



CYPEN & CYPEN NEWSLETTER SPECIAL EDITION for March 8, 2019

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Never Forget September 11, 2001
and
Always Remember May 2, 2011

MORE FRED NESBITT'S PENSION NEWS CLIPS

Fred Nesbitt is Media Consultant at Florida Public Pension Trustees Association (FPPTA). Fred is a legend in the field of public pensions, and regularly publishes news clips on Florida public pension issues. The news clips for February 2019 are particularly important, so we reproduced them below.

1. [PENSACOLA WANTS TO PUT RETIRED POLICE OFFICERS BACK TO WORK:](#)
Pensacola wants retired police officers to come back to work part time to put more full-time officers on the streets. The City Council is set to vote on an ordinance that will allow

retired police officers under the city's pension plan to come back and work on a part-time basis. Currently, city ordinance bars officers who are retired under the pension plan to work for the city part-time. Under the proposed ordinance, the police officers would be allowed to participate in the Florida Retirement System for their part-time work. Jim Little, *Pensacola News Journal*, February 28, 2019.

2. FEUD OVER PAY CUTS NEARS END AS HOLLYWOOD MAKES PEACE WITH ITS COPS:

A deep wound felt by Hollywood's police officers eight years ago in the form of slashed pay and severe pension cuts is on the verge of being healed. Hollywood commissioners gave initial approval to a plan that would restore pension benefits at an estimated cost of \$4.5 million a year. The trouble began in 2011, when Hollywood leaders declared financial urgency in the face of a \$38 million budget shortfall. To bridge the gap, they cut the pay and pension benefits for all city employees, including police officers. Hollywood has already paid \$18.8 million toward this year's city contribution for the police pension plan. Under the new pension agreement, the city will contribute an additional \$13.5 million over the next three years. To make the numbers work, the rank and file agreed to pay more toward their pensions and health insurance costs. They also agreed to take a lower pay increase, give up merit increases through September 2021, and to take a 2 percent cost-of-living increase each year instead of the usual 4 percent. Hollywood officials are expected to vote on a new contract for the city's firefighters in the coming weeks. Susannah Bryan, *Sun Sentinel*, February 6, 2019.

3. FL STATE PENSION FUND WILL NEED MORE CASH TO STAY HEALTHY:

What public employees and retirees may want to know: It will cost counties, school boards and state agencies an additional \$123 million in the next budget year to keep the state pension fund financially healthy. That means state and local governments will have to increase their contributions in the coming year. In addition to those payments, workers who participate in the pension fund will continue to contribute 3 percent of their salaries. Under a bill (SB 7016) advancing in the Florida Senate, the additional contributions include: county governments (\$48 million); school boards (\$35 million); state agencies (\$23.7 million); universities and state colleges (\$9 million); and other agencies (\$7.3 million). The extra payments are necessary because the state is continuing a five-year trend of lowering its expected rate of return for the \$156 billion pension fund. According to an actuarial report, the pension fund is projected to be able to pay \$156 billion or 83.9 percent of its future retirement obligations, but still leave a \$29.9 billion "unfunded" liability. The extra payments from state and local government will help offset the projected unfunded liability. The state has continued to lower its assumed rate of return for the pension fund, with the strategy that a lower rate is more financially realistic than the higher

rates. But independent financial analysts hired by the state have continued to warn that a 7.4 percent rate of return “conflicts with our judgment regarding what would constitute a reasonable assumption.” Lloyd Dunkelberger, Florida Phoenix, February 5, 2019.

4. FLORIDA PENSIONS INVESTIGATE POTENTIAL DISCRIMINATORY BEHAVIOR BY AIRBNB:

The Florida State Board of Administration (SBA) initiated a 90-day review period of Airbnb concerning allegations from the state’s governor, members of non-profit organizations, and state citizens citing that the company has in some shape or form practiced or encouraged discriminatory practices against Israel. Florida state legislation directed the SBA in 2016 to draft a “scrutinized companies” list, comprised of companies “that participate in a boycott of Israel including actions that limit commercial relations with Israel of Israeli-controlled territories in a discriminatory manner,” according to a report from the \$201 billion pension. If the SBA cannot find compelling evidence that Airbnb is not participating in such practices against Israel at the conclusion of its investigation, retirement systems based in the sunshine state will be prohibited from directly acquiring securities of the company if it goes public, and all Florida state employees will be barred from purchasing Airbnb listings during official business trips, a spokesperson for the SBA told CIO. Elijah Owens, *Chief Investment Officer*, February 4, 2019.

5. NCPERS STUDY SHOWS PUBLIC PENSIONS PRODUCED STRONG 2018 RETURNS AS THEY TIGHTENED ASSUMPTIONS:

Fueled by strong investment returns, public retirement systems continued to strengthen their funding levels and fine-tune their assumptions, according to an annual study by the National Conference on Public Employee Retirement Systems. The 2018 NCPERS Public Retirement Systems Study underscores the success of efforts by pension trustees, managers, and administrators to make steady improvements that enhance the sustainability of pension funds, said Hank H. Kim, executive director and chief counsel of NCPERS. The average funded level for all funds studied rose to 72.6 percent, from 71.4 percent in 2017. For funds that participated two years in a row, the average funded level jumped more than three points, to 72.2 percent. Fitch Ratings considers a funded-level target of 70 percent to be adequate. One-year investment returns averaged 13.4 percent for all plans reporting in 2018, well above the 7.8 percent return reported in 2017. The five- and 10-year returns were also higher, and the 20-year returned averaged 7.2 percent. The average annual investment return assumption fell to 7.34 percent in 2018, versus 7.49 percent in 2017. In all, 65 percent of funds that responded to the 2018 study had reduced their assumptions, and 18 percent were considering doing so. Pension funds used more conservative amortization periods—their amortization periods to an average of 22.4 years in 2018, down from 23.8 years in 2017. Contribution rates to pension funds

remain stable. Employee contribution rates were unchanged. Public pension funds remained cost-effective in 2018. Funds reported average expenses of 0.6 percent of assets, or 60 basis points. Average expenses also clocked in at 60 basis points for all study participants, up from 55 basis points a year earlier. For comparison, the average expenses for mutual funds are 59 basis points for an equity fund and 70 basis points for a hybrid (mixed equity/bond) fund, according to the Investment Company Institute. In 2018, 46 percent of study participants offered a health plan or subsidy, up from 40 percent in 2017. Business Wire, February 5, 2019.

6. PUBLIC PENSIONS ARE THE TROJAN HORSES OF US ENTITLEMENTS:

As hollow as the giant wooden horse of legend, America's public pension plans have lulled participants into the false belief that their pension check will never bounce. The nearly 25 million Americans expecting their retirement to be funded by state and local pensions deserve to be told what their plan can realistically afford to pay them. What to do? First, asset class return assumptions should be identical for all public plans with the same discount rate applied to all plan liabilities, no matter a pension's funded status. Stop allowing public pensions to calculate the present value of their liabilities using the expected rate of return assumed to be generated on their assets. Require public plans to follow U.S. generally accepted accounting principles that call for a discount rate based on the yield of high-quality bonds just as private-sector pensions do. With public plan liabilities exceeding their assets, these Trojan Horses of America's entitlement system create a structural imbalance that cannot be solved without reducing pension benefits. Sean Holland and James Laurie, Opinion Contributors, The Hill, February 6, 2019.

7. PUBLIC PENSION LOSSES LAST QUARTER COMPOUND FUNDING CHALLENGES:

The stock market swoon in the fourth quarter of 2018 is threatening to compound the mountain of unfunded pension liabilities confronting U.S. states and local governments. The median government employee pension, whose assets are heavily weighted toward U.S. stocks, lost 7.5 percent in the fourth quarter, according to data released Wednesday by the Wilshire Trust Universe Comparison Service. Public pensions have lost 4.9 percent since the beginning of the fiscal year on July 1. The stock market volatility is raising questions about how state and local pensions can manage through market turmoil, aging populations and rising fixed costs for retiree health-care. The median public pension has more than 40 percent of assets allocated to U.S. stocks and 13.5 percent targeted to international equities. Martin Z Braun, *Bloomberg Markets*, February 6, 2019.

8. PUBLIC PENSIONS POUR MORE MONEY INTO PRIVATE EQUITY:

Public pension plans continued to build up their private equity portfolios last year, new

data from eVestment show. Private equity mandates accounted for 27 percent of new allocations made by U.S. and U.K. pension funds in 2018, an uptick from 25 percent last year, according to the institutional investment analytics firm. The allocation data recorded by eVestment reflect the ongoing appetite for private markets – and lost faith in hedge funds – demonstrated by public pensions and other institutional allocators over the last few years. Last year, private capital managers raised \$757 billion across strategies such as private equity and real estate, following a record \$925 billion fundraising in 2017, according to Preqin data. Amy White, Institutional Investor, January 31, 2019.

9. PUBLIC PENSION FUNDS' SOLE RESPONSIBILITY IS TO SECURE THE RETIREMENT OF PUBLIC SECTOR WORKERS:

State and local public pension funds are trillions of dollars in debt. Without fully accounting for the risks, state public pension funds have \$1.4 trillion in unfunded liabilities (e.g. debt) according to the Pew Center's latest estimates. The sole priority of a public pension fund should always be to earn the highest rates of return possible for their members, such a focus is more important than ever. Unfortunately, there is a growing trend among public pension funds to screen potential investments, not on their financial viability, but based on certain environmental, social and governance criteria (ESG investing). Public pension funds manage the retirement assets for millions of public sector workers and, if their investment returns are inadequate, then it is the hundreds of millions of taxpayers who are currently responsible for the shortfalls. It is impossible to make ESG decisions that accurately reflect the values of such a diverse group of people. ESG investing often violates the fiduciary responsibility of public pension funds. The primary responsibility of a public pension fund is to secure the retirement of the current and retired public sector workers on behalf of taxpayers. The SEC should clarify that the ESG recommendations provided by proxy advisory firms must be consistent with the fiduciary responsibility of the public pension fund managers they are advising. Without such clarifications, the retirement security of public sector workers will be jeopardized. Wayne Winegarden, *Forbes*, February 14, 2019.

10. PUBLIC PLANS SURF WAVE OF REFORMS IN AFTERMATH OF CRISIS:

One of the many dramatic effects of the Great Recession was an unprecedented amount of public pension reform activity. After state and local pension fund assets plummeted to \$2.17 trillion in March 2009 from \$3.15 trillion at the end of 2007 and the governments' own coffers took a hit, policymakers began looking hard at ways to manage rising pension costs, according to a report from the National Association of State Retirement Administrators. The report found nearly every state passing "meaningful" reform for one or more of its pension plans. The number of states enacting pension reforms skyrocketed to 27 in 2011, up from five in 2007, NASRA found. In 2016, reforms were enacted by three

states, then spiked again to 13 in 2017, falling once again to just five last year. So far in 2019, just a few states are actively discussing reforms. A study of reform activity through 2014 by the Center for Retirement Research at Boston College found that since the financial crisis, 74% of state plans and 57% of large local plans have cut benefits or raised employee contributions to curb rising costs. Plans most likely to enact changes were those with a larger cost burden and lower initial employee contributions. Other common reforms increased age and service requirements, with 33 states increasing the retirement age, years of service requirement or a combination of both, according to NASRA. Hazel Bradford, *Pensions & Investments*, February 18, 2019.

11. US PUBLIC PENSION ASSETS TUMBLE IN Q4:

Aggregate investment losses of 6.39% led to a \$306 billion loss in funding for the 100 largest public defined benefit pension plans in the US during the fourth quarter of 2018, which was the largest quarterly funding decrease in more than two years, according to consulting firm Milliman, Inc. The decrease in the funded status was also more than double the prior largest decrease. Estimated investment losses for plans during the quarter ranged from 10.27% to 2.18%, and as a result, the funding ratio of the pension funds as tracked by the Milliman Public Pension Funding Index (PPFI) fell to 67.2% as of the end of December, from 72.9% at the end of September. Michael Katz, *Chief Investment Officer*, February 21, 2019.

12. WARREN BUFFETT WARNS COMPANIES TO AVOID STATES WITH UNFUNDED PENSION LIABILITIES:

Billionaire businessman Warren Buffet warned companies looking to relocate of the dangers of unfunded pension liabilities when choosing a state for their business. When discussing retirement benefits, he called the state of public sector defined-benefit pension plans “a disaster” and pointed to some big companies including Amazon currently looking to relocate and warned of the problems states with huge unfunded pension plans bring. “If I were relocating into some state that had a huge unfunded pension plan, I am walking into liabilities,” Buffet said. “Because I mean, who knows whether they’re gonna get it from the corporate income tax or my employees -- you know, with personal income taxes or what. But that -- that liability isn’t gonna -- you can’t ship it offshore or anything like that. And those are big numbers, really big numbers.” Jacqueline Pitts, *Lane Report*, February 26, 2019.

13. DID YOU KNOW BENJAMIN FRANKLIN SAID THIS?:

There are three things extremely hard: steel, a diamond, and to know one's self.

14. PONDERISMS:

Why is it that people say they "slept like a baby" when babies wake up like every two hours?

15. POSERS:

Many animals probably need glasses, but nobody knows it.

16. INSPIRATIONAL QUOTES:

It does not matter how slowly you go as long as you do not stop. - Confucius

17. TODAY IN HISTORY:

On this day in 1948, US Supreme Court rules in *McCullum v. Board of Education* that religious instruction in public schools is unconstitutional.

18. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.

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