FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

PENSION NEWS CLIPS DECEMBER 2020 ON FLORIDA PENSION ISSUES
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Retirement warning signs? Pension crisis hits states. Here's the biggest, smallest funding shortfalls

By Grant Suneson, USA Today, December 11, 2020

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 share of the total benefits owed to current or retired public employees – for all 50 states as of 2018 with data from nongovernmental organization The Pew Charitable Trusts. #50 – the best funded state was South Dakota (funded at 100% and ranked #1 (the worst funded state) was New Jersey – funded at 38.4%. **Florida ranked #32**: Funded ratio: 79.9%; Total pension shortfall: $40.7 billion shortfall (7th largest); Gov't workers as share of total workforce: 10.9% (4th lowest; and Avg. annual payout per public retiree: $24,013 (23rd highest).

CII, funds ask for help with Chinese stock ban

By Hazel Bradford, P&I, December 14, 2020

A White House order that prevents U.S. investors from buying stock of Chinese public companies with military ties is proving challenging, the Council of Institutional Investors and several member pension funds said in a letter to the Treasury Department's Office of Foreign Assets Control. The letter was signed by CII Executive Director Amy Borrus and officials with the $428.4 billion California Public Employees' Retirement System; the $254.7 billion California State Teachers' Retirement System; the $211 billion New York City Retirement Systems; **Florida State Board of Administration**, which oversees a total of $216.9 billion; and $97.5 billion Ohio Public Employees Retirement System. The investors are asking OFAC to publish commonly used investment identifiers like tickers "so that investors have the information they need to comply swiftly and completely with the order" before the Jan. 11 effective date for the restrictions.

Federal stimulus package leaves Florida's budget out in the cold

By Gray Rohrer, Orlando Sentinel, December 21, 2020 Florida's state budget could see major cuts to education and health care next year after another stimulus package that doesn't include money for states and cities to offset revenue losses brought by the coronavirus pandemic. The state's current year budget was saved further cuts because of the $5.8 billion in federal money from the $2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act passed in March. Direct aid to state and local governments didn't make the cut. Although Democrats in Congress pushed for direct funding of state and local governments, some Republicans, including **Florida Republican U.S. Sen. Rick Scott**, rejected the idea. Scott called such funding "blue state bailouts" that would subsidize the poor fiscal decisions of states run by Democrats, including unfunded pension liabilities in Illinois and high tax states like New Jersey. "States do not need bailouts; they want bailouts so they can use the money — intended to address the fallout from COVID — to plug the long-standing holes in their budgets and pension systems," Scott wrote in a Dec. 12 op-ed in the conservative National Review magazine. "It's as simple as that."

Beyond the ARC: Innovative Funding Strategies from the Public Sector

By Dan Doonan and Tyler Bond, NIRS Studies, December 2020

This report examines several innovative and often lesser-known pension funding strategies that have been utilized in the public sector to address legacy pension costs and to create more stable costs over time. It comes as the recession

sparked by the COVID-19 pandemic has threatened many state and local government budgets, and as concerns mount that cash-strapped governments will cut back on funding required contributions to public pension plans. Beyond the ARC: Innovative Funding Strategies from the Public Sector offers a collection of funding strategies that run the gamut – from implementing a wholesale funding strategy for a large state-wide plan to more targeted reforms that simply give participating employers more control of how costs are paid over time. These innovative strategies extend well beyond the oft-cited paying the Annual Required Contributions (ARC) or Actuarially Determined Employer Contribution (ADEC). Each of these efforts changes the nature of plan funding in different ways, and these case studies can be a useful reference guide for those who are concerned about a well-functioning public finance system and honoring benefits earned by state and local government employees.

4 Public Pension Funding Strategies Besides Employer Contributions

By Sarah Min, Chief Investment Officer, December 10, 2020

Maybe it's time for pension plans to explore other funding strategies aside from public employer contributions. Plan sponsors typically use the annual required contribution (ARC) or the actuarially determined employer contribution (ADEC) to meet public pension liabilities. But a number of states have found success experimenting with lesser-known methods. It could be useful for other public retirement programs to consider these strategies, according to a report released this week from the National Institute on Retirement Security (**see above story and link for the report**). Here are four funding strategies to help keep pension costs stable over time, according to the study: #1 - Employer Side Accounts. A funding idea borrowed from the private sector, an employer side account allows plan sponsors to pre-pay into separate accounts that allow them to reduce future contributions; #2 - Pension Obligation Bonds; #3 - Withdrawal Liabilities. This is a fee, for when employers stop contributing to a plan; and #4 - Dedicated Revenue Streams such sources as gambling or tobacco settlements to bolster funding levels at public retirement systems.

The Consequences of Long-Term State Pension Underperformance

By Larry Swedroe, Adviser Perspectives, December 7, 2020

Each year Cliffwater LLC prepares an annual report on the financial condition of state pension plans over time. This year's report covers 66 state pension plans and almost $3 trillion in assets. Overly aggressive assumptions caused much of the problem facing state pension plans. Following the great bull market of the 1980s and 1990s, pension plans began the period almost fully funded, with a funding ratio of 96%. Unfortunately, they ended the period with a funding ratio of just 68%. (The funding ratio measures the ratio of plan assets to the net-present value of its liabilities.) The erosion in the funding ratio was caused to a great degree by the plans earning an asset-weighted annual return of only 5.91%, badly trailing their 7.73% collective asset-weighted actuarial assumptions. Other contributors to the decline in the funding ratio included the failure of some states to make required contributions, outdated mortality tables, and unfunded benefit improvements. And the problem continues, exacerbated by the severe hit to state budgets caused by the COVID-19 crisis (revenues dropped, expenses increased, bond yields fell, and asset values took a hit). The likely result is that states will face mounting budgetary pressures because they must eventually make up for shortfalls in asset performance through additional unscheduled pension contributions. It's that, or default on either their pension obligations or their municipal bond debt.
Editor's Note: Florida state plan is pre-funded at 79%; the best funded plan is Wisconsin at 103% and the worst is Kentucky at 35%.

Covid-19 Pandemic Puts Squeeze on Pension Plans

By Heather Gillers, The Wall Street Journal, December 9, 2020

America's pension managers are facing a tough choice nine months into the Covid-19 pandemic: take on more risk, or ask for more money from employers and workers. Pensions and other retirement-benefit programs have struggled for years to figure out how to close the gap between the assets they have on hand and the cost of benefits they have promised to pay out in future decades. Their concerns continued to grow as investment returns fell. The pandemic is adding urgency to that long-term problem. While the S&P 500 index has surged 15% this year, analysts are projecting weaker long-term stock-market performance than expected at the end of 2019. Bond rates are expected to remain low in the wake of federal stimulus measures, meaning that fixed-income portfolios, traditionally the bread and butter of pension funds, will return little.

Together, those factors are pushing retirement-fund managers across the country to take action to keep shortfalls from growing. U.S. public pensions projected a median long-term return of 7.22% on their portfolios in 2018, down from 8.05% in 2002, according to the National Association of State Retirement Administrators. Lowering return expectations is politically difficult for pension funds because doing so increases the expected shortfall between assets and liabilities, often leading to higher costs for government employers and workers and sometimes prompting talk of service cuts. In October, the **Florida Retirement System** lowered its expected investment return to 7% from 7.2%, despite having made a similar cut last year. It now expects to collect about $380 million more from the state and other participating employers next year.

Congress looking to change or even abolish this key 401(k) provision

By Ben Werschkul, Yahoo Finance, December 11, 2020

The SECURE Act, which was signed into law last December, included a provision that pushed up the age for mandatory retirement plan distributions from 70 to 72. Now, lawmakers are hoping to pass another retirement bill that's being informally called SECURE Act 2.0 by early next year. A provision in the bill would push distributions up even further, to age 75. The pending legislation, which he helped author, takes "another step forward in increasing that age to 75 and exempting those more modest accounts of $100,000 or less."

Center for Retirement Research: Public pension plans should avoid investing based on social and environmental movements

By Marc E. Fitch, Yankee Institute for Public Policy, December 15, 2020

The Center for Retirement Research at Boston College published a brief saying public pension plans should avoid tailoring their investment strategies to satisfy calls for political, social and environmental justice, known as ESG (environmental, social and governance) investing. The movement toward more socially and environmentally activist investing has gained traction in recent years and some investors are using it as a strategy to increase returns based on political, social and environmental movements. According to CRR, "The mechanism apparently must work through a decline in the value of stocks at 'bad' companies and an increase in the value of stocks at 'good' companies – thereby encouraging more companies to adopt 'good' behaviors." However, CRR found that states adopting an ESG mandate for public pension plan investments earned lower returns than traditional investment strategies, "often by a considerable margin," the authors wrote. According to CRR, public pension plans "applied ESG to at least $3 trillion in assets, which represents more than half of all assets in public pension funds."

Retirees with a Guaranteed Income Are Happier, Live Longer

By Ken Nuss, Kiplinger, December 24, 2020

Retirees who are surrounded by their family and friends — and who also have a substantial check coming in every month for the rest of their lives — are much happier, according to an articles **published in *Time*** and ***The Wall Street Journal***. They also **live longer**, studies show. That makes sense because the No. 1 worry of retirees is of running out of money. Individuals who have a set income for life remove a great deal of stress from their lives. Retirees used to get enough money from Social Security and a traditional pension to cover their living expenses. But few employers now provide pensions, putting the onus of saving on the employee. Social Security payments equal only about 40% of the average wage earner's pre-retirement income.

Editor's Note: This is why FPPTA is such a strong advocate of defined benefit plans that provide a guaranteed retirement income for life.

Pensions Swamped in a Sea of Negative Real Rates

By Brian Chappatta, Yahoo Finance, December 28, 2020

While corporate America has largely moved away from defined benefit plans in favor of 401(k) option, virtually all state and local governments still offer these reliable retirement payouts. And they've been falling behind in a big way: In the 2019 fiscal year, states had $1.48 trillion in unfunded pension liabilities, while the 50 largest local governments faced $478 billion in adjusted net pension liabilities, according to calculations from Moody's Investors Service. That $2 trillion hole is only going to get deeper as the Federal Reserve pledges to keep interest rates near record-low levels for

years to come as the U.S. emerges from the Covid-19 pandemic. Unfortunately, the central bank's commitment to ultralow interest rates for years has also put defined-benefit plans on track for significant struggles ahead.

Public Pension's Share of Government Spending More Than Doubles in 16 Years

By Michael Katz, Chief Investment Officer, December 23, 2020

The percentage of all US state and local government spending used to fund pension benefits for employees more than doubled between 2002 and 2018, according to the National Association of State Retirement Administrators (NASRA). NASRA said in a brief that the most recent US Census Bureau data show that the share of state and local government spending used to fund pension benefits for state and local government workers jumped to 5.2% in 2018 from 2.3% in 2002. Pension costs rose sharply after fiscal year 2002 after falling equally fast in the preceding years, according to NASRA, which said the increased rate of spending in 2018 was spurred by the largest annual increase in employer pension contributions since 2006. The brief noted that while there was a sharp rise in pension costs as a percentage of state and local spending in aggregate, pension spending levels vary widely among states, ranging from just over 2% in Wisconsin and Wyoming to more than 10% in Connecticut and Illinois. According to NASRA, state and local governments contributed, in aggregate, approximately $168 billion to pension funds in fiscal year 2019, which it said was the smallest annual increase in employer pension contributions since a decline in 2005. Over time, investment earnings finance a majority of the cost of a typical public pension plan. According to the U.S. Census Bureau, **for the 30 years 1990 through 2019, investment earnings accounted for 61 percent of public pension revenues; employer contributions made up approximately 27 percent, and employee contributions were around 12 percent.**