PAPERS

Pennsylvania Association of Public Employee Retirement Systems

PO Box 61543, Harrisburg, PA 17106-1543

Website: ***www.pa-pers.org***

Summer 2018

In This Issue

Don't Miss These Conferences

12th Annual Fall Workshop

Nov. 27-28, 2018

(Tuesday-Wednesday)

Wyndham Philadelphia Historic District

15th Annual PAPERS Forum

May 29-30, 2019

(Wednesday-Thursday)

Hilton Hotel Downtown Harrisburg

PAPERS Announces New Certification Program

Overview

Certified PA Public Retirement Plan Professional

An educational certification opportunity for public pension trustees, pension administrators and staff, and industry professionals

Program Goals & Objectives

- *To provide an educational setting that is conducive to developing well informed public pension trustees, pension administrators and staff, as well as industry professionals who work closely with pension systems*
- *To provide an educational setting that enables participants to be actively and meaningfully involved in the management of the pension plans they represent*
- *To provide an educational setting to prepare participants to meet the standards their fiduciary role demands upon acceptance of their position with a pension system*
- *To develop a standard of education and industry competency so that each individual working with a retirement system in their capacity protects the retirement security of the Pennsylvania public pension plan beneficiaries*

See Pages 3-4 for more information about this program

From the Desk of PAPERS' Executive Director

Welcome to the 2018 Summer edition of the PAPERS newsletter.

This summer may have set a record for the number of consecutive days with the temperature hitting over 90°. With the heat on, many joke about winter weather, but the reality is, colder weather is much closer than we realize. For example our Fall Workshop in Philadelphia, November 27-28, is only about four months away. We are already finalizing our presentations with various speakers. If you are interested in providing an educational session, please complete the ***Presenter Application*** found on Page 6 and return as soon as possible.

A highlight of the conference will be the attendance of the inaugural class for our new certification program. We have had several members sign up for PAPERS' ***Certified PA Public Retirement Plan Professional*** certification program. Part of the program's requirement is to attend PAPERS' annual conferences, so many of those attending the Fall Workshop will be participating in the certification process. More information on the certification program may be found in this newsletter and on our website

This summer newsletter has great articles that provide interesting information in the realm of public pension plans. Please take the time to read the articles and, if you get an opportunity, comment on them or send a note to the submitter to let them know that you appreciate their insights. I hope everybody enjoys the rest of their summer.

Warmly,

Karen Deklinski

PAPERS Executive Director

kdeklinski@msn.com
717-979-5788

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 three-part process:

- **On-line introductory education modules develop by Fi360, Inc.**
    - *The Role of the Retirement Plan Fiduciary*
    - *Creating a Comprehensive Fiduciary Process – Parts 1 & 2*
- **Attendance at PAPERS conferences**
- **Continuing Education** – additional on-line education modules; on-line library resources

Program Enrollment

Please visit the PAPERS website www.pa-pers.org to access the certification program application form. A link to this printable form may be found on the "Certification Program" page.

Submit the completed form either by mail or e-mail. See details below under "Program Cost" for more information about submitting the application and required payment.

Program Cost

The one-time enrollment fee of $499 is payable by three methods:

1. ***To pay by check.*** Please make check payable to: **PAPERS** and return with application to: **PAPERS, P.O. Box 61543, Harrisburg, PA 17106-1543**
2. ***To pay by credit card or PayPal.*** Please access the PAPERS website www.pa-pers.org and click on "Certification Program". Near the bottom of this page click on the drop down box and follow the directions to pay the registration fee. If a completed application has not already been submitted, please do so either by mail to: ***PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*** or scanned, saved and e-mailed to: ***douglas.b@verizon.net***.
3. ***To pay by ACH transfer.*** Please contact PAPERS by e-mail douglas.b@verizon.net to request the bank account and routing information you'll need to pay by this method. If you require a signed form to initiate the ACH transaction, please send the form to this e-mail address and it will be completed/returned promptly. Then, submit your completed membership application as note in #2 above so it can be matched with the ACH payment.

Process

After submitting a course enrollment form and payment of the one-time fee, individuals will receive an authorization code giving access to the 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 written notification upon successful completion of the three 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, on the website and in newsletters.

Continuing education will be required to maintain this designation.

PAPERS Application Form

Certified Pennsylvania Public Retirement Plan Professional

Participant Information:

Name: ____ Date: _____________

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

Organization: ____

Address: ____

City: ______________________________________ State: ________ Zip: ____________

Telephone: ______________________ E-Mail: ________________________________

Payment Information:

The one-time registration fee is $499. Please fill out the following only if different than above:

Billing Name: ____

Billing Address: ____

City: _________________________________ State: ________ Zip: ______________

Payment methods:

1. ***To pay by check.*** Please make check payable to: **PAPERS** and return with this application to: **PAPERS, P.O. Box 61543, Harrisburg, PA 17106-1543**
2. ***To pay by credit card or PayPal.*** *(this function available after 6/1/2018)* Please access the PAPERS website www.pa-pers.org and click on "Certification Program". Near the bottom of this page click on the drop down box and follow the directions to pay the registration fee. If a completed application has not already been submitted, please do so either by mail to: ***PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*** or scanned, saved and e-mailed to: ***douglas.b@verizon.net***.
3. ***To pay by ACH transfer.*** Please contact PAPERS by e-mail douglas.b@verizon.net to request the bank account and routing information you'll need to pay by this method. If you require a signed form to initiate the ACH transaction, please send the form to this e-mail address and it will be completed/returned promptly. Then, submit your completed membership application as note in #2 above so it can be matched with the ACH payment.

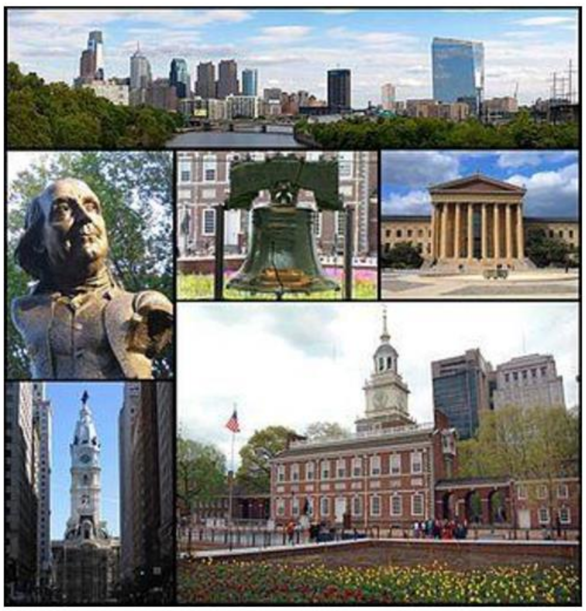
Please submit this completed application and payment to:

PAPERS, PO Box 61543, Harrisburg, PA 17106-1543

Fall Workshop Details Coming in September

Philadelphia Hosts PAPERS 12th Annual Fall Workshop

Tuesday, November 27 – Wednesday, November 28, 2018



The Wyndham Philadelphia Historic District Hotel

400 Arch Street, Philadelphia, PA

PAPERS Pennsylvania Association of Public Employee Retirement Systems

Corporate (Associate & Affiliate) Members also have the additional opportunity to become sponsors for PAPERS' two annual conferences. 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

A current (2018) PAPERS membership (Participating, Associate, Affiliate or Sustaining) is required to attend the PAPERS Fall Workshop conferences, to receive CPE (Continuing Professional Education) credits or to enroll in the new certification program.

Membership Categories

- **Participating** ($95/year) - *Public employee retirement systems (pension funds)*
- **Associate** ($1,000/year) - *Corporate providers of legal and investment services to pension plans*
- **Affiliate** ($500/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 in any other category above*

Becoming a PAPERS Member

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

Presenter Application for PAPERS Conferences

PAPERS mission is to function as a central resource for educational purposes and act as a networking agent for all public plans through our annual conferences. PAPERS' annual Forum each spring and the Fall Workshop give those who work in or provide services to Pennsylvania's public pension funds an extraordinary opportunity to share their expertise. As our goal is provide education sessions designed to improve financial and operational performance of public employee retirement systems, we encourage our member firms to make presentations during our conferences. Most presentations are 50 minutes in length.

If you are interested in presenting at one of PAPERS' upcoming conferences, please complete the information below and return: Mail: PAPERS, P.O. Box 61543, Harrisburg PA 17106
Fax: 717-754-0122; E-mail: kdeklinski@msn.com

All submissions will be acknowledged. If you do not receive an acknowledgement, please let us know.

Presentation Title ____

Brief Description of Presentation ____

____

____

What format will you use for your presentation?
Check One: ____Individual presenter ___ Team presentation ____ Panel discussion

For each presenter, please provide name/title, e-mail address and phone number:

____

____

____

> PLEASE NOTE: *All PowerPoint presentations and speaker information (brief bio & photo) must be submitted approximately one month prior to conference. Specific details will be provided to presenters well in advance.*

Most or all presentations will be considered a requirement for obtaining a PAPERS certification in the Public Pension arena. Members should achieve a certain level of expertise after attending each session. Please consider your presentation and list 5 questions participants should be able to answer after attending this session:

1.____

2.____

3. ____

4.____

5.____

Please check if:

_____ Your firm is a current corporate (Associate or Affiliate) member of PAPERS

_____ Your firm is willing to become a conference sponsor

Application submitted by:

Name/Title ______________________________ Date ______________

Firm ____

E-mail Address ______________________ Phone (_____) ________ - ___________

If you are not the primary contact for this presentation, please provide name/e-mail address and phone number for primary contact.

THANK YOU!!

The Outsourcer's Dilemma:

OCIO Providers Strive to Simplify Complex Investing

By: Robert Dollard and Elizabeth Baulch

Robert (Bob) Dollard *is a Managing Director and Segment Head for the Public Fund business segment within Asset Servicing at BNY Mellon. In his current role, he is responsible for leading teams of Relationship Executives and Service Directors in delivery of service to clients within the public fund segment across the U.S. Bob joined BNY Mellon in 1993. He served as a Relationship Executive responsible for maintaining the highest level of service for his clients. Through fostering relationship growth, Bob helped direct strategic priorities to ensure long-term partnerships with BNY Mellon clients.*

Elizabeth (Liz) Baulch*, Head of OCIO Strategy and Solutions, BNY Mellon Asset Servicing, has more than 25 years' experience in the financial services industry in all areas of the investment lifecycle. Early last year, Liz assumed a leadership role in managing key strategic relationships in the rapidly expanding Outsourced CIO space. Prior to her current role, Liz filled a variety of management roles within custody operations, client service and relationship management. Her experiences in these roles and have made Liz a recognized subject matter expert related to trust and custody, merger and integration activity, Taft-Hartley and ERISA regulatory and compliance requirements, operational risk management, and best practices for sales and relationship management.*

For providers in the growing industry of outsourced CIO (OCIO), delivering superior investment returns to institutional clients might be the easy part. To succeed in this increasingly competitive market, providers must master a long list of complicated administrative, operational and IT functions. All these elements must be packaged into a seamless offering that hits investment return targets and meets institutional service expectations, while also standing out from competitors in a crowded field. To meet these tough standards, OCIO providers employ diverse teams of asset managers, custodians and other external vendors. These providers supply essential capabilities, including custody and accounting, reporting and administration, risk and capital markets solutions, and technology/cybersecurity. For some OCIO providers, these support service providers deliver another important benefit: partnering with external firms that have strong brands and established reputations in custody and other areas can create a "halo effect" that helps differentiate the OCIO's offering from those of competitors and provides a lift to sales efforts.

Integrating a long list of support service providers into a single platform and providing a unified client experience is, in itself, a formidable challenge. In this report (https://www.bnymellon.com/us/en/what-we-do/business-insights/the-outsourcers-dilemma.jsp) we explore the growth and development of the OCIO market, identify the biggest challenges OCIO providers face in fulfilling institutional mandates, and examine the role external support service providers play in helping OCIO firms meet client needs and grow their businesses.

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The Outsourcer’s Dilemma
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This analysis is based on the results of a Greenwich Associates study, sponsored by BNY Mellon. Between February and March 2018, Greenwich Associates interviewed 33 OCIO providers about their businesses, biggest challenges and support service providers.

Key Findings:

- Markets have become increasingly complex, intensifying the challenges facing institutional investors of all sizes. As a result, larger institutions have begun to outsource, or at least investigate the pros and cons of the OCIO model. The ranks of OCIO clients now include several funds with more than $10 billion in plan assets.
- OCIO providers face major challenges — although OCIOs strive to provide comprehensive, end-to-end services, the reality is that 9 out of 10 firms work with multiple service providers. Trying to integrate these providers in-house offers some big challenges:
  - Administration issues
  - Reporting
  - Data management
  - Technology
  - Fees
- When it comes to selecting an OCIO provider, institutions lean heavily on the reputations of the firms competing for their business.
- 67% of respondents say potential clients ask about third-party support services, administrative functions and the names and reputations of custodian and/or administrative partners.
- 40% of study participants believe the technology platform will be an integral factor in institutions’ choice of an OCIO provider.

As OCIO providers are striving to become successful, they rely on support service partners who can help their clients gain access to more sophisticated expertise and service models. Many OCIO providers will adopt the same outsourcing philosophy they sell to clients: They will turn to specialized providers to secure and integrate the support services they need to meet client expectations for investment returns and service. As one OCIO provider remarked, “In a perfect world, the support provider would offer a completely comprehensive service so it could really be a one-stop shop—the one resource, the one single point of contact.”

What's on the (Time) Horizon?

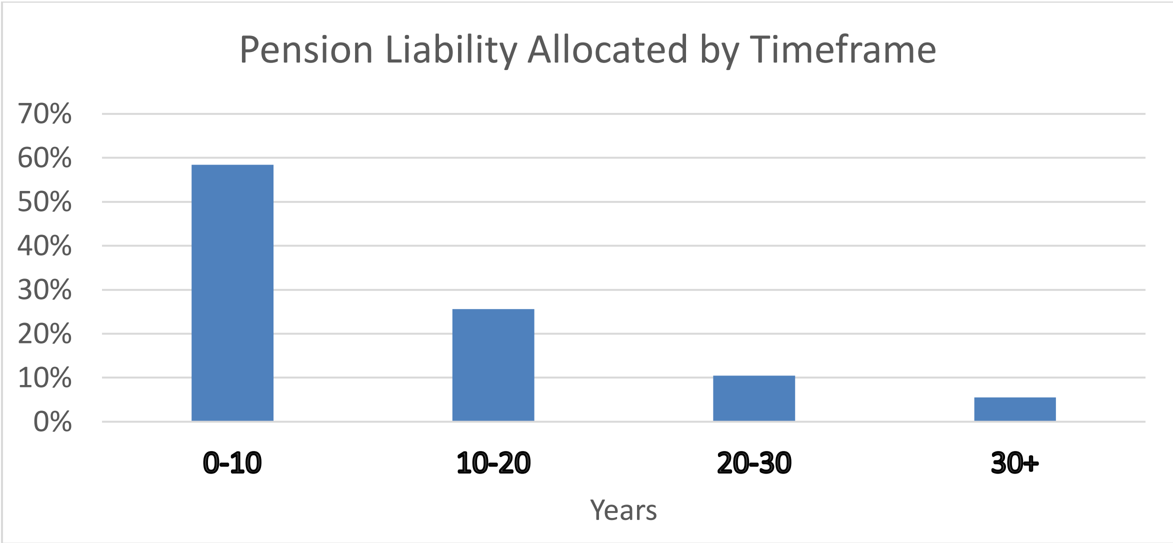
David R. Wilson, CFA, Managing Director, is the head of the Institutional Solutions Group at Nuveen. He is responsible for utilizing the firm's multi-asset class capabilities to develop customized investment solutions for defined benefit pension plans, insurance companies, workers compensation pools and other institutions. Dave began working in the financial services industry in 1998. His background includes structuring and managing complex liability-driven investing programs, which utilize multiple strategies in different currencies. During his career, Dave has developed innovative solutions for clients seeking to optimize their business profile, generate value, de-risk or manage liquidity. He possesses strong capabilities in treasury management, structuring and capital modeling, risk management and hedging.

R. Evan Inglis, FSA, CFA, is a Senior Vice President and Senior Actuary working in the Institutional Solutions Group of Nuveen where he advises on investment strategies for pension plans. He has over 30 years of experience working with employee benefit plan financial matters and is a frequent speaker and writer on a wide variety of retirement issues and ideas. He developed the award-winning "Feel Free" approach to retirement spending. He has also written early industry papers explaining how to invest pension assets for cash balance plans, for terminating plans and using plan demographic profiles.

We tend to think of the time horizon for pension plans as spanning many decades, even being perpetual. Still, we need to think about how to invest the assets that we have *today*. The assets that we have today cover the benefits that today's members will receive and that time span is much shorter. Asset values and pension liability values are both *present* values and we want the assets to cover the liabilities as time progresses into the future.

Time Horizon for Typical Pension Plan

The chart below shows how the present value of benefits for one actual pension plan looks when we split it up into future time periods. Almost 60% of the benefits are payable in the next 10 years! It's a very different picture than our decades-long timeframe. This illustration is for a mature pension plan with about 1/3 of the liability owed to active members – not atypical for pension plans today.



7.5% expected return used to calculate discounted present value of future benefit payments for current members
Source: Nuveen
Data is provided for illustrative purposes only, but is not guaranteed for accuracy or completeness and should not be relied upon for investment advice.

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What's on the (Time) Horizon?

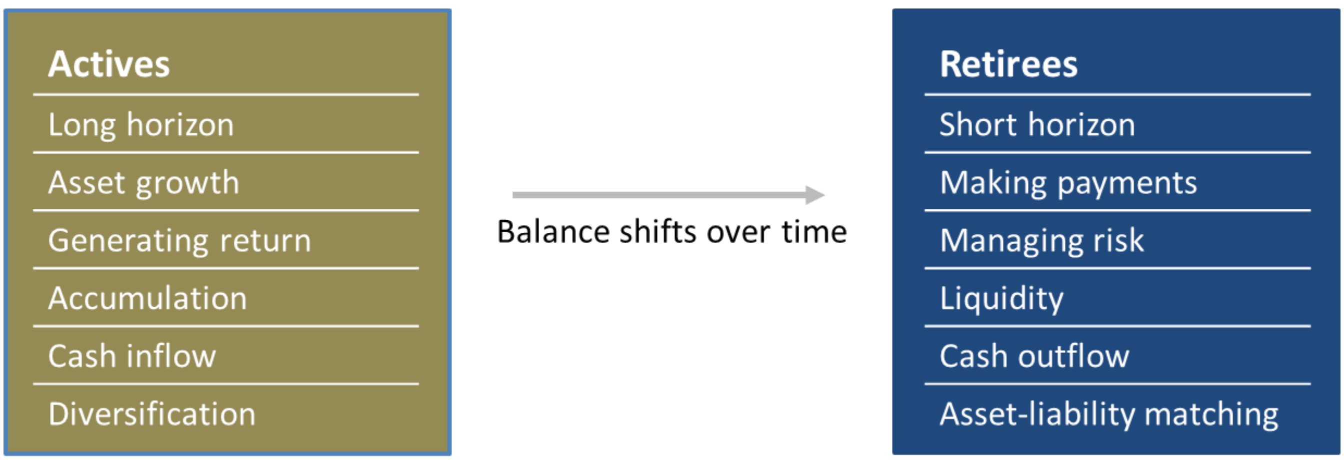
(Continued from Page 9)

So, investment time horizons are shorter than we sometimes think and… they are getting shorter, as plan populations age.

Investment Time Horizons and Glide Paths

Investment time horizons are important because it makes sense to use different assets over different time horizons. If an investor needs her funds next year, she invests more in fixed income than in equities. If an investor needs her funds in 20 years, she may prefer equities, especially if her need in 20 years is inflation-sensitive. Equity prices are not highly correlated with inflation in the near term, but they do reflect inflation over the long-term. Therefore they can help to cover pension benefits that increase with salary changes and inflation.

In target date funds for retirement or college savings, glide paths are used. Glide paths reduce risk as the need to spend assets gets closer. This makes sense since the investment objectives change. The objective shifts from growth (think equities) to securing spending (think fixed income) as time passes.
The same idea applies for a pension plan, since, on average, spending gets closer as the plan population matures. The graphic below illustrates the evolution of investment objectives that ideally will happen as a pension plan population evolves over time.



As the plan population shifts over time, the time horizon shortens and the investment allocation should shift – generally from riskier growth-oriented assets to assets that generate income like bonds. Real estate has both growth and income-generation and can be used as an "in between" asset and can help support both objectives.

Mature Pension Plans

Most pension plans in 2018 have relatively large retiree populations with high levels of benefit payments being paid out each year. The table below shows metrics that may help a pension plan determine where they are on a spectrum of "young" to "mature" in today's landscape. The typical ranges for these metrics would have looked very different 30 years ago.

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What's on the (Time) Horizon?

(Continued from Pages 9-10)

	Plan Population in 2018		
	Less Mature	**Typical Mature**	**More Mature**
Active-to-retiree ratio	1.25 - 1.5 to 1	1.0 - 1.25 to 1	0.8 – 1.0 to 1
Retiree liability as % of total	45-55%	55-65%	65%-75%
Benefit payments as % of assets	4-6%	6-8%	8-11%

Demographic-Based Investing (DBI)

Because the investment time horizon is defined by the demographic profile of a pension program, this perspective on investing is called Demographic-Based Investing (DBI). DBI is more concerned with how investment risk should evolve over time than how much risk is appropriate to take today. Every investment board should have a long-term plan for how risk will evolve over time. An analysis that projects the plan into the future and uses metrics like the ones in the table above to determine the impact of an investment downturn will support this type of planning. Of course, over time this plan can evolve as circumstances change.

Pension plan populations have gradually aged over the years and ideally investment risk would have gradually been reduced as this aging shortened the time horizon for plans. Because of the pressure to keep expected returns high this generally hasn't happened. However, it isn't too late to put in place a plan for the future that will help secure the ability to make payments by gradually shifting the investment objective as the time horizon continues to shorten.

The following article was submitted for re-print by Elaina Spilove of UBS.

Pensions and retiree healthcare benefits, known as other post-employment benefits (OPEBs), "will be the credit issue for the sector for the next decade," according to CIO.

Public pension funds collapse a real concern

18 April 2018, written by UBS Editorial Team

The collapse of some public pension funds is no longer a distant prospect, and some states could face insolvency within five years, according to Bloomberg News.

Thomas McLoughlin, Head Americas Fixed Income, GWM CIO, has discussed the funding challenges facing public pension plans around the United States in numerous posts and research reports, highlighting that "inadequate contributions, mediocre investment performance, and exceedingly optimistic discount rates have conspired to reduce the financial flexibility of many state and local governments."

The Bloomberg report suggests the hard stop is five to 10 years away, and that some states are going to face insolvency due to pensions, without some major changes.

McLoughlin suggests that pensions and retiree healthcare benefits, known as other post-employment benefits (OPEBs), "will be the credit issue for the sector for the next decade."

He notes that there is "a growing divergence in credit quality between state and local governments that are burdened by large, unfunded net pension and OPEB liabilities and those that are not." Adding that, "the popular press often paints all municipal obligors with the same brush, leading to confusion and consternation among investors."

Of the two, McLoughlin assigns greater significance from a credit quality standpoint to pensions over OPEBs. "States typically have greater flexibility to change employee healthcare benefits, which generally enjoy fewer specific legal protections, in comparison to pension benefits, " he says.

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Public Pensions Fund Collapse…..

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"When assessing the credit risk presented by public pension liabilities, it is often difficult to arrive at an apples-to-apples comparison. Differences in the assumed rate of return, amortization methods, and other underlying assumptions can impact results. In FY16, the median long-term return assumption across the largest state pension plans surveyed by S&P was 7.5%. States are gradually lowering return assumptions, but 7.5% is still too high, in our view. .Further underscoring the need for a more realistic rate of return assumption, S&P found that most of the plans surveyed relied upon an amortization method that it would characterize as aggressive," McLoughlin says.

Bloomberg suggests that the next phase of public pension reform will likely be touched off by a stock market decline, with McLoughlin agreeing that "the risk of economic recession would serve only to compound existing problems."

"While we believe it is reasonable to anticipate that states will continue to gradually lower assumed rates of return and update mortality assumptions to better align with actual trends, the variance in credit quality between states with well-funded and those with poorly-funded pension systems is already glaringly evident, " McLoughlin says.

McLoughlin concludes that "state pension funded ratios vary widely and it is unclear to us how this challenge gets resolved over the longer term," and advises that investors "position their portfolios accordingly."

Main contributor: Joe Melvin
Read On a positive note... published 28 February 2018.
Read Municipal Brief State pension liabilities in focus published 1 December 2017.

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