



**First Quarter 2016**

**Public Employee Retirement Commission**

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**Controversial Demise?**

*By Jim Allen, PAPERS Executive Director*

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Karen Langley of the Pittsburgh Post-Gazette reported in early February that the Wolf administration was moving to close the door on the Public Employee Retirement Commission, commonly referred to as “PERC”, which apparently has outlived its usefulness. On the surface, who can complain? A bureaucratic agency ceasing to exist, civil servants laid off, tax dollars saved. Sounds good? Of course there is more to the story, and it’s important to understand that the Governor’s suggestion has set in motion a mini but serious crisis at least as applicable to municipal plans.

Created in 1981 by Act 66, PERC’s main purpose was to prevent the General Assembly and Governor from acting in ignorance on pension related matters. The agency is required to prepare an actuarial note for every piece of legislation considered by the General Assembly and for every amendment offered to a pending bill being considered that amends or affects a public pension plan or retirement system. To be specific, *“The commission shall select an enrolled pension actuary to prepare an actuarial note which shall include a reliable estimate of the financial and actuarial effect of the proposed change in any such pension or retirement system.”*

An equally important responsibility assigned the Commission was to recommend *“...actuarial funding standards and establish a recovery program for municipal pension systems determined to be financial distressed.”* The Commission acted promptly and in 1982 issued a report that culminated in the passage of Act 205 of 1984, “The Municipal Pension Plan Funding Standard and Recovery Act.” By most measures, this act has been extremely successful in helping municipal pension plans become well-funded. The two largest public pension plans in the state - the Public School Employees’ Retirement System (PSERS) and the State Employees’ Retirement System (SERS) - are NOT covered by Act 205.

For the last several years legislators and governors have been grappling with ideas about how to solve the state’s pension problems, particularly as to PSERS and SERS. Those efforts have not been successful - witness their association with the state’s 2015-2016 budget debates. Throughout the discussions, the staff at PERC have been involved in providing the required actuarial cost estimates. In the last several months we have seen a case of dueling cost estimates with the PERC numbers tending to be viewed by some as throwing a monkey wrench in the negotiations.

*(continued on Page 2)*

**Looking at 2016**

**PAPERS’ Two Annual Conferences Provide Pension Staff, Trustees & Advisors with Networking & Educational Opportunities**

**12<sup>th</sup> PAPERS Spring Forum**

**May 25-26, 2016**  
(Wednesday-Thursday)

*Harrisburg Hilton Hotel*

**10<sup>th</sup> PAPERS Fall Workshop**

**Nov. 15-16, 2016**  
(Tuesday-Wednesday)

*Wyndham Philadelphia Historic District Hotel*

## Controversial Demise

(continued from Page 1)

Returning to PERC's second responsibility, under Act 205 the state's municipalities have to file bi-annual actuarial reports that are used as the basis of allocating monies under the "General Municipal Pension System State Aid Program". Since inception, PERC staff has received the filings, distilled the numbers and provided the Auditor General with the data used to determine the individual allocations available to the municipal pension plans. In 2015 these allocations amounted to over \$260 million. Over a third of the municipal pension plans receive 100% of the funding necessary to satisfy their Minimum Municipal Obligation (MMO).

Without the existence of PERC many have wondered who will certify the actuarial numbers to the Auditor General. More importantly, will the 2016 state aid be distributed this year and if so when? It is usually sent to the plans in September of the year.

Governor Wolf spokesman Jeff Sheridan said the administration believes the Pennsylvania Municipal Retirement System, which manages many local government plans across the commonwealth, can take on the functions of PERC. He is quoted as saying, "We are moving forward with the process of shutting down PERC."

In an open letter distributed by former PERC Executive Director Jim McAneny, it was suggested that the Department of the Auditor General should assume PERC's duties related to certifying the costs of each municipal pension plan for use in the state pension aid allocation process. Auditor General Eugene DePasquale said in response, "In order to ensure that municipalities receive these critical funds, the Department of the Auditor General is willing to carry out PERC's duties in this process. However, transfer of this essential role will require conversations with the governor and the legislature, a statutory change, and adequate funding to handle the additional duties in an independent manner."

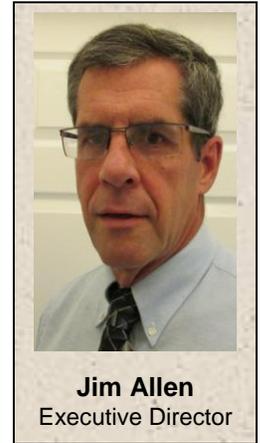
State Representatives Stephen Bloom and Seth Grove have filed a lawsuit against Wolf claiming the governor acted unconstitutionally and lacks the authority to shut the commission down since it was created by the General Assembly. They are quoted as saying, "We are open to discussions on whether or not PERC is the most appropriate body to complete these tasks, but that discussion must be had in the future."

As of the publication date, the matter is still unresolved.

## PAPERS On The Speaking Circuit

PAPERS' Executive Director Jim Allen was invited to speak to the Pennsylvania League of Municipalities' 2016 Newly Elected Officials Leadership Training on February 5 and 6. Asked to make two presentations, Jim's first topic was "Understanding Your Fiduciary Obligations". The PowerPoint that was used at the session can be found at the PAPERS' website at <http://www.pa-pers.org/newweb/library.html> The second presentation was a bit more ambitious and was entitled "Everything You Want to Know about Pension Plans". The sessions were well received and provided PAPERS with the opportunity to ensure the newest municipal officials understand that pensions and trustee duties are a bit more complicated than many other hats and responsibilities that they are going to face.

An invitation has also been extended for Allen to present to the Pennsylvania Government Finance Officers' 2016 Annual Conference in State College on April 24-26, 2016. The topic that will be addressed is "Pension Management – Your Duties to Insure Sound Fiscal Management". PAPERS welcomes the opportunity to advocate for greater fiduciary training at any and all forums!



**Jim Allen**  
Executive Director

**Thanks to our 2016 Forum Sponsors (to date):**

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## 2016 Webinar Series Set

New trustee and not sure about some investment concepts and don't know where to turn for answers? Maybe you have been sitting on your retirement board for a number of years but still are unsure of why you continue to be invested in a certain asset class – especially because it continues to lose money. You might want to mark your calendar for the 2016 PAPERS' webinars.

Designed to introduce and review the key components of a pension plan's approach to investing, the series starts on March 23 with a program devoted to "Asset Allocation & Allocation Studies". The focus will be on what an asset allocation study is, why and when they should be undertaken, how often should they be revisited and what asset classes should be included in a study? The program will be moderated by Richard J. Hazzouri, Senior Vice President/Senior Institutional Consultant with the Hazzouri Group at Morgan Stanley.

The April 27 webinar will be devoted to "Investment Guidelines". We will be looking at who should be writing them, who should monitor them and how. Simple question as to what they should contain and why a plan even needs them will be discussed. The presenter will be Elaina Spilove, Senior Institutional Consultant with UBS Institutional Consulting.

The remaining five webinars scheduled for the year will look at the key asset classes used by most public pension funds and explain what they classes bring to the plan's portfolio and what are some of the key attributes to their structures and performance.

- **June 22** – *A Closer Look at Large Cap Domestic Equities* (presented by AB Global)
- **July 20** – *A Closer Look at Small Cap Domestic Equities* (presented by Penn Capital Management)
- **Sept. 21** – *A Closer Look at Domestic Fixed Income Instruments* (presented by Ryan Labs Asset Management)
- **Oct. 19** – *A Closer Look at International Equities* (presented by Neuberger Berman)
- **Dec. 21** – *A Closer Look at Alternative Investment classes – Real Estate, Private Equity, Hedge Funds and More* (presented by Multi-Employer Property Trust)

Please watch for more details via e-mail announcements and on the PAPERS website. The sessions are free, limited to an hour and are interactive.

# PAPERS' Conferences

## 2015 Fall Workshop – What You Missed

The 2015 PAPERS Fall Workshop was held in Pittsburgh on November 18-19. The theme of the Workshop was “*The Times They Are a-Changin’*” with topics focused on a number of changes impacting Pennsylvania’s and the nation’s public pension plans.

From a “big picture” point of view, a discussion entitled “*Millenniums Now Out-Number Baby Boomers – Should The Change in Demographics in The United States Mean A Change In Our Approach To Investing Pension Assets?*” was led by Gus Faucher from the PNC Financial Services Group. Discussing “*Volatility and Change – What Those Terms Mean to Pension Fiduciaries and Why They Are Important*” was Geoff Gerber from Twin Capital.

The attendees also received an update regarding pension legislation pending in Harrisburg, GASB 67 & 68, the FED’s interest rate change and the expected impact of the newly announced mortality tables.

## 2016 Forum – What You’ll Want To Hear

Planning is well underway for PAPERS 2016 Spring Forum. It is to be held on May 25-26 at the Harrisburg Hilton Hotel. The theme is “*Best Practices*” and we will be concentrating on hearing from a number of practitioners regarding their best practices as fiduciaries.

One of the highlights of the Forum will be hearing from the Public School Employees’ Retirement System’ trustees. The PSERS Board members will be conducting a regular board meeting on the afternoon of the 25 but before doing so we will be treated to an interdiction of their operating procedures, hear about how their “committee system” works and the trustees’ take on their experiences at the state’s largest public pension plan.

As is the general design, PAPERS’ conferences are set so that attendees will spend 1/3 of their time hearing from their peers and asking questions of them, 1/3 of their time being “educated” on topical issues, and 1/3 of the time hearing about the latest in market conditions and products.

And for the remaining time (I know it’s already 100% used), there will be the opportunity on the evening of May 25 to relax and commiserate with your colleagues at a reception and private tour of the Art Association of Harrisburg. The galleries are located in the historic Governor Findlay Mansion across from Riverfront Park and just one block from the Hilton Hotel. This promises to be a great venue to relax after a long day of training.

A registration form for this conference may be found on Page 5. Watch for the Forum agenda in e-mail and website announcements later this spring.

## 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](http://www.pa-pers.org) or contact:

**PAPERS**

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## 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

# Registration for 12<sup>th</sup> Annual PAPERS Forum

May 25-26, 2016 at The Hilton Hotel in downtown Harrisburg, PA

Each individual attending must submit a separate registration form.

**Conference Registration Deadline - May 1, 2016**

Please indicate appropriate category (check one only):

Pension Plan Representatives – Current (2016) PAPERS Participating Membership required

First individual from pension plan – complimentary

Each additional individual - \$75

Service Provider Representatives – *Firms providing investment management and legal services*

Current (2016) PAPERS Associate Membership required

Each individual from organization - \$750

Service Provider Representatives - *Firms providing consulting services, exclusive of investment/legal*

Current (2016) PAPERS Affiliate Membership required

Each individual from organization - \$375

Platinum Sponsors

Current (2016) PAPERS Membership required

Four complimentary registrations

Each additional registration - \$750

Gold or Silver Sponsors

Current (2016) PAPERS Membership required

Two complimentary registrations

Each additional registration - \$750

Individual's name \_\_\_\_\_

Preferred name for name tag \_\_\_\_\_

Representing (name of pension plan or company) \_\_\_\_\_

Mailing address \_\_\_\_\_

City, State, Zip \_\_\_\_\_

Telephone number (\_\_\_\_) \_\_\_\_-\_\_\_\_ E-mail address \_\_\_\_\_

Please indicate all Forum events that you plan to attend (needed seating & meals arrangements):

Wednesday, May 25, 2016

Continental breakfast

Morning sessions

Lunch

Afternoon sessions

Reception/tour @ Art Association of Hbg.

Thursday, May 26 2016

Continental breakfast

Morning sessions

Lunch

Check if interested in PPCP (Public Pension Certified Professional) Program

**Full payment of any fees due must be included with this registration.**

You may pay the registration fee either by check or electronically through PayPal.

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 use PayPal.** Please access the PAPERS website ([www.pa-pers.org](http://www.pa-pers.org)) and click on "Spring Forum". Select the appropriate type of registration from the drop down box and follow the directions to have PayPal transfer the applicable fees automatically from your bank account to PAPERS. In addition to PayPal payment, you must also submit this registration form. Your completed conference registration form may either be mailed to: **PAPERS, PO Box 61543, Harrisburg, PA 17106-1543** or scanned, saved and e-mailed to: **douglas.b@verizon.net**.

**The PAPERS Forum group rate for overnight lodging of \$134 plus tax at The Harrisburg Hilton is guaranteed only for reservations made on or before 4/24/2016.**

## So How Are We Doing?

Probably the most frequently asked question of the pension fund consultants and staff when the pension board meets in the first quarter of new calendar year is, "How did we do last year?" And we often ask, as compared to whom? There is always a database which provides a different answer. We thought we would highlight some of the published returns from around the industry to give our readers a few more universes by which to gauge their own fund's performance.

According to published reports, the BNY Mellon U.S. Master Trust Universe 2015 saw negative performance for four of the six plan types BNY Mellon monitors. The total universe reportedly returned a median -0.49% for the year. The top performing class of pension funds were the Taft-Hartley plans, returning a median 0.23%. The good news for public plans is that on average they came in second at a positive 0.16%. The four types of plans with negative returns on average were endowments with -0.29%; foundations with -0.38%; health-care plans with -0.63%; and corporate defined benefit plans at the bottom with -.12%. The universe comprises 560 plans with a combined market value of more than \$1.69 trillion and an average plan size of \$5 billion.

According to a release from the folks at Wilshire, government retirement systems had gains last year of only 0.36 percent. They deemed it the smallest advance since 2008. Their story also talked about the pressure the low return would put on plans to lower the assumed rate of return being used for funding purposes.

Looking at the sources of possible returns, the Russell 3000 had a positive return of 0.38%; the MSCI World ex-U.S. lost (-2.41%); as did the MSCI Emerging Markets (-14.80%). Fixed income as measured by the Barclays U.S. Aggregate Total Return Value had a positive year at 0.55% but the Barclays Global Aggregate ex-U.S. Total Return Value Unhedged lost -5.30%.

Bringing the numbers closer to home, Philly.com reported that Philadelphia City's pensions lost 3.06 percent in calendar-year 2015. They cited neighboring Montgomery County's plan which had a gain just 0.29 percent. Pennsylvania State Employees Retirement System's estimated return for calendar year 2015 has not been made public but the number reported as of September 30, 2015 was a -0.5% net of fees return for the previous twelve months. The state's Public School Employees Retirement System (PSERS) has not reported calendar year returns but their one year return as of June 30, 2015 was 3.04%

## What Do You Think?

As mentioned elsewhere in this newsletter Executive Director Jim Allen had the opportunity to speak to a number of newly elected officials in February. One of the questions raised was "What are the ten things I need to know as a trustee of a public pension plan?". After some thought the 10 things Jim identified are:

- Plan Benefits (Basics like normal retirement age (& service requirement if any), availability of early retirement, the vesting requirement, and the benefit – DB/DC )
- Plan Assets (At Market Value and Actuarial Value
- Plan's Asset Allocation & Utilized Asset Classes
- Total Monthly Benefit Payouts
- Name of Plan's Custodian
- Name of Plan's Actuary
- Name of Plan's Investment Consultant
- Employer's Required Contribution for current year
- Number of Active and Retired Members in the Plan
- Plan's Funded Status (as a % ) based on Market Value and Actuarial Value

So what do you think? What would you add to the list and what would you take off? As a trustee what are the things you think you need to know? What should a new trustee concentrate on learning? Please drop us a short e-mail at [PA-PERS@Comcast.net](mailto:PA-PERS@Comcast.net) and let us know – ***What do you think?***

# SERS Adopts New Strategic Investment Plan

The Board of the Pennsylvania State Employees' Retirement System (SERS) approved a new two-year investment plan at its December 2015 meeting. The *2016-2017 Strategic Investment Plan* was based on analysis of the long-term outlook for the capital markets and the system's unique needs, preferences, objectives and constraints according to a fund spokesperson.

This detailed investment plan reflects an asset allocation framework designed to achieve the ongoing commitment to diversification. The most notable change from the current two-year plan includes a realignment of asset classes, in which real estate is reestablished as a stand-alone asset class. The pension fund has a targeted exposure to real estate of 12%. Other changes include an increase in the annual commitments for private equity from \$500 million to \$750 million, and performing a review of all investment manager fees to determine if they are aligned with SERS' best interests and are reasonable relative to market rates for comparable strategies. The plan includes reducing the number of alternatives managers it uses.

## News Around the State

News that we have come across regarding some of the state's public pension plans that we thought you might find interesting:

- From an editorial on Philadelphia's pension situation, we learned that the city's Finance Director Rob Dubow pegs the pension contribution at 15 percent of Philadelphia's general fund and that it has more than doubled over the last 15 years.  
<http://mobile.philly.com/beta?wss=/philly/opinion&id=370050251>
- From State Auditor General Eugene DePasquale - the latest audits of Harrisburg's three employee pension plans show that using a shared investment manager — such as the Pennsylvania Municipal Retirement System (PMRS) — may be a path toward resolving the state's \$7.7 billion unfunded municipal pension liability. *"The City of Harrisburg has three pension plans, and the two plans managed by the Pennsylvania Municipal Retirement System are in solid shape,"*

DePasquale said. *"However, the city's police pension fund, which is not managed by PMRS, has fallen to the minimally distressed level and required a minimum annual payment from the city of more than \$2 million in 2014. Harrisburg, Allentown and Easton provide examples of how using PMRS and making the minimum annual payments over time can put pension plans on solid ground,"* DePasquale said.

<http://www.paauditor.gov/press-releases/auditor-general-depasquale-says-latest-audits-of-harrisburg-pension-plans-show-one-path-to-statewide-reform>

- From the Scranton Times-Tribune we learned that Mayor Courtright's administration is determined to use much of a windfall from the impending sale of the Scranton Sewer Authority to shore up the city government's horribly mismanaged pension plans. The mayor wants to put a large, not yet specified, chunk of that into the pensions, which have been characterized as being among the worst in the state.  
<http://thetimes-tribune.com/opinion/fix-city-pension-management-1.2003653>
- No COLA for Blair County retirees. Due to a change in state law governing county pension plans that took effect in January, as long as the county's pension plan remains below an 80 percent funding level Blair County may not provide a cost-of-living increase for retirees. The county's pension plan, based on a recently provided report, the county retirement board, is apparently funded at either almost 30 percent or almost 54 percent, based on two different ways of calculating the funding level. Either way, the new law eliminates Blair County's option for considering an increase in pension payments, the retirement board members agreed Monday. The last cost-of-living increase for Blair County's retirees was approved in January 2013.  
<http://www.altoonamirror.com/page/content.detail/id/629866/Blair-County-pension-plans-won-t-increase.html?nav=742>
- Chester County learned that Fitch Ratings had assigned the county's general obligation bond a 'AAA' rating; with the "Outlook Stable." Cited as a key driver in the ratings was the fact that the county had average amortization requirements and reasonable pension costs.  
<http://www.businesswire.com/news/home/20160205005749/en/Fitch-Rates-Chester-County-PAs-Bonds-AAA>