FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

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Keeping Florida's pension fund financially healthy won't be cheap

By Lloyd Dunkelberger, Florida Phoenix, November 6, 2019

When lawmakers start examining Florida's massive state pension system in the 2020 legislative session, the numbers may look daunting. That's because key retirement officials recently agreed on a recommendation to reduce the pension fund's "assumed rate of return" from 7.4 percent to 7.2 percent. The change may look small, but it's significant, potentially impacting state and local government coffers by the millions. The current 7.4 percent assumed return, independent financial analysts say, is too high. A recent report said a 6.59 percent assumed rate is a more "reasonable estimate of likely portfolio returns over the next 15 years." Moving to a lower assumed rate will be costly. And the state and local governments that participate in the pension system will bear that cost in the form of higher contributions in the coming budget year, which begins July 1. Overall, preliminary estimates show it will cost in the range of $380 million to adjust the $160 billion-plus pension fund's assumed rate of return to what independent financial analysts say is a more realistic target. If adopted by lawmakers, the adjustment will continue a downward trend in the return assumption, which was 7.75 percent in 2013 before lawmakers backed a series of annual reductions.

Longboat commissioners back town's proposals for police contract

By Eric Garwood, Your Observer, November 21, 2019

After a four-hour meeting in which the police union and city presented and rebutted proposals, Commissioners voted to approve step raises of 4% for officers and 3.5% for sergeants and retain the officers in the town's retirement plan. The town proposed to increase the level of its contribution to union members' market-driven 401 (a) accounts, similar to a private-sector 401(k). The Southwest Florida Police Benevolent Association sought access for the town's 11 officers and four sergeants to the Florida Retirement System, a plan that operates like a traditional pension. The town's fire department union has participated in FRS since 2013 but made wage concessions of about 11% at the time. The town's police union was offered access to the FRS in 2013 but rejected it then.

Pulse Police Officer Alison Clarke To Be Fired Friday After OPD Policy Change

By Abe Aboraya, WMFE, November 6, 2019

Clarke will be fired on Friday, November 8. Clarke has nearly textbook post-traumatic stress disorder. She was already working through PTSD from the Pulse nightclub shooting when her supervisor Debra Clayton had asked for backup while she was pursuing a man wanted for murder. Debra Clayton was shot and died

the next day. The next time she had to draw her gun, she couldn't calm herself down afterwards. The department let her go on light duty so she could go into a more intensive PTSD treatment program. The new police chief later in 2018 eliminated permanent light duty. The department said eliminating permanent light duty will put more officers on the streets patrolling. Clarke is applying for a disability pension for PTSD. But the earliest Clarke will get a hearing is in January or February of next year. If her pension is approved, she would be eligible for back-pay. And there is precedent for an Orlando police officer to get a disability pension for post-traumatic stress disorder. The question now is will the board vote to give Alison Clarke a disability pension – and what will happen after she's fired Friday.
Update: On Friday, the department and city of Orlando announced Clarke was not fired and that the department will work with her on her request for a January hearing. The city said it's committed to supporting Clarke's personal health and well-being.

10 Top Stock Picks of America's Largest Pension Funds

By Will Ashworth, Kiplinger, November 25, 2019

It pays to follow pension funds' highest-conviction stock picks, too. Many of these funds have high concentrations in several of the same stocks, so just note that if a stock is a major holding in one fund, chances are it holds significant sway across numerous pension systems on this list.
Johnson & Johnson – Ohio Public Employees Retirement System
JP Morgan Chase – State of New Jersey Common Pension Fund D
Berkshire Hathaway – Department of State Treasurer (NC)
VISA – Virginia Retirement System
Facebook – New York State Teachers' Retirement System
Alibaba – Teacher Retirement System of Texas
Amazon – State Board of Administration of Florida - According to the SBA's August report to trustees, the Florida Retirement System's investment plan allocated 54% of its $202 billion in total assets to global equities. The remainder went to other asset classes such as real estate (9.5%) and private equity (7.5%). Amazon.com is the SBA's third largest holding, with 545,313 shares worth $946.6 million as of the end of September. That's a weighting of 2.5% based on a $38.2 billion portfolio of public equities.
Alphabet – State of Wisconsin Investment Board
Apple – New York State Common Retirement Fund
Microsoft – California Public Employees Retirement System

Public Pension Plans Continue to Shift Into U.S. Stocks

By Heather Gillers, Wall Street Journal, November 5, 2019

As the bull market enters its 11th year, state and local pension plans are piling on risk, as they try to make up shortfalls. Public plans had a median 47.3% of their assets in U.S. equities at the end of the third quarter, according to database Wilshire Trust Universe Comparison Service. That is more than they have had since 2007 and up from 44.1% a year earlier. Taking on more exposure to stocks is a riskier bet, especially as global economic growth is slowing and talk of a potential recession has grown louder. Those risks can translate to consequences in a decline: Big hits to pension funds' stock portfolios during the financial crisis were followed by a wave of benefit cuts for government workers hired since then. Retirement systems that manage money for firefighters, police officers, teachers and other public workers are banking on market returns of 7% or more to help cover shortfalls. Pension funds are also being somewhat more conservative than before the crisis when anticipating what they expect to earn on their investments. Major public plans projected average long-term investment returns of 7.2% a year in 2018, compared with 7.9% in 2007. If governments are able to meet their projections, public pension assets on

hand will be enough to cover roughly 73% of promised future benefits, according to a study by the Center for Retirement Research at Boston College. The decadelong bull market has buoyed the holdings of public pensions, whose median returns averaged 8.57% a year for the 10 years ending in the third quarter.

Cost-Sharing Features Can Help State Pensions Manage Economic Uncertainty

By: Greg Mennis & Aleena Oberthur, Pew Trusts, November 5, 2019

State public retirement systems can better manage economic uncertainty by adopting cost-sharing and benefit design features intended to compensate for lower-than-expected returns on investments or other assumptions that fall short. These mechanisms distribute costs among employers, employees, and retirees by following predefined rules that automatically adjust benefit levels and contribution rates based on actual investment performance or demographic changes. Cost-sharing features often include cost-of-living adjustments (COLAs) that vary depending on a plan's funded level, as well as variable contribution rates that split costs between employers and employees, or alternative plan designs that reduce risk exposure for government employers.

403(b) and 457(b) Plans Going Under the Regulatory Microscope

By James G. Lundy and Fred Reish, Lexology, November 6, 2019

It appears that the SEC has initiated a "sweep" examination to inquire into the sales practices applicable to retirement plans for teachers and state and local government employees. We understand that multiple SEC regional offices have issued document requests seeking information from the third-party administrators, the broker-dealers, and the registered investment advisers that work with 403(b) and 457(b) plans. Further, the New York Department of Financial Services (NYDFS) recently launched an investigation into the sales tactics and costs involved with 403(b) plans, which appears to focus on the annuity practices of the insurance industry. Many of these 403(b) and 457(b) plans are not subject to ERISA and its higher regulatory standards (because, e.g., they are for state and local government employees, including public school teachers). Consistent with this, the potential regulatory concerns are corroborated by some comparative analyses revealing that these plans have higher-costing investments than their private sector 401(k) counterparts (and in some cases significant percentage differences) and concerns about high commissions and other sales practices. These investigations are significant because historically regulators have not focused on this area of the financial services industry.

Four Factors Holding Back the 401(k) System

By Ted Godbout, National Association of Plan Administrators, November 11, 2019

Two retirement and economic policy analysts from opposite ends of the policy spectrum have come together to agree that the 401(k) system has not lived up to its capability. In "Why Are 401(k)/IRA Balances Substantially Below Potential?," Biggs, Munnell and Chen posit that the immaturity of the 401(k) system, the lack of universal coverage, leakage and fees may help explain why most workers have 401(k) and IRA balances at retirement that are substantially below their potential. Using the Survey of Income and Program Participation, linked with administrative tax records, they calculate in their analysis that a 25-year-old median earner in 1981 who contributed regularly would have accumulated about $364,000 by age 60, but the typical 60-year-old in 2016 had less than $100,000. The analysis assumes that in a "perfect system," coverage would be universal and workers would save consistently from ages 25-64, which, as the authors acknowledge, may not be realistic since many workers do not start saving until their

30s and some workers are covered by DB plans. Nevertheless, of the four factors, the authors suggest that the main culprits causing this apparent discrepancy are the immature system and lack of coverage.

Boomer and Millennial Public Workers Agree Pensions are a Plus

By Bill Lucia, Route Fifty, November 12, 2019

Differences between millennial and baby boomer employees have drawn attention in recent years. But within the state and local government workforce the two generations appear to have similar views when it comes to pension benefits, according to new research. The National Institute on Retirement Security released survey results this week that show about 74% of millennial state and local employees said a pension benefit is a major reason why they chose a public sector job, compared to 70% of boomers. Similarly, about 84% of millennial state and local workers said a pension benefit is a key reason why they stay in their jobs, while the same was true for about the same share of boomers. Some states and localities around the U.S. have struggled in recent years recruiting and retaining certain types of workers, such as police and emergency medical services positions, and IT and engineering jobs where pay tends to be higher in the private sector. Jurisdictions have responded by turning to "gig" or temporary workers to fill some jobs, while others have taken steps like streamlining hiring processes, emphasizing their "brands," and developing new recruitment and professional development initiatives. Bond pointed to a situation where public safety workers decamped from their jobs in the town of Palm Beach, Florida after local officials in 2012 shifted the pension system there away from a defined benefit model. The local government about four years later reversed course.

Plan Sponsors See Recession in Three Years, Lower Targets

Chief Investment Officer, November 18, 2019

A significant majority of corporate and healthcare defined benefit plan sponsors say they expect a recession within the next three years, and have accordingly lowered their long-term return assumptions, according to a survey from investment consulting firm NEPC. The survey questioned plan sponsors' economic outlook, use of risk reduction strategies, and how they will change their asset allocation and investment strategies in the coming year. It found that 84% of those polled believe a recession will likely occur during the next three years, half of whom expect a recession in just 12 to 18 months. The survey also found that plan sponsors have significantly lowered their long-term return assumptions with one-third of the respondents having a return assumption of 6% or less, compared to just 20% in 2017. The number of plan sponsors with a return assumption of 7.5% or more has declined to 21% from 33% two years ago. The survey also found the number of plan sponsors who believe they may eventually terminate their plans in the future has nearly doubled in two years. It showed 23% of respondents saying they were unsure if they will stay open, up from 12% in 2017. About 15% said they are planning a full plan termination, and 35% say it may occur over the next five to seven years. And 22% said they considered plan termination but rejected it, with 78% of those citing annuity purchase costs as the reason not to terminate.

Opinion: Why millennials should care about government pensions — even if they don't have one

By Jen Sidorova, Market Watch, November 23, 2019

Public pensions are not exactly a burning issue for millennials. There's currently a public pension crisis that doesn't just affect retired government employees, but also young people in the workforce — both in terms of their future retirement plans and current salaries. Millennials, tune in. Currently, state and local

governments across the country owe $1.6 trillion more in pension benefits than they have saved. This debt translates into public pensions being only 73% funded. Governments with underfunded pensions need to come up with the money somehow, and the most obvious way is to raise taxes. What this means for millennials is that more of their tax dollars could be diverted to paying down public pension debt instead of paying for public services. In some states, public employees don't participate in Social Security — meaning they will rely solely on pensions for their post-employment income. If those pensions are at risk, then so is the long-term security of over five million millennials — about a quarter of all public sector employees. The next generation of public sector employees won't be provided with the same retirement options as baby boomers or members of Generation X.
Editor's Note: Jen Sidorova is a contributor to Young Voices, a public-relations firm assisting young writers, and a policy analyst at the Reason Foundation, a conservative think-tank organization.

Legislation Would Allow 401(k) Withdrawals to Pay LTC Premiums

BY Ted Godbout, National Association of Plan Advisors**,** November 22, 2019

Sen. Pat Toomey (R-PA), who is a member of the Senate Finance Committee, is working on a bill that would allow individuals to withdraw funds from their 401(k), 403(b), 457(b) and IRA accounts to pay for long-term care insurance without being subject to the 10% early withdrawal penalty. The draft legislation that Toomey plans to introduce in the coming weeks would also allow up to $2,000 in withdrawals annually per individual to be excluded from income tax, provided the amount is used to pay for qualified LTC insurance for the individual, their spouse or a dependent.

Will Negative Rates Finally Kill Pensions?

By Paul Jacobs, Palisades Hudson Financial Group, LLC, November 25, 2019

Economists once thought that negative interest rates were impossible. Not only are they possible, but they may hasten the end of a dying business practice. If negative interest rates do arrive in the U.S., they will affect our lives in a variety of ways. One of the less obvious results, but one that would have a major impact on many Americans' retirement plans, is that negative rates could be the fatal blow to the defined benefit retirement plan. Defined benefit plans are already on the ropes in this country. In contrast to defined contribution accounts like 401(k)s, defined benefit plans provide a guaranteed income when workers retire. This places the burden of funding the plan and investing its assets on the employer, rather than the worker. Defined benefit plans were once common, but they have become less so over the past 30 years. According to the Labor Department's Employee Benefits Security Administration, the overall number of defined benefit plans fell by about 73% between 1986 and 2016. Workers in some parts of the public sector still have access to defined benefit plans, but you rarely see these plans in the private sector. Only 17% of private sector workers had access to a defined benefit plan in 2018, according to the Bureau of Labor Statistics, and only 13% of workers took part. In a low-interest-rate environment, defined benefit plans can be painfully expensive. If interest rates go negative, the exercise of funding them moves from hard to potentially impossible. Many pension managers have large portfolio allocations to low-risk bonds, to ensure they can make payouts when liabilities are due. In a negative interest rate environment, investing in government bonds means a guaranteed loss over time. In essence, employers would need to set aside more today than they will owe years from now. This is the complete opposite of how these funds were designed. Employers were meant to take advantage of high investment returns, compounded over time, to comfortably meet their obligations to workers without having to shoulder a significant burden along the way.

How to Navigate the Pension Landscape

By Anita Yadavalli, National League of Cities, November 29, 2019

Solvent pensions are crucial to local governments and the employees who serve them because they reduce financial instability. And the first step in reducing that instability is becoming informed. To help our cities deal with this critical problem, NLC, in partnership with ICMA-RC, developed the Public Sector Retirement Initiative, a program focused on strengthening the capacity of city leaders to ensure healthy public sector retirement outcomes. The newest feature of that initiative is an online resource center featuring videos explaining the most complicated pension concepts in a bite-size format. Financial instability impacts everything — housing, nutrition, quality of life, health care and even life expectancy. At the crux of financial instability is financial literacy, and most public servants do not know how much they need to save for a comfortable retirement. And due to budgetary strains on many state and local governments, changes to pension plan design and financing are making it even more difficult for public servants to save. According to recent data from the Bureau of Labor Statistics, 17 percent of local government workers stopped receiving contributions from their employers to their defined benefit retirement plans in 2017 (up from 12 percent in 2012). Instead, they were introduced to a new defined contribution plan alternative.