PAPERS

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

Summer 2017

In This Issue

4

Looking Ahead

11th PAPERS Fall Workshop
Nov. 14-15, 2017
(Tuesday-Wednesday)
Doubletree Hotel Downtown Pittsburgh

14th PAPERS Forum
May 22-23, 2018
(Tuesday-Wednesday)
Hilton Hotel Downtown Harrisburg

An Update on Pension Reform Legislation

On Monday, June 12, 2017, Governor Tom Wolfe signed Senate Bill 1 into law which made significant changes to the pension programs in state government. The bill, which is aimed to slow the growth of pension liabilities, passed both the State Senate and the House of Representatives with bipartisan support.

The new law will give future Commonwealth employees three new public pension plans from which to choose. Each plan offers a defined contribution component, similar to a 401(k), that is typically offered to workers in the private sector. The plans provide future employees, those hired in 2019 or after, retirement security and portability. Current employees will have the opportunity to opt in to a menu plan or continue in their current plan and retirees would not see any changes in their plan.

State employees who have been designated as hazardous duty employees such as state troopers, correction officers, state park rangers, game wardens and capital police for example are exempted from the plan and will remain in the Commonwealth's current defined benefit plan that provides a guaranteed pension benefit. Legislators explain these individuals are exempt because they often have shorter careers in public service due to the hazardous nature of their jobs and, in the case of the State Police, they may not collect Social Security.

During the PAPERS conference in May at the Harrisburg Hilton we had an opportunity to hear from Senator Jake Corman as well as Representative Joe Markosek on the pension issue. It was very informative to have those conversations prior to the legislation becoming law. We can look forward to more conversation regarding public pensions and PAPERS will be diligent in getting information out to you.

Watch for details in September about the upcoming PAPERS Fall Workshop in Pittsburgh!

From the Executive Director's Desk

Thank you so much to everyone who attended PAPERS' recent 13th annual Forum at the Harrisburg Hilton. Since this was my first conference with you, I had a great opportunity to see what makes PAPERS so unique. It was very clearly the caliber of presenters and those attending that make this a top notch educational forum. This was not just a simple get together to talk about pension problems. This was an extraordinary opportunity to talk about options, to share what other individuals are doing and to listen to our state leaders talk about their perspective.

The presentations by the Senate Majority Leader from Centre County, Jake Corman, and the remarks by the Democratic Appropriations Chair Joe Markosek form Allegheny County were enlightening and interesting. Their presentations were clearly what PAPERS is all about - a forum to provide information on topical matters. As one of your Board members relayed to me during my interviews process, PAPERS gathers information for others so they can make informed decisions. To that end, stay tuned for more articles on the happenings around Harrisburg regarding pension legislation.

Karen Deklinski

PAPERS Executive Director
kdeklinski@msn.com
717-979-5788

A new benefit for your plan being a member of PAPERS is the ability to join webcasts sponsored by NCPERS (National Conference on Public Employee Retirement Systems). The next webcast is scheduled for July 11th. Click on the link below to register for the live webcast. Future webcast dates will be posted on the PAPERS website.

Register for NCPERS Live Webcast on 2017 Mid-Year State & Federal Legislation on July 11th

Meet the PAPERS Corporate Advisory Committee

Representing PAPERS Associate & Affiliate Member firms

Andrew Abramowtiz

Spector Roseman
Kodroff & Willis, P.C.

Meredith Despins

National Association
Real Estate
Investment Trusts

Kimberly Aspenleider

Macquarie

Richard Hazzouri

Graystone Consulting –
Morgan Stanley

Christopher Crevier

Neuberger Berman

Gordon Sapko

BNY Mellon

Jonathan Davidson

Kessler Topaz Meltzer
Check, LLP

Elaina Spilove

UBS Institutional
Consulting

A current (2017) PAPERS membership (Participating, Associate or Affiliate) entitles your representatives to attend PAPERS Spring Forum and/or Fall Workshop conferences.

Check below for details on your pension plan or firm becoming a PAPERS member OR click on http://www.pa-pers.org/newweb/join.html.

Becoming a PAPERS Member is Easy

A current year PAPERS membership is required for attendance at the Spring Forum and/or Fall Workshop and to receive credits in the CPE and/or PPCP programs.

Public employee retirement systems (pension funds) can apply to become **Participating Members**; each Participating Membership includes one complimentary admission to both the Spring Forum and the Fall Workshop. Corporate providers of service to pension plans can apply to become **Associate or Affiliate Members.** For details, check the membership section of the PAPERS website **www.pa-pers.org** or contact:

PAPERS
PO Box 61543
Harrisburg, PA 17106-1543

Douglas A. Bonsall
Phone: 717-921-1957; e**-mail:** douglas.b@verizon.net

PAPERS' Membership & Sponsor Categories

- **Participating** ($95) - *Public employee retirement systems (pension funds)*
- **Associate** ($1,000) - *Corporate providers of legal and investment services to pension plans*
- **Affiliate** ($500) - *Corporate providers of other services, exclusive of legal and investment services, to pension funds.*

Corporate (Associate & Affiliate) Members also have the additional opportunity to become sponsors for PAPERS' two annual conferences – the Spring Forum and the Fall Workshop. Sponsors receive recognition in the printed and on-line materials produced for the conferences and also receive priority consideration to provide speakers and/or make presentations. The three categories of sponsorships for each conference are:

- **Platinum** - $5,000
- **Gold** - $3,000
- **Silver** - $2,500

More details at: http://www.pa-pers.org/documents/2017MembershipandSponsorFees.pdf

Looking Beyond the Walls: The True Meaning of Sustainable Real Estate Investing

Submitted by: **Douglas Kinney, *Bentall Kennedy (US) LP***

Douglas Kinney *is an Executive Vice-President, Client Relations & Product Development across the Bentall Kennedy North American investment platform Doug brings over 30 years of real estate asset management, client relations, product development and capital advisory experience to Bentall Kennedy. Most recently, Doug was Managing Director of global real estate capital formation at The Carlyle Group. Prior to Carlyle, Doug held senior positions with Greenhill and Co., Credit Suisse Real Estate Private Fund Group and with Heitman/JMB Realty Corp. Doug received a B.A from the University of Tennessee. He holds Series 7, 24 and 63 licenses. He maintains registrations in all 50 states and Puerto Rico. He may be reached at: (phone)* 312.596.9121 or (email): Dkinney@bentallkennedy.com.

Green is good, but when you're looking for investments in commercial real estate, green alone is not enough. Bentall Kennedy discusses the need for a broader definition of sustainable real estate investing.

Why are building certifications in North America such as LEED and Energy Star important?

We've always believed that obtaining green building certifications have lower operating costs due to their efficiencies. We felt that prioritizing sustainability resulted in a superior experience for tenants and created value for investors. We also knew there was a bigger impact to investors and that's why we commissioned independent academic research in 2014 that involved the study of nearly 300 office properties across North America.

Conducted by Dr. Nils Kok of Maastricht University in The Netherlands and Avis Devine of the University of Guelph, research found that properties ranked high for sustainability generated higher rents, had higher tenant satisfaction scores, higher renewal rates with fewer rent concessions – and used less energy. This demonstrates the potential for enhanced net operating income and an overall improved valuation for green certified buildings relative to their non-certified counterparts. From an investor standpoint, that's a significant upside.

Have global real estate markets caught on to the importance of sustainability?

It's actually the U.S. that's lagging – we're playing catch-up to Europe and other parts of the world. In many countries, pension plan guidelines require that sustainability scores be factored in to the investment process.

Bentall Kennedy is ahead of the curve in the U.S. We've been ranked among the top firms in the world for the past six years by the Global Real Estate Sustainability Benchmark (GRESB). And for the seventh year in a row, we earned the U.S. Environmental Protection Agency's (EPA) ENERGY STAR Partner of the Year – Sustained Excellence Award.

Commercial real estate investors often equate sustainability with the building itself. How does it extend beyond those four walls?

First, we place a high priority on tenant engagement actively involving them in both sustainability initiatives. This supports corporate tenant goals of reducing absenteeism and increasing employee productivity. For our investors this leads to improved net income due to lower turnover and higher occupancy rates.

(continued on Page 6)

Looking Beyond the Walls

(continued from page 5)

Second, we factor in the ability of the broader urban neighborhood to sustain growth through mixed-use development. At a regional level, we want cities that have the appropriate infrastructure, policies and planning in place – such as public transit, smart growth and environmental health – to attract people and businesses. We're investing for the long term, so we want to invest in cities that proactively address sustainability issues.

At a community level, we focus on communities that offer a range of amenities – entertainment, recreation, and residential options at different price points, and that emphasize green credentials and health-oriented facilities.

And from an economic perspective, we invest in areas that contain high-growth, innovative job sectors, such as technology, health care, digital entertainment, e-commerce and higher education, because those are the growth areas of our economy.

What's driving the growth in these areas is a generational lifestyle shift, led by the millennials. They're no longer willing to be sent across the country to large corporate campuses. Instead, employers are moving to where the talent is.

Given the recent change in government, do you expect any change to this sustainable investing strategy?

The short answer is no. The move to these sustainable urban nodes is cultural, and policy shifts won't impact the cultural aspect of what's defining this movement. Potential tenants will always desire to work, live and play in areas that are consistent with their values and their well-being.

As the millennial generation ages, some will undoubtedly choose to move, but the younger generation following is as large or larger and they'll be creating additional demand. That's why we believe that areas with growing millennial demographics, innovation industries, and revitalization initiatives that create live/work/play communities lie at the centre of future growth and demand.

The Evolution of Technology and Data Security

Submitted by: **Stephan Georgacopoulos, *Pension Technology Group***

Stephan Georgacopoulos *manages Business Development and modular training for the Pension Technology Group. Stephan has 2.5 years of experience working within the public employee pension community. Stephan began his career working for Sprint Corporation as an Enterprise Account Executive supporting fortune 500 corporations with sales, customer support and training. After nearly 10 years Stephan joined the Pension Technology Group team and is responsible for the introduction of all new products offered by Pension Technology Group as well as software demonstrations to Retirement Board Executive Directors and Board members.*

In an ever-expanding society, technology has become the necessity rather than the luxury. Governments and corporations all over the world battle with the balance between embracing technology and minimizing risk. While the evolution of technology has provided institutions with the tools to modernize and improve business operations, it has also introduced a whole new era of hackers and cyber-attacks which in recent years has seen a drastic increase.

(continued on Page 7)

The Evolution of Technology and Data Security

(continued from page 6)

For both the private sector and government agencies alike, data security will continue to be a topic of concern especially given the amount of personal information they store. However, unlike the private sector, government agencies and the public sector store far more sensitive data and in most cases are required to keep that information for a longer duration of time leaving the window open for hackers to make their attack. Early on data breaches performed by hackers were primarily for sport and ego, simply challenging themselves to see if the unthinkable could actually be done. Unfortunately, as soon as hackers realized these data breaches could offer a financial benefits, the rate in which cyber-attacks occurred grew substantially. Studies have shown that the most common driving forces behind why hackers have increased their attacks on government agencies and the public sector are a result of not only significantly cutting down on IT support to fund other departments but also a large number of institutions are still utilizing inefficient and antiquated software that have made such agencies a prime and favorable targets; in a report released by the Centre of Strategic and International Studies (CSIS) in 2015, it was estimated that cybercrime costs rose to $400 billion worldwide

Given these circumstances there are common best practices that can be implemented to help prevent the loss of such valuable data. Unfortunately, these best practices often times get overlooked and or forgotten costing organizations thousands of dollars in order to get their data back, in some cases data can be lost forever. The simplest of these but also the most commonly forgotten is being mindful of who's sending you emails, if you don't know, don't open it. Too often hackers will disguise an email address that you recognize or have received emails from in the past such as tom.davis@sample.com with tom.davis@smaple.com to gain access to your computer, all you need to do is open the email and their in. Another common problem is keeping our computer and software up to date, as mentioned earlier, IT support has seen a drastic decrease in funding across the public space which has led to the continued use of outdated computer systems and software making them vulnerable to attack. Attacks such as "WannaCry" which rippled across the internet just this past May infecting over 200,000 machines and spanning over 150 countries in just a matter of hours and to date is the largest cyber-attack in internet history; this attack was so successful was because it targeted Windows devices that hadn't received a security patch from Microsoft created to fix vulnerabilities from hackers. Due to cyber-attacks like "WannaCry" a large number of organizations have started to use "cloud-based" software services to help prevent attack like this from happening, with cloud based services the risk of forgetting to update your software is reduced as it's now performed for you behind the scenes by a dedicated team of data security specialists. Overall, there is no full proof system that can prevent you from ever being hacked but by following best practices and making yourself more aware is the best way to preserve and protect your data.

References

- https://dupress.deloitte.com/dup-us-en/deloitte-review/issue-19/protecting-sensitive-data-government-cybersecurity.html
- https://phys.org/news/2017-05-sector-organisations-cyber-attacks.html
- http://www.business2community.com/cybersecurity/8-ways-businesses-can-prevent-cyber-attacks-01251164#ItIRdjj8mLwfvw9E.97'
- https://developers.redhat.com/blog/2017/05/19/wannacry-ransomware-who-it-affected-and-why-it-matters/
- https://www.washingtonpost.com/news/the-switch/wp/2017/05/15/how-to-protect-yourself-from-the-global-ransomware-attack/?utm_term=.1d67204582e6

Pension Plans Held Steady in May, Says Study

By ASPPA Net Staff • June 15, 2017

Excerpted from NCPERS News Clips (6/20/2017) – Reprinted with Permission

Pension plans largely held steady in May, with assets and liabilities growing slightly, says a recent report.

The report, by the consultant firm October Three, is based on the performance of two model pension plans; one a traditional plan, the other a cash balance plan whose investments are largely in corporate and long-duration bonds. Their performance is measured using actual stock market and bond performance, as well as interest rate changes.

The report says that for both, plan assets and liabilities each grew by 1% in May. That is the overall result for the cash balance plan for the first five months of 2017, but the traditional plan is 2%-3% ahead.

Assets and liabilities have grown for both models, the report says, but assets' growth has been greater. The portfolio for the traditional plan is up 6%-7% for 2017 so far, while that plan's liabilities are 3%-5% higher. For the cash balance plan, assets are up 4% for the year so far, with liabilities up almost that much.

October Three attributes asset growth to the strong performance of the stock market, and the growth of liabilities to lower interest rates.