Pennsylvania Association of
Public Employee Retirement Systems

November 2014 Newsletter

Welcome to the newly revised look of the PAPERS' newsletter. For those not familiar with the Pennsylvania Association of Public Employee Retirement Systems, or "PAPERS", allow us to introduce ourselves – we are a non-profit organization that was established "…*to encourage and facilitate the education of its membership in all matters related to their duties as fiduciaries overseeing the assets of the pension funds with which they have been entrusted…"*

For the first several years our mission was addressed through two educational seminars – A Spring Forum and a Fall Workshop. While we continue to plan such events (the 2015 Spring Forum is scheduled for May 21 and 22 at the Harrisburg Hilton), we are expanding our efforts though the monthly publication of this electronic newsletter, monthly webinars on topics of interest (our next is set for November 19, 2014 at 10:30 a.m. and is entitled "An Outcomes-Oriented Approach to Alternative Investments"), and in the days to come an expanded web presence offering sample Investment Contracts, Consultant Request for Proposals, and similar forms and documents.

We hope you find this newsletter of interest. Our goal is simply to place before you several topical articles, news items, and white papers that should provoke some interest for those of you who serve as a fiduciary in a public pension plan. If you find a topic of interest, we provide the link to the full story to allow you to obtain more details; if not we hope that you will at least have learned something about what is happening in the world of public pensions. If you want to know more about PAPERS and what we do, please drop us an e-mail at PA-PERS@Comcast.net. You can also visit our website at www.PA-PERS.org.

Hedge Funds On Hold? - Pension-fund managers across the U.S. are rethinking their investments in hedge funds in the wake of a retreat by the California Public Employees' Retirement System. In San Francisco, the chairman of that city's pension fund has put on hold a vote to invest 15% of its assets in hedge funds. In Austin, Texas, officers responsible for the retirement savings of city police officers are discussing whether to withdraw all of their hedge-fund investments.

In Harrisburg, Pa., a prominent state official asked the systems that manage money for teachers and other public workers to reconsider the $7.6 billion parked in such investments. "We need to be talking about this," Pennsylvania Auditor General Eugene DePasquale said in an interview.

The new conversations were spurred by Calpers, the largest U.S. public pension fund, which announced in September that it is shedding its entire $4 billion in hedge-fund investments over the next year. Calpers said the investments were too small a slice of its $298 billion portfolio to justify the time and expense they required. (http://online.wsj.com/articles/pension-funds-eye-reducing-hedge-fund-investments-1413762698)

Maybe not…From an article in Institutional Investor by Imogen Rose-Smith we learn…"CalPERS decided to terminate its Absolute Return Strategies portfolio, but the retreat doesn't herald a broad retreat from hedge funds." The article says in part:

CalPERS's circumstances are unique, giving managers some reassurance that not every public fund is running for the exit. First, there's the California fund's internal politics. CalPERS was slow to build its hedge fund book, but by 2008 it had a total of $7 billion with 27 firms. After that year's market collapse, it retooled ARS. The restructuring was complicated by an investigation into CalPERS's relationship with two hedge fund advisers and the 2011 departure of Kurt Silberstein, the investment officer running the portfolio.

CalPERS's size and funding status further distinguish it from most of its peers. It's one third larger than the No. 2 U.S. pension plan, the $188 billion California State Teachers' Retirement System, and dwarfs most other public funds.

By contrast, CalPERS's U.S. counterparts remain broadly in favor of hedge funds. At a mid-September meeting of the University of California Board of Regents, the 28-person committee that oversees the state university system, UC CIO Jagdeep Bachher expressed confidence in the university's absolute-return allocation. http://www.institutionalinvestor.com/Article/3388496/CalPERSs-Move-to-Ditch-Hedge-Funds-Doesnt-Signal-Their-End.html#.VEk6XhZhcfw)

Problems with Pennsylvania's Public pensions?…And unless you have been asleep during the past couple of months (years?) you might have missed one of the storylines played out in this year's gubernatorial election. According to "*Public Sector Inc.*" (http://www.publicsectorinc.org/2014/10/election-2014-in-pennsylvania-what-are-the-real-adult-issues/):

One of the biggest issues facing the new governor will be Pennsylvania's pension crisis. Between its plans for state employees and for public school employees, the commonwealth has more than $50 billion in unfunded liabilities. In the last few years, rating agencies have downgraded Pennsylvania's bond rating five times, in each instance citing state pensions as a cause.

According to the article, pension costs are the number one reason school property taxes are rising, and why many school districts are laying off teachers and other staff despite record high revenues. Over the next five years, we estimate school district pension contributions will rise by $550 per homeowner. Contributions to the plan for state workers mirrors that, as pension costs will consume a growing share of the state budget, crowding out spending for transportation, education, or human services.

Governor-elect Tom Wolf has stated that there is "no crisis," only "a problem," and retaining the traditional defined benefit pension is necessary to attract workers.

Legislative Actions…Or inaction? Our search of the laws enacted this legislative session (through November 12, 2014) discovered only four pieces of legislation that mentioned either "pension" or "retirement." Two deal with the purchase of military service credit in Cities of the Second Class and one concerns the crediting of military service under the Public School Employees Retirement System. The most involved legislation applied to the Allegheny County Pension Code. Act 125 of 2013 brought a number of reforms to the Code. The full legislation can be found at: http://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2013&sessInd=0&act=125.

Numerous proposals to reform and/or modify the various public pension systems were offered but failed to achieve enough support for passage in the 2013-2014 legislative session. PAPERS takes no position on legislation but we does promise that we will attempt to keep you informed in the new legislative session about proposals and legislation addressing public pension plans.

ERISA and Private Sector Retirement Income... The October 2014 issue of ICI's "*Research Perspective*" (http://www.ici.org/pdf/per20-07.pdf) contained a paper that "… examines the role that private-sector pensions historically have played in providing retirement income." While ERISA does not apply to public pension plans, its impact and particularly the attributed move from defined benefit plans to defined contribution plans, is often cited by those attempting to redesign public plans we thought you may be interested in some of the key conclusions:

- Retirement income generated by private-sector retirement plans has become more prevalent—not less prevalent—since the passage of ERISA in 1974, and this is true across all income groups. In 2013, 33 percent of retirees received private-sector retirement plan income—either directly or through a spouse—compared with 21 percent in 1975. Among retirees with private-sector retirement plan income, the median received per person in 2013 was more than $6,600, compared with about $4,900 in 1975 (in 2013 dollars).

- The share of workers with access to pension plans at their current employers has been substantial and fairly steady since 1979. While coverage has been consistent among private-sector workers, an increasing share has worked for employers that sponsor DC pension plans, and a decreasing share has worked for employers that sponsor DB pension plans.
- The extent to which retirees have depended on private-sector retirement plans may be overstated by looking only at statistics on retirement plan coverage because coverage does not always result in retirement income. Although many retirees worked at employers that sponsored DB pension plans, the combination of several factors—vesting rules, the timing of benefit accrual, and labor mobility— resulted in many retirees getting little or no retirement income from private-sector retirement plans.
- In 1975, when nearly 90 percent of private-sector workers with retirement plans were covered by DB pension plans, only about one in five retirees received any income from private-sector retirement plans. Among retirees with private-sector retirement plan income in 1975, the median annual income received per person was about $4,900 (in 2013 dollars).

The Investment Company Institute (ICI) is the national association of U.S. investment companies.

And please consider joining us for our November Webinar - "An Outcomes-Oriented Approach to Alternative Investments". Learn more about the session at: http://www.pa-pers.org/documents/11-19-2014OnlineProgram.pdf

We hope you found our new publication worthy of your time and interest. We welcome your feedback, as well as your thoughts on additional topics to be shared. Please feel free to forward this newsletter to others you may think will find it of interest.

This newsletter is being distributed to individuals serving as fiduciaries for at least one public pension plan in the state and is intended to provide such individuals with short tidbits of news associated with those duties.

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