FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS JANUARY 2020 ON FLORIDA PENSION ISSUES
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Follow these key bills as legislative session opens
The Villages Daily Sun, January 12, 2020

A range of proposals surround public safety this year. SB 378 would repeal parts of the Florida Motor Vehicle No-Fault Law, such as having to prove personal injury protection insurance coverage to register private passenger vehicles with the state. In a different vein, HB 425 would provide cost-of-living adjustments for Special Risk Class members — law enforcement, firefighting, criminal detention and medical care employees — of the **Florida Retirement System**.

The Biggest Issues to Watch in 2020
By Alan Greenblatt, David Kidd, Tod Newcombe, Governing, January 13, 2020

Many legislatures hold short sessions in even-numbered years, their budget work largely completed and everyone eager to hit the campaign trail. The desire to put policy aside in favor of electioneering will be especially strong this year, with the vast majority of slots for legislators who will oversee the next round of redistricting up for grabs. The last fiscal year was a strong one for state revenues, but when it comes to the health of state and local pension plans, it's a different story. Most public pension plans are faring a lot better than that, but with the average state and local government pension funding ratio stagnating at 72.4 percent. Pension plans are missing their investment-return targets. While plans with more than $1 billion in assets had an expected rate of return of 7.25 percent for the fiscal year that ended last June 30, they ended up with a median return of 6.79 percent, according to data from the Wilshire Trust Universe Comparison Service. Despite increases in contributions from states and localities, the amount is still short of what actuaries are demanding. Don't expect to see much more in the way of benefit cuts in 2020, says Jean-Pierre Aubry, associate director of state and local research at CRR. "The move toward direct benefit cuts has slowed to a trickle." Given that their investments have fared poorly amid strong stock-market performance, it's a fair bet that many pension plans will continue to fall short of their assumed rates of return in 2020. And state and local policymakers will continue to look for ways to shore up ailing plans without tax hikes or program cuts as they try to deal with the core problem: too much risk and how it's being shared.

Public Pensions Reducing Fee Outlays to Improve Efficiency
By Debra Cope, Yahoo Finance, January 27, 2020

Public retirement systems are squeezing down their expenses to operate more efficiently, according to an annual study by the National Conference on Public Employee Retirement Systems. The 2019 NCPERS

Public Retirement Systems Study, based on responses from 155 state and local pension systems, shows that trustees, managers, and administrators are working to ensure funds' fiscal and operational integrity, according to Hank H. Kim, executive director and chief counsel of NCPERS. Survey participants had 12.6 million active and retired members and assets exceeding $1.4 trillion in actuarial and market value. The majority—62 percent—were local pension systems while the remaining 38 percent were statewide systems. During their most recent fiscal year, pension systems reduced their costs to administer funds and pay investment managers to an average of 55 basis points (0.55 percent), down from 60 basis points (0.6 percent) a year earlier. In all, 59 percent of all responding funds said they lowered their assumed rate of return, and 23 percent are considering this measure. Funded levels dipped to 71.7 percent, down from 72.6 percent a year earlier, largely due to weaker than expected one-year returns. Funds reported one-year returns averaging 4.5 percent, five-year returns of 7.1 percent annually, 10-year returns of 7.7 percent annually and 20-year returns of 11.2 percent annually. The results underscore the long-term and patient nature of pension investing. The timing of fiscal year-ends made a significant difference in investment experience for many funds due to the stock market correction that occurred in December 2018. Despite the drag exerted by negative returns recorded by major stock indexes during 2018, pension funds returns remained in positive territory. Results of funds with a December end-date were much lower than those with non-calendar fiscal years.

State and Local Pensions Share Their Own Best Practices

By Rebecca Moore, Plan Sponsor, January 29, 2020

During their most recent fiscal year, public pension systems reduced their costs to administer funds and pay investment managers to an average of 55 basis points, down from 60 basis points a year earlier, according to a study conducted by the National Conference on Public Employee Retirement Systems (NCPERS) and Cobalt Community Research. Respondents were asked to share strategies they have put in place to reduce accrued actuarial liabilities beyond traditional amortization. Many said they shortened the years of amortization, increased employer contributions or ensured full employer contributions were made, and increased contributions and age requirements. Asked to share a success story regarding a best practice or innovation that other plans may like to learn about, responses most frequently mentioned improving member education, improving death audits to ensure appropriate benefit payments and provide better benefit information, and more planning and education with boards. The full survey study is here.

State Pension Funds Adjust to 'New Normal' of Lower Returns

By Michael Katz, Chief Investment Officer, January 20, 2020

State retirement systems are adjusting to a "new normal" of lower expected economic growth over the next 20 years and are lowering their assumed rate of returns en masse, according to a report from Pew Charitable Trusts. Research by the Trusts shows that from late 2007 to mid-2009, during the so-called "Great Recession," public pension plans lowered return targets as a result of changes in the long-term outlook for financial markets. The report said that while the US experienced annual GDP growth of more than 5.5% from 1988 through 2007, the Congressional Budget Office (CBO) now projects only 4% annual growth over the next decade. The think tank said that more than half of the funds in its database lowered their assumed rates of return in 2017 to an average of 7.3%. That's down from more than 7.5% in 2016 and 8% in 2007 just before the recession hit.

[Do Public Pension Shortfalls Mean You'll Face a Tax Hike?]

Craig Eyermann, The Beacon Independent Institute, December 30, 2019

Public-employee pension plans across the United States are trillions of dollars short of what they need to pay out the generous retirement benefits politicians have promised state and local government employees. According to Center for Retirement Research at Boston College, public pension funds are collectively $1.6 trillion short of the money they will need to pay government employees throughout their retirement years. Florida's shortfall is $5,632 per household. That trend may explain why former Illinois pension chief Marc Levine has said that public-employee pension plans have become "inherently unstable" and will require a massive federal bailout: "I think the federal government is going to have to do something about this because, basically, the potholes need to get fixed the traffic lights need to work. I think ultimately there will be some kind of grand bargain where they freeze benefits in exchange for federal money in some kind of grand bargain. Is that going to happen in the next couple of years, no, but in the next decade? I suspect it will." One option for addressing the problem would be to index an employee's total disbursements to the total capitalization of the pension plan at the employee's retirement age. Another alternative would be to transition public employees from defined-benefit pensions to the kind of defined-contribution pensions that have become predominant in the private sector.

[What The Illinois Supreme Court Said About Pensions - And Why It Matters]

By Elizabeth Bauer, Forbes, January 8, 2020

Illinois' 1970 constitution is one of only in two in the nation which explicitly guarantee that state and local employees have a right to pension benefits based on the formula in effect at hire, without reduction, until retirement. (The other is New York.) In 2013, Illinois passed legislation which aimed to reduce pension liabilities, but various groups representing the affected employees filed suit, and the Supreme Court overturned the legislation in a 2015 decision. This decision recapped not merely the 2013 decision, but included more extensive commentary on Illinois pensions, citing, for example, 1917 and 1957 reports characterizing state and local pension plans as in a condition of insolvency, and a 1969 overall funded status of 41.8%. The first thing that the Court makes clear in its decision is that the 1970 constitution bound Illinoisians to provide undiminished and unimpaired pensions to every state or local worker ever hired with such a promise, with no room for any changes whatsoever. The Court also rejected the use of the state's "police power" to reduce pensions, that is, the notion that the greater need to provide basic services could justify reducing pensions, noting that other provisions in the constitution included wording qualifying the promises made as subject to affordability, but that the pension protection wording was absolute. The Court's decision emphasizes over and over again that what binds the General Assembly and the people of Illinois are the key words of Article 13, Section 5, "the benefits of which shall not be diminished or impaired." It's a simple ruling: you can't do anything which has the effect of reducing existing or future benefits (and the guarantee of a future Cost of Living Adjustment is included in such promises) so long as this phrase exists in the Illinois constitution.

[The New American Retirement Plan]

By John Rekenthaler, Morningstar, January 14, 2020

The 401(k) system has reached its limit. There has been significant progress, but those problems cannot be fixed incrementally. IRS Section 401(k) started American defined-contribution investing. However, the statute cannot finish it. Every aspect of a New American Retirement Plan already exists, in other countries. The solution to all these problems is straightforward: a single national retirement plan, shared by all workers. The first--and most important--step of retirement-plan reform is to jettison the employer's responsibilities. Employee participation should be mandatory. If the retirement account is fully the employee's, perhaps the financial commitment should likewise be. Or should firms be required to contribute to the plan (as commonly occurs overseas)? If is the rule, can companies exceed the minimum obligation, if they so desired? The plan's investment design could be managed by creating various age-based portfolios. Each would have separate cash flows, thereby dividing the system's trade requests. Finally ban early withdrawals outright. After all, retirement-plan investors receive a benefit from the government for deferring taxes. It is only fair that they give something back.

Retirement Security Is On A Treacherous Path, New Report Warns

By Ted Knutson, Forbes, January 14, 2020

Retirement security is on a treacherous path for the future with dwindling pensions and proposals to cut Social Security, warns National Institute on Retirement Security Executive Director Dan Doonan in his introduction to a report released on the financial state of the elderly in America. The most surefire way to achieve a secure retirement is to have income from a three-legged stool of a defined benefit pension plan, a 401(k) combined with other personal savings and Social Security, asserts the NIRS study. Yet only about 7 percent of seniors have that ideal combo, the report notes. By contrast, 40 percent of seniors have only Social Security to rely on, the report states. Experts estimate often Social Security alone provides only 70 percent of what's needed to maintain a pre-retirement standard of living, the NIRS study adds. However, the percentage can be higher for individuals and couples because Social Security payments can vary according to pre-retirement income and other factors.

Metrics for Measuring Public Employee Retirement Security

Fact Sheet, Pew Trust, January 16, 2020

Retirement benefits play a critical role in helping governments attract and retain skilled workforces. Research from The Pew Charitable Trusts has found that most state and municipal employees cite this part of their compensation package as key in deciding to take jobs—and remain—in public service. Survey data also show that these workers generally expect the public sector to provide better retirement packages than those available in the private sector. Pew's research on state and local public retirement systems analyzes three metrics that help governments evaluate how well their plans are doing at providing retirement security: 1. Replacement income, which measures what percentage of a worker's final salary is expected to be replaced, on average, in retirement. Replacement income includes Social Security payments if the state is one where public employees pay into the program. In addition, the metric adjusts for the impact of inflation, incorporating any cost-of-living adjustment protections under the plan. Pew's analysis finds that in most cases career government workers can expect full replacement income, meaning their retirement benefits match their final take-home pay. 2. Retirement savings rate, which captures the level of savings, expressed as the percent of annual salary, that an employee can withdraw when leaving employment. 3. Value of lifetime benefits, which measures, at different points over the course of a worker's career, the total amount of government-sponsored retirement income an employee can expect to receive over a lifetime. Policymakers can use these metrics to assess any type of retirement plan—including traditional defined benefit pensions and hybrid plans—around meeting employer goals of attracting and retaining a strong workforce and putting workers on a path to a financially secure retirement.