Pennsylvania Association of Public Employee Retirement Systems

February 2015 Newsletter

Welcome. When most think of February, thoughts of Punxsutawney Phil, Valentine's Day, President's Day and just when will winter end are often their first thoughts. Those of us in the public pension arena, however, tend to associate this time of year more with 1099-Rs, year-end performance numbers, and member statements. It's more of a time when we "look back" one last time and examine last year before we are allowed to face the current year. In preparing this edition of the PAPERS Newsletter we found a number of short articles and stories that caused us to think back to the major pension stories of 201. Those items appear to be developing into a continuing theme that will carry well into 2015.

We hope you find the accounts of interest, and instructive. Our goal is simply to place before you several topical articles, news items, and white papers that should provoke some thought for those of you who serve as a fiduciary for 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.

For those not familiar with the Pennsylvania Association of Public Employee Retirement Systems, or "PAPERS", allow us to re-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…" . If you want to know more about PAPERS and what we do, please drop us an e-mail at PA-PERS@Comcast.net or visit our website at www.PA-PERS.org. We hope the following helps you prepare for 2015 and beyond.

The Ups & Downs of 2014. As the saying goes – a picture is worth a thousand words. For a number of years Callan's "Periodic Table of Investment Returns" (see https://www.callan.com/research/files/989.pdf) has summarized not only the previous year's investment returns for the 10 most utilized asset classes, it has visually proven the argument for asset diversification. Not intended as a bogy for measuring a fund's performance, what it does do is graphically show the returns for the most popular indices on a "best-to-to worse" basis. In doing so the table highlights the uncertainty inherent in all capital markets. S&P Growth equities strong in 2014? Not so much for 2012 were they? Emerging markets that was tops in 2012 ranks next to last in 2014. Every fiduciary should spend 5 minutes looking at this chart before they are allowed to use the word "volatility".

For those who want to leave the numbers to the consultants but who might want a short macro-economical and geopolitical look back at 2014, may we suggest Institutional Investor's Spin on the Year that Was (See http://www.institutionalinvestor.com/inside-edge/3413977/institutional-investors-spin-on-the-year-that-was.html)

The Attacks Continue. Last year the demonization of public pension plans was found in all media sources. One piece in particular caught our eye, Andy Gibbs' Opinion piece in the December 3, 2014 Wall Street Journal entitled "Public Pensions Need Gamblers Anonymous." (See http://www.wsj.com/articles/andrew-g-biggs-public-pensions-need-gamblers-anonymous-1417563447 - Note subscription and login required to see whole editorial.) Fortunately, advocates like Hank Kim, Esq. Executive Director & Counsel of the National Conference on Public Pension Plans are around to address the demagoguery (See http://www.ncpers.org/files/WSJ%20Letter%20Re-%20Biggs.pdf)

And if one were hoping the attacks would diminish in the New Year, hopes were dashed by the Steve Malanga Opinion piece "The Pension Sink Is Gulping Billions In Tax raises" found in the January 12, 2015 WSJ ("See http://www.wsj.com/article_email/steve-malanga-the-pension-sink-is-gulping-billions-in-tax-raises-1421106634-lMyQjAxMTI1MjI3NzQyMTc1Wj). This one was "counter argued" by Keith Brainard, of the National Association of State Pension Administrators (See http://www.wsj.com/articles/pensions-are-a-mathematical-issue-letters-to-the-editor-1422314574)

And Not Just In Editorials. Perhaps one could argue the attacks on public pensions in the media are simply an exercise of free speech; but the reshaping of public benefit s by the states' legislatures and courts seem pretty strong evidence that some type of change is a coming…

To wit: We start with a story that PAPERS addressed at our 2014's Forum – "Implications of the Detroit Bankruptcy on Public Pension Plans in PA". The story has morphed into a series of judicial decisions remaking the basic precepts of public pension plan commitments. A worthy read sheds light on a new challenge to public pension plans' place in federal bankruptcy court. (See http://www.pionline.com/article/20150108/ONLINE/150109924/san-bernardino-sued-for-favoring-calpers-over-bondholders). And if you are wondering the reason these challenges continue, you might want to read Alan Pyke's article in the

ThinkProgress entitled “Everything You Need to Know About Detroit’s Bankruptcy Settlement” (http://thinkprogress.org/economy/2014/11/08/3590576/detroit-bankruptcy-conclusion-numbers/) which points out that ‘… a $100 million investment in [legal] counsel returned $70 in debt reduction for every dollar the city spent.”

So What’s The Alternative? A number of organizations are examining that question. One of the more interesting studies caught our eye recently. The American Academy of Actuaries has undertaken a project it calls Retirement for the AGES (A- Alignment, G-Governance, E-Efficiency, Sustainability). (See http://www.actuary.org/Retirement-for-the-AGES) What captured our attention was that the project is designed to …”illustrate the strengths and shortcomings of retirement systems and proposals to reform them.” They have created a measuring stick to evaluate existing pension programs and the proposed reforms of those programs and they have done this by identifying the four goals to provide “Retirement for the AGES.” They just released their first report card on a number of retirement systems. (See https://www.youtube.com/watch?v=GizB5hJrj-8). As the debates take shape around the country, the legislators would do well to measure their proposals against the Academy’s grading system.

That being said, several states have already advanced some very interesting retirement concepts and plans. An article that nicely captures the current state of reform is “States Move to Institute Retirement Accounts” found in the February 4, 2015 edition of *Institutional Investor*. (See http://www.institutionalinvestor.com/article/3424457/investors-pensions/states-move-to-implement-retirement-accounts.html#.VN0qUS7lnEd)

And While Addressing Change. We could not help but noticed the changes that occurred and that are occurring at Pennsylvania’s largest public pension plans. In 2014 and 2015, so far, we have seen:

- The Public School Employees Retirement System named Jim Grossman as their Chief Investment Officer (3/17/2014) and the announced the retirement of their Executive Director Jeff Clay effective March 6, 2015.
- The State Employees’ Retirement System named Tom Brier as the new Chief Investment Officer (12/10/2014) and
- The Pennsylvania Municipal Retirement System named Steve Vaughn as their new Secretary effective with the retirement of Jim Allen effective June 27, 2014.
- The City of Philadelphia’s Board of Pensions and Retirement named Executive Director Francis Bielli as the interim CIO with the January 15, 2015 resignation of Sumit Handa.

As they say, the only thing constant is change…

Finally, We Knew it Was Coming. As we have been sharing in our past presentations regarding the GASB 67 & 68 accounting pronouncements, the likelihood of misrepresentation of what the new standards are and what they require was a given. The most recent expose can be found in Rob Garver's piece in *The Fiscal Times* "New State Pension Rules Expose Serious Fund Deficits" (See http://www.thefiscaltimes.com/2015/02/15/New-State-Pensions-Rules-Expose-Serious-Fund-Deficits?sthash.aq78Lvsg.mjjo). For a brief, but to our mind more accurate, idea as to the new account standards' impact you might want to checkout Andrew D. Wozniak's, Head of Fiduciary Solutions *at BNY Mellon Investment Strategy and Solutions Group,* article entitled *""Beware of Broad-Brush Critiques of Public Pension Funds"*
(See http://us.bnymellonam.com/core/library/documents/s_PublicPensionFunds.pdf)
The piece makes some perceptive observations and predictions(already coming true apparently) regarding the impact the new accounting rules will have on the public's perception of public pension plans.

Don't forget to mark your calendars for the 11th annual PAPERS Forum, May 20-21, 2015, at the Harrisburg Hilton. Look for the tentative agenda to be posted on our website in mid-March. See www.pa-pers.org.

PAPERS

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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