat hamstrung because the city's pension ordinance can only be modified through a public referendum, approval by the Florida Legislature or a vote by members of the pension plan. Even changing that rule, set in place two decades ago, would require voter approval.

[Social Security Announces 1.6 Percent Benefit Increase for 2020]

SS Press Office October 10, 2019

Social Security and Supplemental Security Income (SSI) benefits for nearly 69 million Americans will increase 1.6 percent in 2020, the Social Security Administration announced. The 1.6 percent cost-of-living adjustment (COLA) will begin with benefits payable to more than 63 million Social Security beneficiaries in January 2020. Based on that increase, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $137,700 from $132,900. Click here for a fact sheet on how all Social Security benefits will change in 2020. Medicare has not announced the new rates for 2020.

[Opinion: Low returns for public pensions threaten future retirees]

By Jen Sidorova, Market Watch, October 22, 2019

As the fiscal year ends and pension plans look at their annual investment returns, one thing becomes clear — these returns have seen better days. For taxpayers, this opens the possibility of their tax dollars being diverted to pay for pensions debt instead of schools, roads and hospitals in their communities. High pension returns of prior years might suggest hope for future market recovery, but a deeper analysis reveals that these low returns are perhaps the new normal. If states and municipalities don't lower their expectations regarding asset gains, future retirees could be out of luck — and taxpayers would still be on the hook for accumulated debt. Although the higher returns of prior years — 7.7% in 2018 and 11.9% in 2017 on average across all pension plans — might make this year's drop look like a random glitch, examining recent fund performance reveals that this is a part of an emerging trend. Between 2001 and 2016, public pension plans averaged a 5.5% annual return.
Editor's Note: Jen Sidorova is a Young Voices contributor and a policy analyst at the Reason Foundation, a very conservative think tank.

Update on the Funded Status of State and Local Pension Plans – FY 2018

By Jean-Pierre Aubry and Caroline V. Crawford, Center for Retirement Research at Boston College: Public Plans Data, October 2019

The funded ratio of state and local pensions edged up to 73 percent in FY 2018, but has been largely flat for several years and is well below its peak in 2001. Liability growth has steadily declined during the past two decades – from 7.7 percent in 2002 to 3.8 percent in 2018 – but asset growth has been even slower. Given these trends, if plan sponsors want to improve plan funded ratios, a key challenge is to increase their asset base through contributions. One way forward is to adopt more stringent funding methods such as level-dollar amortization and shorter amortization periods. Another, more important, change is to lower assumed investment returns, which would help ensure funding progress by further raising required contributions. Full report – click here.
See also: **Lower Asset Growth Hampers State and Local Pension Outlook**

Barriers to Fully Funding Public Pensions: Largely, a Problem of Asymmetric Information

By Tom Kozlik, Hilltop Securities, October 25, 2019

We were asked recently why, after so many years, public sector pensions are still underfunded. In this commentary, we'll go into some detail to better answer the "why" question, while also answering a few other public pension-related inquiries in the process. In many cases, the leading reason public sector pension plans' unfunded actuarial accrued liabilities (UAAL) have increased has to do with optimistic investment assumptions. The Center for Retirement Research at Boston College (CRRBC) analyzed the results from their Public Plans Database and showed that 60% of the time unfunded liabilities rose because investment returns were lower than assumed rates of return used by plan sponsors. Higher discount rates understate the costs of pension benefits. The order of magnitude differs plan to plan and assumption by assumption for sure. But, the value of pension benefits are, and will likely continue to be, decoupled from the eventual final expense until the true cost of that final expense is completely understood and acknowledged by stakeholders. Largely, the use of optimistic assumptions occurs because a problem of asymmetric information about key pension funding concepts and benefit costs. The pension funding dilemma will remain unresolved unless this gap is bridged.

SEC Probes Practices in Public-Sector Retirement Plans

By Ross Snel, Barrons, October 9, 2019

The SEC has opened an investigation of practices by companies that administer retirement plans for teachers and other government workers, The Wall Street Journal reports. The SEC has sent out letters to 403(b) and 457 plan administrators. It is "is conducting an investigation" to determine "if violations of the federal securities laws have occurred," according to an agency document. The SEC wants details on how administrators choose investment options and manage conflicts of interest. The agency also is seeking documents related to compensation administrators have received since the beginning of 2017 for referring plan participants to specific investments or companies.

Public pension funding does not crowd out education – study

By Hazel Bradford, Pensions&Investments, October 28, 2019

Public pension funding does not crowd out education spending, according to a forthcoming study by National Conference on Public Employee Retirement Systems that identifies frequent tax changes as a bigger problem. The study, "Peaceful Coexistence: The Facts About Pensions and Education Funding," is based on research to be presented at the NCPERS Public Safety Conference in New Orleans. The study found that in 2016, state and local government pension contributions accounted for 4.1% of state revenue, compared to 28.3% of revenue going to education. The 72-page study reviews several recent studies on the subject of pensions plans' impact on education spending and includes a state-by-state analysis comparing each state's expenditures on education and funding with economic and revenue trends. NCPERS executive director and counsel Hank Kim said in the same statement that despite polarizing rhetoric that presents pension plans and education as an either-or proposition for state and local governments, the study shows that pension contributions absorb too little state and local revenue to crowd out a major function, such as education.

Is your money safe? These states are getting hit hardest by the pension crisis

By Evan Comen, USA Today, October 15, 2019

Poor management of the pension funds at the state and local levels, has put those pension benefits at risk for many future retirees. According to nongovernmental organization The Pew Charitable Trusts, state pension systems currently have, on average, less than 70% of the assets they need to be able to pay out benefits owed to current or retired public employees. In some states, the gap is significantly smaller, while in others the pension funding gap is far worse. To rank the severity of each state’s pension crisis, 24/7 Wall St. reviewed the average pension funding ratio – the market value of a pension fund as a percentage of the total benefits owed to current or retired public employees – for all 50 states as of 2017 with data from The Pew Charitable Trusts.

#36. Florida (#50 being the best)

- Funded ratio: 79.3%
- Total pension shortfall: $40.3 billion (8th largest)
- Gov't workers as share of total workforce: 12.7% (5th lowest)
- Avg. annual payout per public retiree: $24,013 (23rd highest)
- Governor: Ron DeSantis

Florida pension holdings worth $5.9 million in June 2019

Florida Business Daily, October 31, 2019

As of June 2019, Florida had $5.9 million in total cash and investment holdings in its public pension funds, according to data obtained from the U.S. Census Bureau’s Annual Survey of Public Pensions. Of that amount, $3.6 million was in state pension funds, and the remaining $2.3 million was in local government pension funds. Florida reported data from 472 pension systems, including 1 state-level pension funds and 471 local-level systems. The total number of pension system members was 715,965 (625,818 at the state level and 90,147 at the local level).

Guest column: Florida retirement system is being mismanaged

By Raheem Williams, Florida Times Union, October 4, 2019

Florida has been a top retirement destination for decades, so it's a bit ironic the state that's renowned for its ability to attract retirees is severely mismanaging its own retirement system. Pension benefits have been promised to nearly 1.2 million active and retired teachers and government workers. One reason the pension system has dipped so far into the red are overly optimistic investment return assumptions. Currently, the plan assumes it will earn a 7.4 percent rate of return on its investments, a rate that was firmly rejected by the independent actuaries the state hired. Economic models developed by Milliman Inc. and Aon Hewitt found all financial forecasting "models developed in 2018 indicated a likelihood of 35 percent or less of actual long-term future average returns meeting or exceeding 7.40 percent." This is bad news for workers and taxpayers. Despite the stock market's strong performance, investment returns for the Florida Retirement System have failed to meet expectations in four of the last 10 years. Florida is setting itself up for a retirement crisis of its own making.

Editor's Note: Raheem Williams, a Jacksonville native and graduate of Florida International University, is a pension policy analyst at Reason Foundation's Pension Integrity Project, a very conservative think tank.

Pay attention retirees: Unrealistic decisions by the state could hurt Florida pensioners

By Lloyd Dunkelberger, Florida Phoenix, October 7, 2019

The Florida Retirement System Actuarial Assumption Conference will meet this month. The decisions the financial analysts on the committee make will be critical to the more than 1 million public workers in Florida who rely – or will rely – on the state pension system for their retirement benefits. A key decision will involve the $160 billion-plus pension fund's "assumed rate of return" during the next budget year, which begins July 1. Ash Williams, head of the State Board of Administration, which oversees the pension fund, describes that decision as "an unexciting, highly arcane issue." But he also told Gov. Ron DeSantis and Cabinet members last month: "It's an important issue." The crux of the matter is this: Independent financial analysts have been warning the state for several years that the pension's fund assumed annual rate of return – which is now 7.4 percent – is too high. If that rate is unrealistic, it may mean the pension fund, in the long term, could come up short when paying benefits to public workers who rely on the state pension system. The chairman of the Investment Advisory Council raised concerns over the 7.4 percent assumed return rate. Aon Hewitt Investment Consulting had identified a 6.59 percent rate as a more "reasonable estimate of likely portfolio returns over the next 15 years." The 2020 Legislature, which begins its annual 60-day session in January, will ultimately decide what rate to adopt and how to fund it.

How to Fix Government Employee Pensions

By Craig Eyermann, The Beacon, October 21, 2019

Across the United States, a large number of public employee pension funds face the serious risk of running into insolvency because politicians have promised millions of state and local bureaucrats far more generous retirement benefits than they are capable of paying. Half the states' pension funds for state and local government employees today are less than 70 percent funded to pay the lavish retirement benefits they've promised, including several that are now so deep in the holes they've dug for themselves that several state and local politicians are seeking to be bailed out at the expense of taxpayers. But not every public employee pension fund in America has been so badly mismanaged by state and local government politicians. Politicians in states as politically diverse as New York, South Dakota, Tennessee, and Wisconsin have demonstrated that it is possible to maintain a solvent pension fund for their public employees. Plans in each of these states are better than 90% funded at this point because policymakers have been proactive in adjusting important assumptions, closing funding gaps quickly, and developing risk-sharing mechanisms that can fairly adjust contributions or benefits as needed. These states demonstrate that it is possible to sustainably manage a defined-benefit pension plan. Making public employee pensions work more like private-sector pension plans is essential for their rescue. It's a lesson that was recently demonstrated in Houston, Texas, which took action in 2016 to reform its underwater public pension plans by reducing its pension promises to a more sustainable level while boosting contributions to its pension funds with taxpayer support.

U.S. pension funds took positions in blacklisted Chinese surveillance company

By Svea Herbst-Bayliss and Tim McLaughlin, Reuters, October 15, 2019

Some of the biggest public pensions funds in the United States have invested in one of the world's largest purveyors of video surveillance systems that the U.S. government claims are used in wide-scale repression of the Muslim population of western China. The Trump administration's decision to put the company, Hangzhou Hikvision Digital Technology Co (002415.SZ), on a blacklist last week has prompted at least two of the pension plans to say they are reviewing or monitoring that development: CalSTRS and New York Teachers Retirement System. Another major fund investing in Hikvision shares is the Florida Retirement System (FRS), with 1.8 million shares at the end of June. A spokesman for the fund said it was working closely with external money managers "related to the issue in order to meet all regulatory and fiduciary requirements." One other company among the blacklisted eight that is owned by some of the big pension funds is iFlytek Co Ltd (002230.SZ), a speech-recognition firm. Its shares were owned by funds in Florida, New York State as well as CalSTRS and the California Public Employees Retirement System (CalPERS) indirectly through the iShares MSCI Emerging Markets ETF at their last disclosure dates. IShares, a top ETF provider owned by BlackRock Inc (BLK.N), declined to comment.

Pension and hedge funds push U.S. SEC to reconsider proxy adviser guidance

By Jessica DiNapoli and Svea Herbst-Bayliss, Reuters, October 15, 2019

Some of the world's biggest pension funds and a prominent hedge fund are urging the U.S. Securities and Exchange Commission (SEC) to reconsider recent guidance they say will raise costs, hurt investors and cut participation in corporate voting. Florida's state pension fund and dozens of others are pushing back publicly for the first time since the SEC in August announced plans to put proxy advisers on a tighter leash. Proxy advisers, on behalf of investor clients, make recommendations on matters ranging from executive pay to climate change. Now the SEC wants these groups to say more about how they reach their recommendations and how companies can react if they spot errors in them. The SEC laid out its proposals in August, handing a victory to corporations that have long lobbied the regulator to curb proxy advisers' power. Proxy advisers face guidance that may force them to give more information on how they reach their recommendations and possibly show them to companies before they are published, which investors are especially worried about.

GE's pension freeze puts a spotlight on America's retirement planning problem

By Ethan Wolff-Mann, Yahoo Finance, October 12, 2019

The news that General Electric (GE) was freezing its pension for 20,000 workers and offering buyouts to 100,000 former employees sent the company's beleaguered stock up slightly, but dealt the two fierce blows to two great American institutions. The first: GE itself. The second: the American pension. It's no secret the private-sector pension is on its last breaths. Over the past 20 years, the percentage of Fortune 500 companies that offer a traditional pension plan has fallen from 59% to 16%, according to Willis Towers Watson. Pension plan freezes have been on the rise as well. For the entire workforce, only 4% of today's workforce has access to a traditional defined benefit pension plan, according to the Bureau of Labor Statistics. As Brookings fellow and pension expert. Mark Iwry, has noted, "longevity risk" of outliving your savings presents an extremely challenging dilemma. How can you use a life expectancy table, when there's a 50% chance you will end up on the wrong side?

Dutch and Danes have best pensions

By Eamon Quinn, Irish Times, October 21, 2019

The Netherlands and Denmark have the best pension systems in the world, with Ireland trailing just outside the top 10 because its system may be too costly to sustain as the population ages, according to a global study that shines a light on countries' preparations for ageing populations. The two countries took the top slots in the Melbourne Mercer Global Pensions Index, both earning points for the level of financial security provided in retirement. Australia came third, while the top 10 was rounded out with Finland, Sweden, Norway, Singapore, New Zealand, Canada, and Chile.

Five Ways to Improve Retirement Security in the U.S.

By Lee Barney, Plan Sponsor, October 23, 2019

The Aspen Institute Financial Security Program lays out ways industry leaders and policymakers can improve Americans' retirement outlook, including expanded access to plans and help with emergency savings. The first idea is to expand the state-sponsored, mandated retirement plans. The second idea is to expand savings options for short-term emergencies. The third idea is to expand coverage by making it possible for more employers to offer a retirement plan. The fourth initiative is to offer retirement plan participants lifetime income options. Finally, between 33% and 47% of retirement plan participants withdraw part or all of their retirement savings when they switch jobs, with the lost savings amounting to between $60 billion and $105 billion a year. That could be circumvented if people had a lifetime retirement savings account that moved with them from job to job.