FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS MARCH 2020 ON FLORIDA PENSION ISSUES
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Gov. DeSantis to let retired disaster personnel return to work for coronavirus response

By Renzo Downey, Florida Politics, March 31, 2020

Gov. Ron DeSantis signed an executive order allowing recently retired state law enforcement and health care personnel to return to work in an effort to increase manpower in the state's coronavirus response. Current law prevents the reemployment of state workers six months from retirement and voids the pension plans of workers who returned in the last 12 months, but the Governor said there are concerns manpower could decline with the spread of the contagious novel virus. The order would protect the pensions of former law enforcement, first responders, emergency management and public safety personnel, as well as other former employees deemed critical for the COVID-19 response.

Ben Diamond calls on Jimmy Patronis to convene Cabinet for emergency budget analysis

By Janelle Irwin Taylor, Florida Politics, March 23, 2020

Rep. Ben Diamond is calling on Florida Chief Financial Officer Jimmy Patronis to hold an emergency meeting of the Florida Cabinet to discuss and address the fiscal impact of the spreading COVID-19 virus. "I am writing to encourage you to take immediate action with our state agencies to explore all possible ways to slow spending, conserve cash, and freeze new hiring," Diamond wrote. The legislature approved a $93.2 billion budget last week, which is currently on Gov. Ron DeSantis' desk waiting for review and possible line item vetoes. But as Diamond notes, that budget was crafted "based upon revenue projections made by our revenue estimating conference meeting last fall, well before this crisis wreaked havoc on our economy." Diamond's letter also called for a briefing from the State Board of Administration on its efforts to minimize the impact of COVID-19 on the state pension fund as well as consider recommendations from the Division of Bond Finance regarding how state debt could potentially be refinanced.

Police chief was an 'independent contractor,' judge rules. It could save his pension

By Aaron Leibowitz, Miami Herald, March 4, 2020

Lewis Velken was the interim police chief and then interim manager of North Bay Village for a brief stretch starting in 2018. But does that mean he was a government employee? Technically he wasn't, an administrative judge ruled. Instead, an unusual arrangement meant Velken was an independent contractor employed by a third-party staffing agency, according to Judge June C. McKinney of the Florida Division of Administrative Hearings. That means Velken may be able to keep more than $690,000 in payments from the Florida Retirement System that state officials had demanded he return, while also continuing to receive monthly pension checks. Officials had argued that Velken voided his retirement benefits from the state's Deferred Retirement Option Program when he accepted the interim police chief position in North Bay Village less than six months after he retired.

Former police chief awaiting outcome of lawsuit against Fruitland Park

Villages-News, March 5, 2020

Former Fruitland Park Police Chief Michael Fewless is suing the city for more than $600,000 in connection with an issue that arose in 2018 regarding payments to the Florida Retirement System. Fewless was hired in August 2015 after a highly distinguished 30-year career with the Orange County Sheriff's Office. Like many law enforcement officers, he had enrolled in the retirement system's Deferred Retirement Option Program in 2011, and as such would have been required to wait six months to a year before enrolling in the system again with a different employer. Fewless, however, believed he was on solid ground when he signed onto the police department just days after retiring from the sheriff's office because he didn't enroll in the state retirement system, opting instead for a different retirement plan offered by the city. But that all changed in August 2018 after the state retirement agency alerted Fewless and the city of an issue. They claimed that he hadn't waited long enough to take the new position and it didn't matter that he wasn't enrolled in the state system because the city offers it to its employees. Fewless, who is now serving as the deputy police chief in Mount Dora, did score a victory of sorts last July when an administrative judge ruled in his favor. But the state retirement agency basically rejected the judge's ruling and instead offered Fewless a settlement deal, which he rejected.

Public Pension Funds Adjust to Life Under Quarantine

By Alicia McElhaney, Institutional Investor, March 18, 2020

Public pension funds are finding ways to continue operations, even as many have had to close offices and ask staff to work remotely amid concerns over the spread of coronavirus. Sources at several state employee and teacher retirement systems told Institutional Investor that teleconferencing is the new normal as national and local government officials call for social distancing in an effort to contain the novel virus. While the ongoing pandemic has forced changes in how pension staffers live and work, these pension officials said that it would not impact their funds' overall investment strategies. Florida SBA is also making plans to go ahead with its March investment advisory meeting on the 31st, according to Kuczwanski. He said that for the first time, the retirement system would hold its meeting virtually using a program called Citrix GoToWebinar.

Milliman PPFI Q4 investment performance of 4.47% outpaces liability growth

Yahoo Finance, March 2, 2020

Milliman released the fourth quarter 2019 results of its Public Pension Funding Index (PPFI), which consists of the nation's 100 largest public defined benefit pension plans. During Q4 2019, the overall funded ratio for these plans climbed from 72.7% to 74.9%, which as of December 31 marks the highest quarterly result in the history of the PPFI. Comparatively, at the end of 2018, the Milliman PPFI funded ratio was at 67.2%. Twenty of the PPFI plans – or one-fifth –have reported funded ratios that are higher than 90%. Milliman analysis: Public pension funding ratio hits three-year high in Q4 2019 at 74.9%, but February's market volatility will likely erase some of those gains in Q1 2020. Click here to read the full report.

Public plans see higher return with private equity vs. stocks – study

By Arleen Jacobius, Pensions&Investments, March 6, 2020

Private equity net returns exceeded those of public equity by a yearly average of 4 percentage points over the past 19 years, a study of 53 U.S. public pension plans by alternative investment consultant Cliffwater showed. The plans earned a net annualized private equity return of 9.6% from June 30, 2000 to June 30, 2019, compared to a 5.6% annualized return of a public equity benchmark, according to the study of pension plans that reported private equity returns for all or part of the study period and had a fiscal year ended June 30. The study period includes two full stock market cycles. Cliffwater found that private equity's excess returns over the public markets did not diminish over time.

Why the police, fire pension system felt it had no choice but to sue Dallas over missing millions

By Robert Wilonsky, The Dallas Morning News, March 5, 2020

The Dallas Police and Fire Pension System has taken City Hall to court over $2 million meant for military veterans. That lawsuit, filed in January by the pension system, says the city owes that money to pay benefits to police officers and firefighters who went on active duty in the armed forces. The lawsuit claims that the city isn't following a 1994 federal law that says employers with pension plans shouldn't treat their workers as though they had "a break" if pressed into military service. The Uniformed Services Employment and Reemployment Rights Act requires employers to continue with their pension obligations if employees contribute to the fund upon their return. Police officers and firefighters who serve in the military are not required to contribute to the pension fund during their time away. But if they choose to put that money back in to avoid a drop in their retirement benefits, the city is required to do so as well.

Reasons NOT to Offload DB Plans

By Rebecca Moore, Plan Sponsor, March 5, 2020

One-third of respondents to a 2017 survey conducted by CFO Research in cooperation with Prudential Financial chose each of the following factors driving corporations to implement a pension risk transfer by purchasing an annuity from an insurance company: Desire to manage the total costs of the organization's pension plan; desire to mitigate the impact of changing actuarial mortality assumptions, including potential future changes; and desire to mitigate the impact of rising Pension Benefit Guaranty Corporation (PBGC) premiums, including potential future increases. The reason plan sponsors want out of DB plan administration goes back to the 1980s. In 1985, the Financial Accounting Standards Board (FASB) released its Statement No. 87 which affected return on asset assumptions and discount rates used to calculate pension expenses and obligations. Lowell notes that Millennials are hearing about problems older generations are having with retirement readiness and are worried as a group about lifetime income. He says recent surveys have shown they don't want to be the job hoppers they've been viewed as or that Generation X has been. So, if the next generation wants to find a company to stay with and from which they will retire, they need benefits that assuage their worries. Lowell says offering a DB plan will attract employees and make them more productive, which in turn will increase the productivity of the company. "DB plans can be designed to get rid of almost all of the volatility; DB plans don't have to be evil things for a company,"

Opinion: Yes, retirement benefits for police and fire are expensive

By Alicia H. Munnell, Market Watch, March 10, 2020

Police and fire retirement benefits constitute only 2% of total local government spending, not the budget buster that you might expect. Probably should be reformed, because police and fire personnel could probably work longer. But reforms would have limited impact on government expenditures — particularly given that any cut to benefits might need to involve an increase in wages to ensure the recruitment and retention of quality workers. Public safety retirement benefits are expensive, but smaller than one might expect for three reasons. First, compensation costs (i.e., wages, health insurance, and contributions for government-sponsored retirement benefits and Social Security) account for only 55% of total local government expenditures. Second, public safety workers account for only 17% of total local government compensation costs. Finally, retirement contributions account for about 25% of total compensation.

Market rout leaves public pension funds nursing a nearly $1 trillion loss for fiscal 2020: Moody's

By Sunny Oh, Market Watch, March 24, 2020

As of March 20, public pension plans were on pace for an average investment loss of about 21% in the current fiscal year. The global rout of financial markets this year is putting pressure on state and local government pension funds in the U.S., many of which were already struggling to pay for the future retirement benefits of public-sector workers. The hit to the returns of retirement systems for firefighters, police and civil service employees could, in turn, endanger the financial health of local governments that have to pick up the tab, according analysts at Moody's Investors Service. "Recent U.S. public pension investment losses, which we estimate are approaching $1 trillion, stand to severely compound the pension liability challenge already facing many governments," said Tom Aaron, vice president at Moody's.

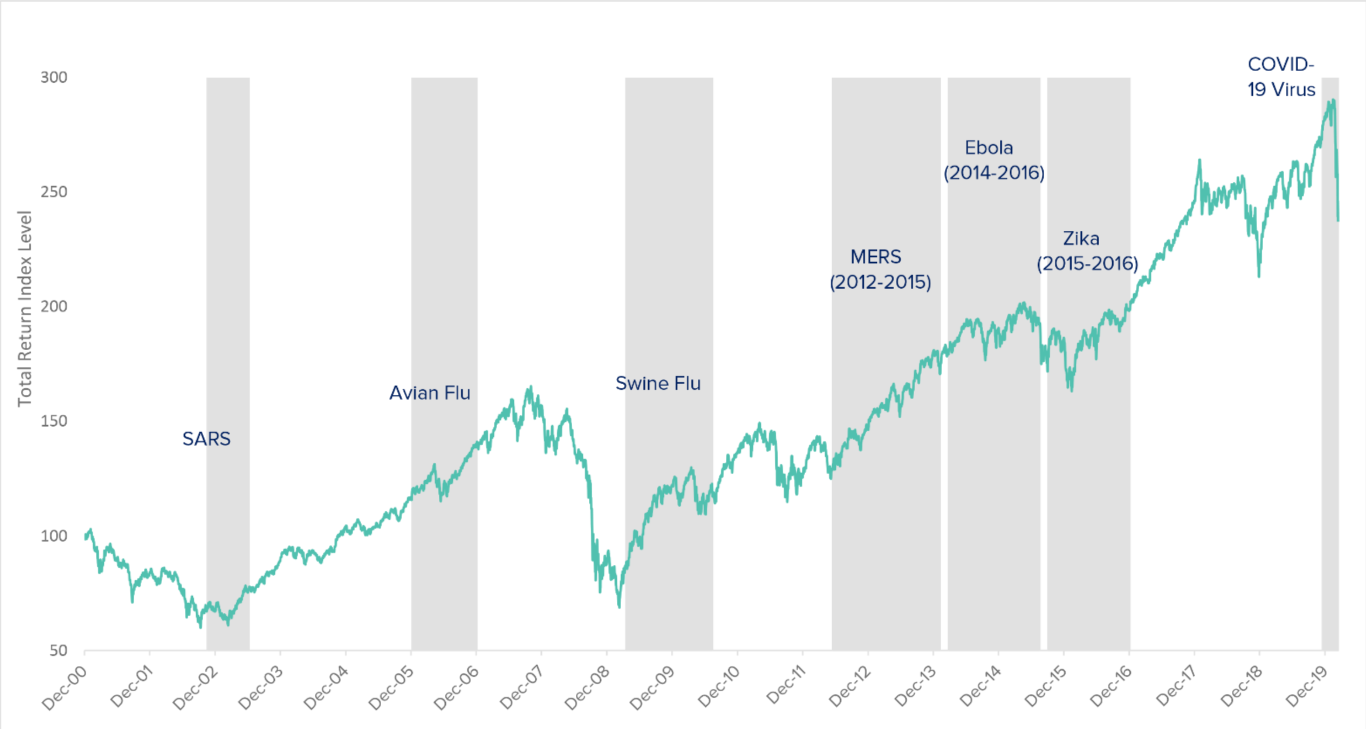
US Public Pensions Lose $1 Trillion from Market Crash

By Michael Katz, Chief Investment Officer, March 26, 2020

US public pension investment losses are approaching $1 trillion as a result of the stock market crash caused by the COVID-19 pandemic, which will "severely compound" the pension liability difficulties many governments are already dealing with, according to a report from Moody's Investors Service. Moody's said US public pension systems are on pace to see investment losses of approximately 21% for the fiscal year ending June 30, adding that the recent volatility of the equity markets could lead to either a significant improvement of those returns in the coming months or a further decline. Based on Moody's estimates, the adjusted net pension liabilities (ANPLs) for public pensions are expected to surge by nearly 50% to a record high of $3.6 trillion for fiscal year 2020 from $2.4 trillion at the end of June. The firm derives its estimates from a representative sample of 56 large US public pension systems, which covers roughly half of all liabilities and assets. To make matters worse, Moody's said many governments have less capacity to "smooth" or defer pension cost hikes without "severe pension funding repercussions" than they did in the years following the financial crisis of 2007-2009. Moody's said the asset/benefit coverage, which indicates the rising risk of pension asset depletion without contribution increases, is lower for many US public pension systems than it was before the financial crisis. Moody's said the ability to reduce government contributions is more difficult today than during the financial crisis because of the negative repercussions to the resulting condition of the pension system.

[How Did the Stock Market React to Past Pandemics?]
By Mari Tsagareishvili, Cammack Retirement, March 25, 2020

The current turmoil has served as a reminder that market volatility and downturns are a part of the normal investment environment and not a rare occurrence, and that a measured, long-term approach to investing is paramount for retirement plan investors. Investors who look past the current market volatility, by staying the course and remaining diversified, will likely benefit over the long-run. Global markets have a history of bouncing back from adversity and missing the best days in equity markets could significantly damage long-term returns.



Commentary: The time is ripe for public pension obligation bonds
By Girard Miller, P&I, March 29, 2020

It's finally now time for public pension funds and their sponsoring employers to make lemonade from lemons. The market value of public pension stock portfolios has shrunk dramatically in the shadows of the COVID-19 crisis, coupled with the recessionary impact of the Saudi-Russian oil price war. Stock indexes are down 35% or more from their peaks just earlier this year, in a dramatic sell-off. The basic pension obligation bond concept is relatively simple, and has been used for 45 years, albeit with sketchy results because of ill-advised timing. A state or municipality issues taxable POBs at low interest rates (now about 3% plus for a 30-year AA credit) and puts the money in trust to invest in capital markets at low, distressed levels. It's essentially an arbitrage strategy, to reduce the employer's cost of the pension fund by converting "soft debt" into "harder debt." In the long run, a stock index portfolio purchased at distressed low market levels can reasonably be expected to earn far more than the employer's POB interest rate. If done properly and timely, the net cost to taxpayers for funding the public pension plan will be dramatically lower. (Because it's sheerly capital markets arbitrage, Congress requires that the POB bonds be taxable, so that lower-cost tax-exempt bonds are used only for public purposes like infrastructure.)

CARES Act Relief Bill: Retirement Plan Provisions and Economic Impact

By Michael A. Webb and John Italiano, Cammack Retirement, March 27, 2020

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a $2.2 trillion dollar relief bill to counter the economic impact of the COVID-19 pandemic, was signed into law on March 27. The CARES Act waives the 10% early withdrawal penalty tax for distributions of up to $100,000 per year from DC retirement accounts/IRAs. The legislation allows retirement plans to permit distributions for individuals certifying that they meet one of the following conditions: Diagnosed with COVID-19; Spouse or dependent diagnosed with COVID-19; Experience adverse financial consequences as a result of being quarantined, furloughed, laid-off, reduced work hours, inability to work due to lack of child care because of COVID-19, the closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors, as determined by the Treasury Secretary. Tax on the income from the distribution can be paid ratably over a three-year period. Individuals also have the ability to repay the amount into the plan over the next three years and those repayments are not subject to retirement plan contribution limits. It should be noted that even though the distribution can be paid back to the plan, it is not an eligible rollover distribution; thus, it is not subject to the 20% withholding for payment of taxes. Thus, a participant can receive the entire amount of the distribution or elect to withhold taxes, subject to recordkeeper restrictions. Finally, COVID-19 distributions are not considered hardship distributions. Required Minimum Distributions for retirement plans and IRAs, which were quite complicated for 2020 due to the SECURE Act changes, are waived for this year. Participants who have already taken their 2020 distribution cannot repay it to the plan or otherwise roll it over. Thus, they will be responsible for the taxes due on that distribution for 2020.

Major changes in RMDs and retirement contributions in $2T stimulus plan

By Ed Slott, Financial Planning, March 27, 2020

Now that the Treasury has extended the tax return filing date to July 15, 2020, from April 15, 2020, the date for making 2019 IRA and Roth IRA contributions is also extended to the same date. Normally, IRA contributions for a prior year must be made by April 15th of the following year. There have never been extensions to the IRA contribution deadline, even if the taxpayer filed for a tax filing extension. The $2 trillion relief package titled, "Coronavirus Aid, Relief, and Economic Security Act," is expected to be enacted on March 27. Included in the massive bill are several relief provisions for retirement accounts. The one that will affect most retirees is the waiver of RMDs for 2020. This will be a huge help because 2020 RMDs would generally be based on the substantially higher account values at December 31, 2019. Eliminating the RMD for 2020 can help clients reduce their 2020 tax bill. However, this won't help those who need the funds and must take withdrawals anyway. The RMD waiver also applies to 2019 RMDs that are normally due by April 1, 2020. In another bit of positive news, the waiver applies to IRA owners who turned 70 ½ in 2019. This could be a surprise to some because the Secure Act had increased the RMD age to 72 for those who turn 70 ½ in 2020 or later. Those who turned age 70 ½ in 2019 were still required to take their first RMD by April 1, 2020. Now, that RMD is waived.

Foreign funds wield voting power to separate management, ownership in Korea Inc

By Woo Je-yoon, Shin Yoo-kyung and Kim Hyo-jin, Pulse, March 19, 2020

A growing number of foreign institutional investors are using their voting rights to separate ownership and management in big South Korean conglomerates, where founding family members wield massive influence with small stakes. Canada's British Columbia Investment Management Corp. (BCI) plans to vote down the motion to seat Kim Dong-kwan, vice president of Hanwha Solutions and the eldest son of the Hanwha Group chairman, on the board in the upcoming shareholder meeting. For similar reasons, BCI, State Board of Administration of Florida (SBA Florida) and other offshore pension funds plan to cast dissenting votes against extending the board term of Kim Beom-su, founder and chairman of Korea's biggest messaging app Kakao.

Many Disney shareholders push back against executive pay

By Helen Coster, Reuters, March 11, 2020

A large minority of Walt Disney Co (DIS.N) shareholders who cast votes at the company's annual meeting on Wednesday opposed the company's executive pay plan, Disney said. Disney said 46% of votes were cast against the plan and 53% in favor of the plan, with 1% abstaining. The vote is advisory and non-binding. About 82% of total shares outstanding were represented by the vote, the company said.
Disney has previously faced criticism over former Chief Executive Bob Iger's pay, which was $65.6 million in the company's 2018 fiscal year, up 80% from the previous year. The Florida State Board of Administration, which manages pension assets for Florida state and local employees and had 2.3 million shares of Disney as of the end of 2019, voted against the compensation plan this year. "It seems to be maximized for payout without sufficient ties to the performance levels," said Jacob Williams, corporate governance manager with the organization.