PAPERS
Pennsylvania Association of Public Employee Retirement Systems
PO Box 61543, Harrisburg, PA 17106-1543
Website: ***www.pa-pers.org***

Winter 2024

In This Issue

A current (2024) membership is required for a firm or pension plan to register its representative(s) to participate in PAPERS' two annual conferences.

PAPERS Fall Workshop

Harrisburg Hilton

Wednesday, Nov. 13
Thursday, Nov. 14

Registration will begin September 1, 2024; Watch for details to be announced this summer and posted on the PAPERS website www.pa-pers.org.

2024 Conferences In-Person at Harrisburg Hilton

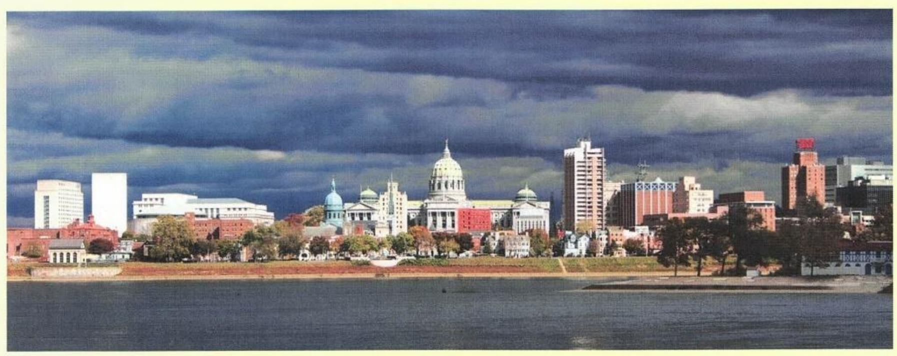
2024 PAPERS Spring Forum

In-Person Only @ Harrisburg Hilton

Tuesday, May 21, 2024
Overnight guest check-in, PAPERS Board Meeting

Wednesday, May 22, 2024
Morning & afternoon sessions, lunch; networking reception

Thursday, May 23, 2024
Breakfast, morning sessions ending by noon



Registration begins March 1, 2024
Early Bird Rates available through April 21, 2024

Corporate Member Opportunities

Become a corporate sponsor – Three levels for each conference: ***Platinum - $6,000; Gold - $4,000; Silver - $3,000***

Submit a proposal for a workshop/speaker –
Written proposals may be submitted in writing to PAPERS at any time but immediately for the Spring Forum. Application form at:
http://www.pa-pers.org/newweb/documents/PAPERS%20Presenter%20%20application%20fillable.pdf

From the PAPERS Board President

Happy 2024!!! I hope each and everyone had a happy and healthy Holiday season.

As plan trustees each year brings new challenges as the world of pensions is an ever-changing process with new rules and regulations either passed or in process on the horizon.

Accordingly, it is more important than ever that we keep ourselves up to date. That is the mission of PAPERS Trustee Education! Our Annual Spring Forum and Fall Workshop, planned by our Educational Committee, provide excellent sessions by informed speakers on helping us become better informed Plan Trustees. And there is our new PA Pension Plan Trustee Certification Plan in conjunction with Penn State that provides further information on being a well rounded and informed Plan Trustee. Give a look and see how you can become a Certified PA Public Retirement Plan Professional.

Our mission is Trustee Education….if you know personnel in other Plans that are not currently members, why not ask them to check out PAPERS and see what we have to offer them as Trustees or forward their names to myself or Karen and we will follow up with them. With your help we will continue to grow and continue or mission of providing excellent Trustee Education.

Mark your calendars for the Spring and Fall conference dates. I look forward to seeing you at either the Spring or Fall Conference or both.

Have a great and healthy year until we meet in May at the Spring Conference.

Bob Mettley
PAPERS Board President

From the PAPERS Executive Director

As the new year begins, we are happy to continue our newsletter and are thrilled to have our members contribute articles. Their insights and expertise are invaluable in informing and engaging readers. We all know open and informed discussions about public pension plans are crucial for their future sustainability and their well-being. We extend our sincere thanks to all who contributed articles and provided valuable information to our readers. Your contributions make this resource informative and impactful. Thank you

Karen Deklinski
PAPERS Executive Director

Become a PAPERS Member

- **Participating** ($125/year early bird rate; $150/year after 3/31/2024) - *Public employee retirement systems (pension funds)*
- **Associate** ($1,500/year) - *Corporate providers of legal and investment services to pension plans*
- **Affiliate** ($750/year) - *Corporate providers of other services, exclusive of legal and investment services, to pension funds.*
- **Sustaining** ($75/year) - *Individual membership open only to those persons with an interest in public pensions but not affiliated with an organization which qualifies for group membership pin any other category above*

Check the "Join Now" section of the PAPERS website **www.pa-pers.org** for details about PAPERS four membership categories andr the process to apply for membership. OR contact:

- **Mail - PAPERS, PO Box 61543, Harrisburg, PA 17106-1543**
- **Phone – (717) 921-1957**
- **Email - douglas.b@verizon.net**

Certified PA Public Retirement Plan Professional

Course Design

The certification program provides participants with exposure to a diverse and comprehensive curriculum of pension topics in a two-part process:

- **On-line introductory education modules developed by Penn State Behrend.**
- **Attendance at PAPERS conferences**

Program Enrollment

Please use the *Certification Program Enrollment* form below or access a fillable version of the form on the "Certification Program" page of the PAPERS website www.pa-pers.org.

Submit the completed form to PAPERS by mail to: **PAPERS, PO Box 61543, Harrisburg, PA 17106-1543** or by e-mail to: **douglas.b@verizon.net.** Call PAPERS @ 717-921-1957 with questions about enrolling.

Program Cost

The one-time enrollment fee is $499, payable to Penn State Behrend. Payment details provided after enrollment.

Process

After receiving your completed *Certification Program Enrollment*, PAPERS will provide notice to Penn State Behrend of your enrollment. Penn State will contact you with more details, including the requirement to pay the one-time enrollment fee. Upon payment of the enrollment fee, enrollees will receive a link giving access to the three on-line modules. Modules may be taken at one's leisure to be completed within six months of enrollment.

At the conclusion of each module, participants will take an on-line test to check their understanding of the material. The test may be re-taken any number of times until a passing grade is received. Participants will receive notification upon successful completion of the on-line modules.

The next step in the certification process is attendance at three of the next four PAPERS conferences (held each spring and fall). After attending the required number of conferences, participants will be awarded the *Certified PA Public Retirement Plan Professional* designation. Public recognition of this achievement will be provided at PAPERS conferences.

Certification Program Enrollment

Name: ____ Date: _____________

(Please **print** your name the way you would like it on your final certification)

Pension plan or firm: ____

Address: ____

City: ______________________________________ State: ________ Zip: ___________

Telephone: ______________________ E-Mail: ________________________________

Please submit this completed application to PAPERS by one of following methods:

- by mail to: ***PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*** OR
- by e-mail to: **douglas.b@verizon.net**

Low-Default-Risk Obligation Measure (LDROM)
What It Is and How Can It Be Applied?

By: Michael Spadaro, Korn Ferry

Michael Spadaro FSA, EA, MAAA, FCA *is a Principal in Korn Ferry's Philadelphia office who is an experienced consultant with significant actuarial expertise in public sector pension plans and provides thought leadership for the practice. He also serves as the firm's representative on the PAPERS Corporate Advisory Committee and is a periodic speaker for various conferences in Pennsylvania covering actuarial topics. He graduated from Johns Hopkins University and holds a B.S. in Applied Mathematics and Statistics.*

Recently, the Actuarial Standards Board (ASB) updated the Actuarial Standards of Practice No. 4 (ASOP 4) which provides rules and guidance for how pension actuaries determine plan costs and contribution levels. The update to ASOP 4 added a required new measure, named the Low-Default-Risk Obligation Measure (LDROM), that must be disclosed with each funding report. For plan sponsors that have not seen the LDROM already, expect it in upcoming actuarial reports, as many plans with a January 1 plan year will have it included for the first time.

What Is the LDROM?

In a simplified sense, the LDROM creates an alternative actuarial liability, Actuarially Determined Contribution (ADC), and funded ratio for the plan. The LDROM uses a rate of return assumption that is considered to represent returns from assets with a low risk of default. This differs from a typical funding measurement which considers all currently held asset classes and uses a long-term rate of return assumption based on a blend of expected returns by asset class. For most plans this means that the LDROM will use a lower rate of return assumption and in turn will have a higher actuarial liability and ADC in addition to a lower funded ratio. Although the LDROM must be disclosed, it does not impact the how the plan is funded over the long term and is for informational purposes only. Plan sponsors, however, may want to consider it when determining how much to contribute to their plan.

How Can the LDROM Be Applied?

The LDROM adds value by bringing more awareness to plan risks and provides an opportunity to have more risk discussions. There are multiple ways to consider what the differential between the measures tries to quantify, some of which are listed below:

- The investment risk taken on within the plan.
- The increase in contributions to de-risk the plan.
- The increase in contributions to close the plan.
- A partial step toward the cost of having an insurer take on plan liabilities.

Because there are so many ways to interpret the LDROM's value, there is not one right answer how to apply this to any specific plan. Some plans may find value in the LDROM by better understating how a prolonged period of low investment returns impacts the ADC. Others may be inspired to increase their asset allocation to classes with lower expected future returns in an attempt to decrease the investment risk. Still others may look at this as an opportunity to establish asset-liability matching for at least their retired population.

Surely there are many more uses and ideas that will come from the inclusion of the LDROM within actuarial reports. But importantly, everything starts with a discussion of plan risk with an actuary. Having routine plan risk discussions will help maintain sustainable pension plans for years to come.

The statements made in this article are for informational purposes only and should not be taken as professional advice. All statements are opinion and are subject to change.

2023 Report on City and County Retirement Systems: Funding Levels and Asset Allocations

Wilshire INDUSTRY RESEARCH

This is Wilshire's 2023 Report on City and County Retirement Systems: Funding Levels and Asset Allocation, which reports the aggregate funded status and asset allocation of over 100 U.S. city and county-sponsored defined benefit retirement systems. Wilshire has been compiling these statistics since 1990.

The Data

Financial data on public retirement systems historically lacks the timeliness and uniform disclosure governing pension plans sponsored by publicly traded companies, making it difficult to conduct a study with data that are both current and consistent across systems. For this reason, our study methodology involves collecting data during the second quarter of each calendar year with the objective of acquiring as many reports as possible with a June 30 valuation date from the previous year. Even for systems with the desire to report in a timely manner, it often takes six months to a year before actuarial results are published. Of the 107 systems, 92 surveyed reported actuarial values on or after June 30, 2022.

This study reports the aggregate Total Pension Liability (TPL) values used for financial reporting under the accounting and financial reporting standards for state and local governments: Governmental Accounting Standards Board Statements No. 67 and 68 (GASB 67/68). Through these statements, GASB and the financial industry have taken major steps to increase transparency and comparability of pension plan accounting. GASB's Statement 67, "Financial Reporting for Pension Plans," impacts annual pension reporting for plans; Statement 68, "Accounting and Financial Reporting for Pensions," impacts annual pension reporting for the employers contributing into government agency-sponsored pensions and has applied to employers' financial reporting starting in June 2015.2023

Executive Summary

Wilshire estimates that the aggregate funded ratio for city and county retirement systems was 75.6% at FYE 2022, which represents a 10.4% decrease from FYE 2021. For FYE 2022 aggregate total pension liability increased $29.4 billion while aggregate assets decreased $66.8 billion year-over-year. Due to the decrease in aggregate assets, the aggregate shortfall is estimated to have increased to $215.0 billion from $118.8 billion. This year's funded status decline is the second largest since FYE 2009 during the Great Financial Crisis.

Use the following link to access the complete paper on this topic: Wilshire 2023 Report on City and County Retirement Systems: Funded Levels and Asset Allocation

To be, or not to be, a fiduciary.
That is the question.

About the Author: **Jason Fine, ASA EA, MAAA, FCA**

Jason is a Principal/Consulting Actuary and key member for Buck, A Gallagher Company, Public Sector Retirement Practice with 30 years of pension actuarial consulting experience. Jason aims to be a trusted partner with clients and assist them with all their benefits related wants and needs, going beyond just actuarial valuations. Jason has spoken at various conferences regarding compliance, GASVB, fiduciary responsibility, reducing pension cost, monitoring assumptions, mitigating risks and other pension topics.

Do you sit on a Board and/or exercise control and make decisions on behalf of plan participants? If so, chances are, you may be a fiduciary, even if your Plan is not governed by the laws and subject to the Employee Retirement Income Security Act of 1974 (ERISA), which sets standards of conduct for those who manage employee benefit plans and related assets. ERISA does not directly govern public sector plans but is the primary resource for guidance of fiduciary responsibilities. State law, applicable to public sector plans, will provide language about fiduciary responsibilities in trust provision.

The primary duties of a fiduciary are:

1. **Duty of Loyalty** (see 20 Pa. Cons. Stat. § 7772(a)), in which fiduciaries should act solely in the interest of plan participants and their beneficiaries, even before one's own.
2. **Duty of Impartiality**, in which a fiduciary should not favor or show bias.
3. **Duty of Prudence** (see 20 Pa. Cons. Stat. § 7212), in which a fiduciary shall exercise reasonable care, skill and caution in making decisions, that a prudent person, acting in a similar capacity and familiar with such matters, would make in similar circumstances.
4. **Duty to Manage Costs**, as a fiduciary should monitor costs incurred by the Plan
5. **Duty to Comply with Governing Law**, Trustees are required to follow these laws and any additional restrictions contained in governing policies, rules, contracts or other documents.

A fiduciary may delegate <u>some</u> of their responsibility, such as hiring an investment consultant/managing firm and allowing them discretionary control over the fund to make daily decisions without approval from the Board, which would fall under the Duty of Prudence. However, this does excuse the fiduciary from monitoring the vendor for performance.

Actuaries are not fiduciaries of the Plan as they do not have discretionary control nor does an actuary need to make daily decisions or changes regarding the pension plan. Thus, an actuary's sole purpose is to inform and provide expert opinion, so the Board can make well informed decisions. An external actuary for the Plan would not sit on the Board and manage costs of vendors, make voting decisions, ensure plan investments are adequately diversified, select vendors, and perform other core responsibilities that go along with being a fiduciary. An actuary should still act with a duty of care in that it puts the Plan's participants' and beneficiaries' best interest before their own, shows no bias, and complies with appropriate laws. However, by not being a fiduciary, the actuarial assumptions, which are typically looked at annually with an in-depth review once every five years, are discussed in detail with the Board. If the actuary had control, conservative assumptions could be used which could lead to higher contributions, possible overfunding, and increased cost to the taxpayer. By having an actuary as a fiduciary, does this mean the actuary could freeze the plan, too? Sounds like it is best to leave the actuaries as advisors to the Board…and of course, to provide numbers.

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