Snapshot of this Week's FYI

1. Teachers in the nation’s second largest school district went on strike Monday for the first time in nearly 30 years. It is one of the few times a Democratic-controlled government in a blue state is the target. The dispute involves how much money to spend on more school staffing and teachers’ raises, and whether the Los Angeles Unified School District (LAUSD) has the amount of funds required to do so, in part due to increasing pension costs. The strike involves an estimated 32,000 Los Angeles teachers and other school staff—including nurses, librarians and counselors—who are members of United Teachers Los Angeles (UTLA). The union was created in 1970 from more than a dozen different organizations representing teachers and support service personnel throughout the school district. The merger of the American Federation of Teachers Local #1021 and the Association of Classroom Teachers of Los Angeles brought all non-administrative, certificated personnel together under the one banner of UTLA and its affiliates, the California Teachers Association (CTA), the National Education Association (NEA), and the American Federation of Teachers, AFL-CIO.

2. A group of California public pension trustees have created principles intended to promote workplaces free of sexual harassment, misconduct and violence, thereby reducing the associated costs to investors. The goal is to help guide investors’ actions to manage risk on this issue and encourage other organizations to promote the same message.

3. The partial shutdown of the Federal government is now the longest on record, entering its fourth week. The consequences can sometimes be readily apparent, such as garbage piling up in national parks. But sometimes the impact may be less visible, but no less insidious.

Los Angeles Teachers Strike

Teachers in the nation’s second largest school district went on strike Monday for the first time in nearly 30 years. It is one of the few times a Democratic-controlled government in a blue state is the target. The dispute involves how much money to spend on more school staffing and teachers’ raises, and whether the Los Angeles Unified School District (LAUSD) has the amount of funds required to do so, in part due to increasing pension costs. The strike involves an estimated 32,000 Los Angeles teachers and other school staff—including nurses, librarians and counselors—who are members of United Teachers Los Angeles (UTLA). The union was created in 1970 from more than a dozen different organizations representing teachers and support service personnel throughout the school district. The merger of the American Federation of Teachers Local #1021 and the Association of Classroom Teachers of Los Angeles brought all non-administrative, certificated personnel together under the one banner of UTLA and its affiliates, the California Teachers Association (CTA), the National Education Association (NEA), and the American Federation of Teachers, AFL-CIO.

The LAUSD, which encompasses more than 700 square miles, has approximately half of a million public school students in more than 1,000 schools. The district’s students are 73 percent Latino, 11 percent white, 8 percent African-American, 4 percent Asian and 4 percent other, according to data for the 2017-18 school year. Much of the student population is poor, with approximately 80 percent qualifying for
free or reduced-price lunch. The district has hired about 400 substitute teachers and reassigned more than 2,000 administrators to help keep schools open for the same hours, offering the same before- and after-school programs.

Contract negotiations between the LAUSD and UTLA started in early 2017. Since then, union members have been working without a contract for more than a year. In August 2018, 98 percent of the union’s members voted to authorize a strike, but before it could take place, California law required certain steps be taken such as state mediation and fact-finding. UTLA is seeking the following:

- **Smaller class sizes.** The union wants to remove contract language that allows district officials to increase class sizes in order to save money. In recent years, the district has unilaterally raised some class sizes to as high as 46 students, surpassing the 39-student limit contained in the last teacher contract. The union is seeking to cap grades four through six at 35 students; middle and high school math and English classes at 39; and make no increases in current class sizes.

- **Increased support staff.** Some schools operate without full-time librarians or nurses. The union wants a full-time nurse for every school and a full-time librarian for every middle and high school. The union has also called for an additional academic counsellor at every comprehensive high school.

- **Reduction in standardized testing.**

- **Moratorium on new charter schools.**

- **A 6.5 percent salary increase for teachers,** including back pay to July 2016. In addition, they hope to see a 2 percent bonus. Teacher pay currently averages $75,000 annually in the LAUSD, according to the California Department of Education. However, California ranks 41st in state spending per student, when adjusted for cost-of-living.

In response, the LAUSD has offered the following:

- Lower the maximum class sizes in grades four to six — from 36 students in a classroom to 35, and high schools across the board with a decrease from 42 to around 39 (schools with the greatest need would see a four-student drop). In addition, at least one librarian would be hired for middle schools; a full-time nurse would be provided to all elementary schools; and the number of high schools’ academic counselors would be increased.

- Create a working group to address charter school issues.

- Increase salaries by 6 percent, but with back pay going back only as far as July 2017, when the teachers’ last contract expired.

While it would appear that the two sides are not that far apart, the devil can be in the details. For example, Los Angeles county government leaders said they could find $10 million in mental health funding, which would help pay for full-time nursing services at every elementary school. However, that money would only last a year, which union officials say is a major flaw.

In the end, the issue boils down to how much money should be spent on more school staffing and teachers’ raises, and whether the school district actually has enough funds to do so.

LAUSD says that it does not. It points to steadily declining enrollment, which is likely due to increasing housing costs that discourage families with school-age children from remaining in the city. Then there is the growth of charter schools that compete for students and their funds.

This trend means the school district gets less in per-pupil funding from the state. For example, when only about one third of the usual number of students who go to school actually showed up on the first day of the strike, the district estimated it lost about
$25 million in funding because the state funds schools based on daily attendance. Attendance was down because parents kept children home out of concern for their safety or to honor picket lines.
Also, the school district blames exploding pension and retiree health benefit costs for its financial woes. For example, its contributions to the California State Teachers’ Retirement System (CalSTRS) and the California Public Employees’ Retirement System (CalPERS), which amounted to about 5.5 percent of the budget in the 2014-15 school year, grew to nearly 8 percent in 2018. Consequently, the LAUSD claims that if it met all the union’s demands, it would cost up to $3 billion and drive the district into bankruptcy.
But the UTLA says that these cries of poverty are greatly exaggerated, noting that none of the recent projections of the school district’s financial collapse have come true. For example, the union points out the LAUSD predicted a $105 million reserve three years ago, and instead ended with $1.86 billion—a $1.7 billion miss.
A recent independent report found the district has $1.8 billion in reserves, a sum that’s been growing significantly over the past five years, up from $500 million in 2014. The union wants those funds spent on its contract demands. But the school district says it needs to devote those funds toward regular operations in order to avoid insolvency.
And so, the strike continues. As Amanda Sakuma, writing in Vox, notes: “LA’s union leaders want their strike to make a statement about the future of the public school system and the encroachment of charter schools. Because they know: Major changes to a single region that is home to 700,000 school-age children could set the tone for the progressive education fight across the country.”

- Reuters: “Striking Los Angeles Teachers Picket in Rain With No Deal Imminent”
- NPR: “Why Los Angeles Teachers Are Striking”
- Vox: “Why Thousands of Los Angeles Teachers Are Going on Strike”
- CNN: “The Los Angeles Teachers’ Strike May Have Already Cost Millions, and It’s Only Day 2”
- Associated Press: “Strike or No Strike, Pensions Problematic for LA Schools”

New Trustee Group Formed to Fight Sexual Harassment, Misconduct in the Workplace

A group of California public pension trustees has created principles intended to promote workplaces free of sexual harassment, misconduct and violence, thereby reducing the associated costs to investors. The goal is to help guide investors’ actions to manage risk on this issue and encourage other organizations to promote the same message.

The new coalition, Trustees United, was founded by members from the California Public Employees’ Retirement System (CalPERS), the California State Teachers’ Retirement System (CalSTRS), the Los Angeles County Employees’ Retirement System (LACERS), and the Los Angeles County Employees’ Retirement Association (LACERA). Together, they represent $635 billion in assets under management.
The group notes the rise of the #MeToo movement has forced investors to consider the extent to which sexual harassment and misconduct in the workplace can have a compelling adverse effect on corporate culture and human capital management practices, as well as create material risks to investment portfolios and financial performance. They contend that long-term value creation requires companies to fully consider the business risks and opportunities they may face and to take action to manage both.

For example, Trustees United cites the Weinstein Company’s declaration of bankruptcy and Wynn Resorts’ sudden loss of $2 billion in value following allegations against these companies’ executives as “only the most high-profile illustrations of this looming threat. As fiduciaries, we recognize that the recent wave of sexual harassment and misconduct incidents leave companies open to significant operational, financial and reputational risks,” the new group’s website states.

“These concerns have forced us to look more closely at issues like gender, racial and ethnic diversity and to demand transparency and disclosure of how our portfolio companies are mitigating these risks,” it continues.

Trustees United has created four principles to guide investors’ actions in managing these risks:

1. **Corporations must ensure “a work environment free of sexual harassment and violence.”** Corporate boards must support the right of employees, both individually and collectively, to safely bring forward claims of sexual harassment and violence, and company directors “should publicly share due diligence processes used to respond to sexual harassment and violence complaints filed by all employees, including contingent, temporary, and subcontracted workers.”

2. **Companies should be transparent in reporting sexual harassment and misconduct settlement costs to investors.** The use of non-disclosure agreements and forced arbitration policies “reinforce the silence that perpetuates harassment.” Transparency can “help change corporate culture and limit the potential for significant exposure to financial and reputational risk.”

3. **Corporations must promote diversity at all levels, including the board of directors and top management.** “Diverse boards which reflect the racial and gender composition of a company’s workforce can help to create organizational cultures that prevent sexual harassment and related risks from materializing,” the principles underscore.

4. **Policies and agreements can mitigate risk by addressing power imbalances.** Collective bargaining agreements and responsible contractor policies that protect workers’ rights can provide “clear mechanisms for redress when incidents occur.”

“From my perspective, as a representative of the trustees for the world’s largest educator pension fund, our concern goes beyond the immediate fall in company value,” Sharon Hendricks, CalSTRS' vice chairwoman, said in a CalSTRS news release. “Less visible — but no less real — are the missed opportunities to create long-term value due to the adverse impact sexual harassment and misconduct have on corporate culture,” she continued. “The trustee principles were conceived as a catalyst for expanded engagement on an issue that remains largely invisible to investors,” Hendricks stressed.

At the outset, a total of 13 California system trustees signed the principles. The Trustees United website invites other pension fund trustees to join them by filling out
an online form or emailing TrusteesUnited@gmail.com to submit their support of these principles.

- Trustees United Website
- Chief Investment Officer Magazine: “California Pensions Convene Anti-Sexual Harassment Coalition”
- CalSTRS: “Institutional Investor Trustees Representing $635 Billion in Assets Launch Principles Addressing Sexual Harassment and Workplace Misconduct”

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### Additional Impacts of Federal Government Shutdown

The partial shutdown of the Federal government is now the longest on record, entering its fourth week. The consequences can sometimes be readily apparent, such as garbage piling up in national parks. But sometimes the impact may be less visible, but no less insidious. For example, consider what the shutdown is doing to Federal employees’ personal savings, such as for retirement, and the message this sends to all workers. Another important area being seriously affected is cybersecurity.

**Retirement.** Writing in *Forbes*, Mark Avallone, founder of Potomac Wealth Advisors, LLC, and a regular guest on CNBC and FBN, acknowledges that the unexpected loss of income for Federal employees and contractors can be an upsetting personal and financial setback. But he goes on to wonder why so many working Americans have no savings. As he notes, many “newly unemployed” are hard-working people who were gainfully employed, and yet “the loss of one paycheck is prohibiting them from paying their bills.” There may be special circumstances, such as a one-time medical emergency, but “the reality is that people just aren't saving enough.” The consequences, as he goes on to point out, are the nation’s “anemic savings rate” and that, according to CNBC, only 37 percent of retirees have more than $100,000 saved for retirement, while 60 percent do not even know how much they need to save for retirement.

“Politicians are quick to claim they care about these workers,” Avallone observes, but he bemoans the lack of any national effort to increase the nation’s savings rate. He suggests that Congress should start a “national awareness program similar to the successful smoking cessation program or the child obesity awareness campaign” focusing on the lack of savings and the importance of financial literacy. But for now, Avallone says, “what we are learning from this [Federal government] shutdown is that individuals are the ones responsible for reaching their own goal of financial freedom.” And for affected Federal employees and others who derive income from the government, the impact on retirement could be significant depending on how long the shutdown lasts.

For example, retirement plans for some Federal employees are being disrupted because they will have to wait longer to take retirement distributions from their Thrift Savings Plan (TSP). This is due to the fact that employees who are supposed to work on their retirement papers are furloughed.

Also, bipartisan legislation has been introduced in the House of Representatives that would allow affected Federal workers to withdraw funds from their retirement...
accounts without having to pay the usual 10 percent penalty. It would also apply to contract workers whose sole income comes from their Federal contract.
While this could permit these employees to access funds to provide financial stability during a stressful period they have no control over, it could seriously impact their long-term retirement security.
Avallone concludes by pointing out that the spotlight is currently on those who are unfortunately not receiving a paycheck. “But their plight is not unique to them,” he warns, and stresses that “[if] you are one of the millions of Americans unprepared for a financial setback, it is important to start taking control of your financial life.”

Cybersecurity. The longest furlough of government workers in U.S. history is “also the biggest window of increased exposure to hacking to date” for the government, warns Theresa Payton, the CEO of Fortalice Solutions—a cybersecurity and intelligence firm—and the former White House chief information officer under President George W. Bush.
Payton, in an opinion piece for CNN, says the shutdown is “a call to action for cyber criminals at home and around the globe to probe for vulnerabilities and strategically position themselves for decisive strikes in the future.” The “big break” may not occur now, she says, but the “silent successful penetrations of networks today -- and their devastating effects” could be felt later down the road.
As she notes, cybersecurity systems may be in place and running. “However, someone has to not only see the alarm, but also be on hand to assess the situation, coordinate assets for response and then actually extinguish the threat,” she points out. With its "essential personnel," national security agencies for the most part remain staffed and fully functioning, but tens of thousands of government employees and contractors in agencies such as the Departments of State, Homeland Security and Justice, which oversee critical assets in diplomacy, security and judicial oversight, are staying at home.
Payton lists the following potential consequences:

- Routine cybersecurity "hygiene" tasks, like firewall maintenance, are likely being postponed because they often require the buy-in of federal employees that might be furloughed and of federal contract workers who might have been deemed nonessential.
- Getting to the bottom of whether an "incident" is a false alarm or a major security breach is impossible to do without support staff who are trained to analyze and assess the severity of the threat. But they cannot do this work in a vacuum, Payton warns. “They need their counterparts in information technology to help them with the systems side, and many of these employees in civilian branches across the federal government are at home,” she notes.
- Hiring for key Federal cybersecurity and IT positions has slowed -- and perhaps altogether stalled. This diminishes the pipeline of candidates for several months. Also, for those federal workers and contractors who already have those jobs but aren’t getting a paycheck, they may well look for more reliable work in the private sector “where they’re less likely to be victims of our nation’s dysfunctional politics,” she observes.

Payton also says key decisions on contracts and initiatives for cybersecurity are being postponed, indefinitely, citing the recently approved new Cybersecurity and Infrastructure Security Agency (CISA) at the Department of Homeland Security that is just getting off the ground. “Running at full speed requires a lot of work and resources, but according to shutdown guidance, over 40 percent of CISA’s staff is furloughed,” she points out.
Furthermore, the new SECURE Technology Act, which addresses supply chain vulnerabilities, just became law last month. But the funding and program implementation for the new law “has now ground to a halt,” Payton says. “Cybersecurity is hard enough when we’re fully staffed and operating effectively,” she says. “On a good day, we are outmanned, outgunned and out-funded by bold and creative cybercriminals and adversaries. Due to the shutdown, America's cyber defenses are more vulnerable than ever,” Payton concludes.

Joseph Steinberg, who has led businesses and divisions within the information-security industry for nearly two decades, agrees. He warns that the government shutdown “could create serious, long-term cybersecurity risks for the United States,” and he cites may of the same examples that Payton used.

In addition, Steinberg points out that the shutdown “has also had a dramatic impact on government agencies that help secure the private sector,” such as the National Institute of Standards and Technology, or NIST, which is part of the mostly-closed Department of Commerce. While NIST implements practical cybersecurity and privacy through outreach and effective application of standards and best practices necessary for the U.S. to adopt cybersecurity capabilities, its website and almost all NIST-affiliated websites are now “unavailable until further notice.” Additionally, the shutdown may mean that some government employees who are not being paid may fall behind on paying their bills, which can in turn cause them to lose their security clearances. Since the government is already understaffed when it comes to cybersecurity, “losing even a relatively small number of talented folks from the teams dedicated to the most sensitive projects from a national security standpoint could potentially undermine national security,” Steinberg stresses. “Criminals and foreign adversaries, for example, would be quite happy if FBI agents lose clearances and get removed from investigations,” he observes.

Steinberg concludes ominously by warning “[t]here is little doubt that the longer the shutdown continues the more likely it is to create opportunities for our nation’s adversaries – some of whom may have already exploited the situation for their own gain, and to our detriment.”

The moral of this story? There is a lot more going on because of the partial shutdown of the Federal government than meets the eye. For the sake of student’s nutrition, Federal employees’ retirement, and the cybersecurity of the nation, its citizens and businesses -- the sooner a compromise can be reached on the shutdown, the better for all involved.

- Forbes: “Hard Financial Lessons Learned From the Government Shutdown”
- CNN: “The Big Shutdown Threat We Aren't Talking About”
- Joseph Steinberg: “Government Shutdown Could Create Long-Term CyberSecurity Problems for the United States”

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### In the Media

**Society of Actuaries publishes first-ever mortality tables exclusively for public sector workers**

The SOA is releasing public plan mortality tables to give pension actuaries and plan sponsors current information to assist in setting mortality assumptions. This is the first time the SOA has studied public retirement plan mortality separately from the private sector. The SOA's mortality tables include 46 million life-years of exposure data and 580,000 deaths from 78 public pension plans and 35 public pension systems across the country.

*InsuranceNewsNet*
*See the new tables*

**Kansas governor's proposal to extend unfunded liability amortization period provokes strong opposition**

The state would pay less now and more later. The plan would save the state $770 million over the next five years, according to calculations by KPERS. But over 30 years, Kansas would ultimately have to contribute $7.4 billion more than currently projected. ... Under current law, annual state contributions to the pension system are expected to rise until they hit a peak of $900 million in 2035, but then fall to less than $100 million per year in the decades after. (According to the KPERS valuation dated 12/31/17, the plan's legacy UAL is scheduled to be amortized over a 15-year period. *kb*)

*The Wichita Eagle*

**Large and growing negative cash flow challenges Oregon PERS**

The immediate question facing state investment managers is whether and how to restructure the portfolio to meet those increasing cash needs. But longer term, the question is the same one facing most retirees: How much cash can it afford to spend every year without dipping into the seed corn, and potentially exhausting the fund. ... Lowering the assumption would increase the present value of the system's future benefit payments as well as its

### Studies & Reports

**S&P Global: Five public pension and OPEB trends to watch for in 2019 and beyond**

Key takeaways: Volatile markets could affect future pension costs and funding status. States might need to offload pension costs to local governments. Updated disclosure on reported retiree health care obligations could heighten awareness and spur reform. States continue to pass pension reform and sustainability measures in an effort to manage costs and improve system health. The combination of environmental, social, and governance obligations and retirement obligations could also stress long-term government costs.

*Read the report*
*Credit Effects@NASRA.org*

**Rate of union membership among US workforce continues long decline**

The union membership rate—the percent of wage and salary workers who were members of unions—was 10.5 percent in 2018, down by 0.2 percentage point from 2017. ... The union membership rate of public-sector workers (33.9 percent) continued to be more than five times higher than that of private-sector workers (6.4 percent). The highest unionization rates were among workers in protective service occupations (33.9 percent) and in education, training, and library occupations (33.8 percent).

*BLS news release and data*

**States and local governments added jobs in December**

State and local governments added an estimated 14,000 jobs in December 2018, with 9,000 jobs accruing to local governments and 5,000 to state governments. Revisions to prior months' data added 20,000 state and local government jobs to the running total. Combined state and local government employment is now one percent below its 2008 peak.

*Employment@NASRA.org*

### Tweet of the Week
funding deficit, requiring higher contributions from employers.

The Oregonian
Pew discussion of negative cash flow

Larry Fink’s annual letter to CEOs: Profits and purpose are inextricably linked; retirement leadership is needed

Late Wednesday, chief executives received a new missive from Mr. Fink that will almost certainly stir up an even louder debate. Businesses, he wrote, cannot merely have a purpose. They must be leaders in a divided world. ... "Retirement, in particular, is an area where companies must reestablish their traditional leadership role. ... In some countries, particularly the United States, the shift to defined contribution plans changed the structure of that responsibility, leaving too many workers unprepared. And nearly all countries are confronting greater longevity and how to pay for it. This lack of preparedness for retirement is fueling enormous anxiety and fear."

New York Times
Read the letter
BlackRock’s approach to engagement

CRR study considers effect of pension cuts on public employee separation

This study examines whether pension cuts affecting current public employees encourage mid-career teachers and civil servants to separate from their employers. The analysis takes advantage of a 2005 reform to the Employees’ Retirement System of Rhode Island (ERSRI) that dramatically reduced the generosity of benefits for current workers. Importantly, the cuts applied only to ERSRI members who had not vested by June 30, 2005.

Executive summary and full report
KPMG publishes global withholding taxes guide for 2018

This report summarizes taxation of income and gains derived from listed securities in a number of markets around the world as of December 31, 2018.

See the guide
Perspectives
Fiduciary Duty Guidance for Proxy Voting Reform

We believe that greater attention to these fiduciary duty fundamentals could help drive an increase in company and investor performance over the long term, enhance sustainability and encourage more effective management of systemic risks. This has implications for the content of proxy analyses, staffing of proxy voting functions and structure of proxy policies. However, both companies and investment fund beneficiaries are likely to benefit from improved alignment of proxy voting management processes with an up-to-date application of fiduciary duty principles.

Keith Johnson, Susan Gary and Cynthia Williams in Harvard Law School Forum on Corporate
The Financial Relief for Feds Act, H.R. 545, would allow furloughed federal employees (including federally funded state employees and other federal grantees that are furloughed), "essential" federal employees working without pay and contractors whose sole source of earned income is their federal contract to make a withdrawal from their retirement savings accounts without the 10% penalty that normally applies. That includes not only the federal Thrift Savings Plan (TSP) but any eligible retirement plan.

Snapshot of this Week's FYI

1. The new 116th Congress has a record number of women serving in it. Can a stronger female perspective translate into better retirement security for women?
2. It is always smart to know what others are currently saying about you—particularly if they have already labeled you as “unfair and insecure.”
3. The graduating class of 2019 will mark the first wave of a new group entering the workforce, known as Generation Z. Are they different from their predecessors, the Millennials? Are you prepared for the new demands they will generate?

Record Number of Women in Congress Could Mean Improved Women’s Retirement Security

The new 116th Congress has a record number of women serving in it. Can a stronger female perspective translate into better retirement security for women?

In 1917, Jeannette Rankin (R) of Montana was elected to the U.S House of Representatives, becoming the first woman ever elected to Federal office. As of this month, there are now a record 131 women serving in Congress – 106 in the House, including four territorial delegates, and 25 in the Senate.

The new Congress represents a number of historic firsts for women. These include:

- The freshman class of women in the House in 2019 is the largest ever, with 36 non-incumbent women elected.
A record number of women of color (43) were elected to the House. Of them, 22 are black, 12 are Latina, six are Asian/Pacific Islander, and one is North African. All are Democrats, except for one Republican Latina.

Abby Finkenauer (D-IA) and Alexandria Ocasio-Cortez (D-NY) are the youngest women ever elected to Congress at age 29; Lauren Underwood (D-IL), age 32, is the youngest black woman ever elected to Congress.

Donna Shalala (D-FL), at 77, is the oldest female freshman Member of the House in history.

Congresswoman Ilhan Omar (D-MN) became the first Somali-American elected, and, along with Congresswoman Rashida Tlaib (D-MI), they are the first Muslim women elected to Congress.

Congresswomen Sharice Davids (D-KS) and Deb Haaland (D-NM) are the first Native American women elected to Congress.

Ayanna Pressley (D-MA) and Jahana Hayes (D-CT), the National Teacher of the Year in 2016, are the first African-American women to represent their states in Congress.

Veronica Escobar (D) and Sylvia Garcia (D) are Texas’s first Latina lawmakers.

Democrats Cindy Axne and Abby Finkenauer are the first women elected to the House from Iowa.

Senators Cindy Hyde-Smith (R) and Marsha Blackburn (R) are the first women elected to their state’s U.S. Senate seats in Mississippi and Tennessee, respectively, and Senator Kyrsten Sinema (D) is the first woman elected to the Senate from Arizona.

In California, Nevada, Arizona, Minnesota, New Hampshire and Washington, women hold both Senate seats.

There is a record number of female veterans (seven) serving in the 116th Congress.

Can this new “sisterhood” of lawmakers reverse the long-term trends in retirement that disproportionately affect women and, if left unchecked, will decrease women’s financial stability during their senior years? This is the question that Max Richtman, president and CEO of the National Committee to Preserve Social Security and Medicare, asks in a recent opinion piece in The Hill. His answer suggests that they might.

Richtman begins his piece by noting that historically, women have had fewer assets and income in retirement, and depend more heavily on Social Security. But the continuing gender pay gap and time spent away from the workforce to care for family have diminished women’s Social Security retirement benefits. For example, he points out, in 2018 women’s average monthly benefits were 21 percent lower than men’s even though their retirement dollars are required to stretch over more years due to women’s greater longevity.

“As mothers, caregivers, and members of the workforce, most women of the 116th Congress understand these critical issues and are well positioned to affect change,” Richtman says. Indeed, he notes studies have shown women lawmakers “elevate policies benefiting women more than their male counterparts do,” pointing to Rutgers political science professor Kelly Dittmar, who says while it may not be possible to say specific policies will pass, nevertheless “we can safely say that there will be issues brought to the table that have otherwise not been there.”

Specifically, Richtman argues that increasing Social Security and Medicare benefits “would go a long way toward improving women’s retirement security.” In addition, he
lists several other areas where action could be helpful in increasing elderly women’s financial security. These include:

- **Gender pay equity.** The Equal Pay Act of 1963 could be strengthened by ending pay secrecy, enhancing workers’ ability to challenge discrimination and bringing equal pay law into line with other civil rights laws.

- **Caregiver credit.** An annual Social Security caregiver credit could be created for each year spent away from the workforce caring for family (up to five years).

- **Improve survivor benefits.** The benefit paid to a surviving spouse could be increased to an amount that is equal to 75 percent of the total combined benefits that were paid to the couple prior to the spouse’s death, capped at the benefit level of a lifelong average earner.

- **Consumer Price Index for the elderly.** The Consumer Price Index for The Elderly (CPI-E) could be adopted for the purpose of determining cost-of-living adjustments (COLAs) for Social Security benefits. “This would be especially valuable to women because they live longer,” Richtman stresses.

- **Boost benefits for beneficiaries 85 and older.** A “bump-up” in benefits at age 85 could be provided, helping older women keep pace with increases in the cost of living.

“These measures would go a long way toward addressing retirement inequities that have been awaiting solutions for decades,” Richtman argues. But what are the chances that the new women of Congress can obtain action on increasing Social Security and Medicare benefits as well as on other issues of importance to retirement security, particularly for women? Washington Post columnist Kathleen Parker warns that reality will soon check in for the new women in Congress. “The combustion of exuberance and overnight fame, thanks to the media’s excessive coverage of the rookies, could explain the giddy gall of some new members,” she observes. Furthermore, she notes that as “history-making and fun as the past few weeks have been, the reality part is about to hit the rest of America in the face.” And that reality, Parker says, is that while the governing philosophy of these new women members “by and large is several longitudinal notches to the left of mainstream Democrats, as we’ve understood them,” nevertheless, for now, they “will be driving a lot of the action and attention.” They are now the mainstream, she concludes.

So, buckle up. For example, Nancy Altman, president of Social Security Works and chair of the Strengthen Social Security coalition, explains in Forbes that this historic new Congress is about to make historic and significant strides in the fight to expand Social Security and Medicare.

Altman, also the chair of the Board of Directors of the Pension Rights Center, notes the new chair of the Ways and Means Committee’s Social Security Subcommittee, Congressman John Larson (D-CT), has said he will hold hearings on expanding Social Security early in the new Congress. Furthermore, on the first day of the new Congress, House Democrats announced they will be holding hearings on Improved Medicare for All as well.

These hearings are a major development, Altman stresses. “They will mark the first time the House of Representatives has held hearings on expanding Social Security in almost half a century and the first time ever on improving Medicare and expanding it to cover all Americans,” she states.

“The fact that the most diverse Congress in history will be prioritizing these issues, which are important to all of us, but especially to women and people of color, is no coincidence,” Altman concludes.
Stay tuned.

- *The Hill*: “116th Congress Breaks Records for Women, Minority Lawmakers”
- *Politico*: “We Call Ourselves the Badasses: Meet the New Women of Congress”
- *Forbes*: “New Congress Will Hold Historic Hearings on Expanding Social Security and Medicare”

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**Opponents Update Claims on Average Teacher Pensions**

It is always smart to know what others are currently saying about you—particularly if they have already labeled you as “unfair and insecure.” TeacherPensions.org, whose byline is “Fixing an unfair and insecure system,” is a project of Bellwether Education Partners, which is a 501(c)(3) non-profit and a strong supporter of school choice. It is funded in part by grants from the Laura and John Arnold Foundation, which has given Bellwether a total of approximately $1.9 million dollars since 2013 to “educate policymakers and the general public about issues affecting teacher pensions.”

TeacherPensions.org believes “[c]urrent teacher retirement systems are often designed in ways that systematically disadvantage young and mobile teachers and impair the ability of schools to recruit, hire, retain, and compensate high-quality teachers.”

This month, TeacherPension.org has published what it purports to be a state-by-state breakdown of the average pension for newly retired teachers from the past ten years in each state. “In the majority of states that don’t list the average benefit for newly retired members outright, these data are retrieved from states’ observations about retirees and beneficiaries added to the retirement plan’s rolls and about new benefit payments added to the rolls” based generally on 2016 figures, the analysis claims. It acknowledges that its method “is not completely precise” because these numbers also “include beneficiaries added to the rolls because their spouses passed away, as well as potential increases in benefit payments due to inflation adjustments.”

The analysis also shows, among all newly retired teachers, what the median retiree purportedly earns. Finally, the estimated percentage of new teachers who “will actually receive a pension” is displayed, which the report claims is derived from each state’s annual comprehensive financial report (CAFR).

However, the report’s average teacher pension “doesn’t necessarily reflect the amount that many teachers actually earn,” as is noted in the report. Additionally listed within the report are “important caveats” about its data:

1. **Not all teachers qualify for a pension.** “States can and do set relatively high minimum service requirements, ranging from five to 10 years, and over half of incoming teachers won’t qualify for retirement benefits in their state,” the report claims. “Leaving these teachers out of the overall pool obscures who gets counted in the ‘average pension,’” it warns.
2. **Benefits will vary, widely.** “The statistical average, or mean, hides the fact that only a small percentage of incoming teachers will receive a full career pension at retirement, while many, many more get only a small amount,” the analysis intones.

3. The report insists that many teachers’ pensions “may be worth less than the value of the teacher’s own contributions.”

4. Finally, TeacherPensions.org notes that in many states, teacher pension plans have created newer, less generous retirement tiers for newly entering members. “If you’re a new teacher and you live in a state with a tiered plan, your retirement plan could end up looking significantly more meager” than their analysis claims.

Teacherpensions.org is a prolific critic of teacher’s defined benefit model. A consistent theme is that that because of high attrition rates among new teachers, the teaching profession would be better off with 401(k) plans or similar account-based plans, such as a cash balance approach. Their new “update” continues to push this argument.

However, as Nari Rhee, Director of the Retirement Security Program at the UC Berkeley Center for Labor Research and Education, has repeatedly pointed out, studies critical of teacher pensions deliberately ignore the teaching workforce and focus exclusively on new entrants in order to propagate the misleading message that “most teachers” won’t collect a decent pension.

As she notes, it may be true that a high percentage of teachers entering the profession will drop out early, particularly in the first few years. “But this doesn’t actually tell you anything about the composition of the teaching workforce—i.e., the educators who work in public schools today,” she has stressed. Instead, her studies have shown teachers who persevere through the first few years are very likely to work a full career in teaching.

“Public schools are a far cry from private sector workplaces where most positions turn over every few years, or even every few months,” she underscores. In fact, her research has shown:

- Most classrooms will see the same teacher return year after year, and often, decade after decade.
- Even when teachers switch schools, in most cases they get to keep and continue to accrue their pension benefits under the same retirement system.
- Most teachers working in public schools today would lose income in a 401(k) compared to a pension.

Dr. Rhee’s most recent study, a joint report developed along with the National Institute on Retirement Security (NIRS) and released January 8, analyzes teacher retirement system membership and actuarial data in Colorado, Connecticut, Georgia, Kentucky, Missouri, and Texas in order to determine how long teachers will work in the same state, and how they fare under the lowest-tier pension in that state compared to a cost-equivalent 401(k) defined contribution plan.

Instead of generalizing pension outcomes for new hires to all teachers, as TeacherPensions.org does, her new report, co-authored by Rocky Joyner, a vice president and actuary in Segal Consulting’s Atlanta office and Segal’s National Public Sector Retirement Practice Leader, is weighted to accurately reflect the actual teaching workforce in each state. It finds most classroom teaching is performed by long-career teachers. While attrition is high in the first few years after hire, the report finds it “falls off sharply and stays low through mid-career,” spiking at the specific
retirement ages of each pension system. For example, teachers in the six states studied will typically serve 25 years in the same state and leave service at age 58. The new NIRS report concludes pensions provide significantly more valuable benefits than 401(k)s for typical teachers in all six states, meaning that most teachers would require substantially higher contributions to realize the same retirement income in a 401(k) as the lowest-tier pension. Based on a full-career teacher—hired at age 25 who works 30 years in the classroom—providing the same level of retirement income through a 401(k) account would cost roughly twice as much in Colorado, Kentucky, Missouri, and Texas; and about 60 percent more in Connecticut and Georgia. (Rhee has previously performed similar reports examining teacher systems in California and Kentucky, with similar results.)

“Knowing what is being said about you to reporters, lawmakers and other stakeholder is always important,” noted Maureen Westgard, NCTR’s Executive Director. “I encourage our systems to have their own numbers ready in case opponents attempt to use this new ‘analysis’ against you,” she continued. “As the saying goes, forewarned is forearmed,” she concluded.

- TeacherPensions.org: “Update: What is the Average Teacher Pension in my State?”
- UC Berkeley Labor Center: “Teacher Pensions vs. 401(k)s: Part 1 — Look at the Whole Workforce, Not Just New Entrants”
- NIRS: “Teacher Pensions vs. 401(k)s in Six States: Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas”

Are You Prepared for Generation Z?

The graduating class of 2019 will mark the first wave of a new group entering the workforce, known as Generation Z. Are they different from their predecessors, the Millennials? Are you prepared for the new demands they will generate? The Pew Research Center has decided to use 1996 as the last birth year for Millennials for their future work. Anyone born between 1981 and 1996 (ages 23 to 38 in 2019) is considered a Millennial, and anyone born from 1997 onward is part of a new generation, referred to as Gen Z. (Pew notes that over the past year, the term “Gen Z” has taken hold in popular culture and journalism for the generation that follows Millennials, and Google Trends data show that “Generation Z” is far outpacing other names in people’s searches for information.)

To begin with, Pew has noted some marked differences between Millennials and Gen Z, as follows:

- Most Millennials were between the ages of 5 and 20 when the 9/11 terrorist attacks occurred, and many were old enough to appreciate the historical significance of that moment. However, most members of Gen Z have little or no memory of the event.
- Millennials grew up with the wars in Iraq and Afghanistan, which Michael Dimock, the president of the Pew Research Center, says “sharpened broader views of the [political] parties and contributed to the intense political polarization that shapes the current political environment.”
- Most Millennials were between 12 and 27 during the 2008 election, where “the force of the youth vote became part of the political conversation and helped elect the first black president,” Dimock observes.
While Millennials are the most racially and ethnically diverse adult generation in the nation’s history, Generation Z is even more diverse.

Dimock also notes most Millennials came of age and entered the workforce during the height of an economic recession. Accordingly, many of their life choices, future earnings and early adulthood have been shaped by this recession “in a way that may not be the case for their younger counterparts.” Indeed, Dimock says the long-term effects of this “slow start” for Millennials “will be a factor in American society for decades.”

Technology and the rapid way in which people communicate and interact is another generation-shaping consideration, Pew says. Social media, constant connectivity and on-demand entertainment and communication may have been innovations Millennials adapted to as they came of age, but for Gen Z, “these are largely assumed,” Dimock underscores.

Pew plans on producing a number of reports and analyses regarding Gen Z, such as their recent report examining how members of Generation Z view some of the key social and political issues facing the nation today and how their views compare with those of older generations.

This new report, entitled “Generation Z Looks a Lot Like Millennials on Key Social and Political Issues,” was released January 17. It finds that Gen Z is on track to be the most well-educated generation yet, and “is moving toward adulthood with a liberal set of attitudes and an openness to emerging social trends.” Major findings include:

- **Gen Zers and Millennials share views on politics and policy.** Seven out of ten Gen Zers say the government should do more to solve problems in this country, while just 29 percent believe the government is doing too many things that are better left to individuals and businesses. Gen Zers are also slightly more likely to favor government activism than Millennials. Two-thirds of Gen Z (66 percent) and 62 percent of Millennials say blacks are treated less fairly than whites in the U.S. Gen Zers and Millennials also share similar views about racial and ethnic change in the country, with approximately six out of ten from each generation saying increased racial and ethnic diversity is a good thing for our society.

- **Gen Z and Millennials have similar views on gender, family.** Members of Generation Z are just as likely as Millennials to say allowing gay and lesbian couples to marry has been a good thing for the country, while relatively few Gen Zers or Millennials (15 percent) say same-sex marriage is a bad thing for society.

- **Gen Zers most likely to say forms or online profiles should offer gender options beyond “man” and “woman.”** A 59 percent majority of Gen Zers say this. Gen Zers are also the most likely to say they personally know someone who goes by gender-neutral pronouns, with 35 percent saying so, compared with 25 percent of Millennials.

So, what are employers to make of all of this? A recent article in *Washingtonian* -- a monthly magazine distributed in the Washington, D.C. area focusing on local feature journalism, guide book–style articles, real estate, and politics – asked this very question.

The article begins by quoting Stef Woods, a lecturer in American University’s American Studies program, as saying while “shifts will feel gradual,” there will be “a need to have creative solutions and increased communication if there’s a desire to retain younger workers.” In other words, employers need to start catering to Gen Z, and soon, but what should they actually do?
First, it notes that almost half of Gen Z are non-white, making it the most diverse generation in American history. “They came of age during a time of great optimism (the first African-American President) and historic uncertainty (the Great Recession),” it points out. Growing up during a time of marked financial anxiety, security is a major concern. “There’s a real appetite for certainty,” says Rob Cacace, director of career strategy at Georgetown Law Center.

Next, the article underscores that Gen Zers aren’t merely “digital natives,” as millennials are, but also mobile-phone and social-media natives, making them natural—some would say obsessive—communicators. This means there’s more of an emphasis on connecting via text message, social media, and digital tools. “A job description by itself is not going to be sufficient,” says Dan Binstock, a legal recruiter. “Instead of posting a job, we’re posting a video about the job,” he said. “It’s multisensory.”

Also, recruiters have to be “more accessible and personal for a generation accustomed to constant, informal communication,” the article says. For example, Jozanne Douglas, associate director of employer relations at Howard University’s career center, notes that in the past, recruiters might say, “Send it to the generic e-mail.” Now, however, they are providing recruits with their contact information and stressing that they are more than happy to communicate.

Finally, the article points out perhaps the most significant characteristic of the new Gen Z “could be their eagerness to work at places that are making some kind of positive impact.” In short, no matter how big the paycheck or generous the benefits, jobs increasingly need to offer real opportunities to effect social change. “For Gen Z, there’s going to be an element of ‘we want to do good, and we also want to do well,’” says American University’s Woods. “They’re seeking security professionally and financially, but they want to make sure the company cares about social justice,” she told Washingtonian.

Therefore, employers need to emphasize their good works but at the same time be accommodating of young employees’ extracurricular activities. “Is there going to be the understanding that workers can make up time if they’re at a march?” says Woods. “Communicating with new employees is always a challenge,” observed Maureen Westgard, NCTR’s Executive Director. “And just when you think you have got one group of new plan participants figured out, along comes another generation,” she continued. “Plans would do well to begin thinking about the demands this latest cohort will impose, and plan accordingly,” she concluded.

- Washingtonian: “Generation Z Is About to Hit DC. Here’s What Employers Need to Know.”
The level-dollar funding formula was included in the 2018 reforms passed by the General Assembly and then overturned by the Kentucky Supreme Court. The formula seeks to ensure the correct amount of funds are put toward the systems up front rather than backloading payments, as has been done previously. Another potential reform mentioned by Eager was having one independent investment management firm to oversee the investments of all retirement systems—KRS, Kentucky Teachers' Retirement System, and Judicial Retirement System—instead of having separate investment boards for each system.

The Lane Report

Early buyout program is underway for Illinois state workers

Lawmakers approved a plan last year that offers people in the [SERS] Tier 1 plan who are about to retire a cash payment if they give up the annual 3 percent compounded raises. Those who take the offer will still get a raise in their pension benefits, but only 1.5 percent a year and not compounded. "The member gets access to their cash sooner and they take it at less value so it is a positive to the fund as well," said Tim Blair, executive secretary of the State Retirement Systems. Since Dec. 1 when the program was first offered, 239 Tier 1 members have opted to take a cash payment and accept the smaller raises. Another 877 have declined.

State Journal-Register
Description of buyout programs:
SERS  SURS  TRS

Like most pension plans, 401k plans also have gone cash-flow negative

"While baby boomers are being replaced by millennials, these younger investors are typically deferring a smaller percentage of a smaller salary to the 401k plan," Sclafani explained. "This creates a big accounts out/small accounts in dynamic in which large balance 401k accounts are exiting the 401k market for the retail IRA market and are being replaced by small starter-balance accounts.

401k Specialist.com

This update includes the latest characteristics of statewide cash balance and combination hybrid plans, and a map identifying the estimated percentage of public employees who participate in mandatory or optional hybrid plans in states that sponsor such plans.

Issue Briefs, Papers & Analysis@NASRA.org

CRR examines whether public pension fund investment return assumptions lead to riskier investing

Does the use of assumed investment returns to value liabilities and calculate required contributions lead public pension plans to invest more in risky assets? The analysis finds that, even after controlling for a number of factors, public plans invest more in riskier assets than private plans. In addition, for any given asset allocation, public plan return assumptions are on the optimistic end compared to those of investment professionals.

Summary and full brief

GAO evaluates potential use of alternative inflation metrics

Using historical and assumed future inflation, GAO analyzed the effect on retirement benefits and program costs that could result from switching to an alternate CPI from the index currently used to set COLAs, the CPI for Urban Wage Earners and Clerical Workers (CPI-W), and found that although the annual differences between the CPIs are relatively small, the differences accumulate over time.

Highlights and full report

About the CPI

Perspectives

Cheiron: New mortality tables may not affect large public retirement systems

The new mortality tables may have a bigger impact on small public retirement systems which do not have much credible experience which actuaries can use to adjust the mortality tables. Nonetheless, the actual impact of these new tables on liabilities and on contributions will vary depending on the extent to which each system has already adjusted the mortality assumptions from the previous tables.
Tweet of the Week
Credit rating agencies consider pension obligations in their assessments of the creditworthiness of state and local governments. Recent adjustments to the ratings agencies' criteria resulted in few ratings changes.

Federal Focus
The Consumer Financial Protection Bureau goes after pension advance scheme
The CFPB announced a settlement with an agent involved in schemes that offered to trade veterans' pensions and disability benefits for cash. Under the schemes, veterans would redirect their pension direct-deposits to the companies' bank accounts and get a lump-sum in return. The agent is permanently banned from brokering, offering, or arranging such agreements and must also pay a civil money penalty of $1. The Bureau's investigation is being conducted in partnership with the Office of Arkansas Attorney General and the South Carolina Department of Consumer Affairs.

Military.com
CFPB announcement

Brian Murphy: Understanding actuarial assumptions
Someone once jokingly said that actuaries are like race car drivers who steer by looking in the rear view mirror, implying that actuarial assumptions are based solely on past behavior projected into the future. That is not true, though. Actuarial assumptions are intended to be forward-looking estimates of expectations for future behavior, and their development must reflect that intention. It is true that actuaries consider historical information when developing actuarial assumptions, but they also consider current trends, external conditions, and future projections.

GRS Perspectives

Job Postings
- Equity Analyst, Colorado PERA
- Benefit Services Manager, Colorado PERA

For details on open positions, visit Careers@NASRA.org

Snapshot of this Week's FYI
1. Pennsylvania’s two state pension systems should fully index all public market investments in both equities and fixed income, according to a new report from the Commonwealth’s pension review commission, charged with identifying cost savings measures. But an independent review of the Commission’s findings suggests otherwise.
2. A new academic study questions whether indexing, also referred to as passive investing, is really all that different from active management.
3. One of the priorities of the new Congress is expected to be infrastructure. A new “primer” on public infrastructure financing has just been released that helps in understanding the ways in which state and local governments currently pay for public infrastructure and capital improvement needs.

New Pennsylvania Report Recommends Indexing
Pennsylvania’s two state pension systems should fully index all public market investments in both equities and fixed income, according to a new report from the Commonwealth’s pension review commission, charged with identifying cost savings measures. But an independent review of the Commission’s findings suggests otherwise.

The Public Pension Management and Asset Investment Review Commission (PPMAIRC) was created as part of the Commonwealth’s 2017 pension reform law. The Commission was charged with conducting a comprehensive review of the investment management of the Public School Employees’ Retirement System (PSERS) and State Employees’ Retirement System (SERS), and was directed to develop a plan to identify $1.5 billion in cost savings over 30 years for each of the two systems, for a total of $3 billion.

Following seven months of deliberations, including three public hearings, the PPMAIRC issued its final report in December of last year. It found an estimated potential annual savings of $97.3 million to $116.8 million, or actuarial savings over 30 years at a 7.25 percent assumed rate of return of between $8.2 billion and $9.8 billion.

In transmitting the Commission’s report to the Governor and the General Assembly, its Chairman, State Representative Michael Tobash (R), said the effect of the more than $60 billion in Pennsylvania’s unfunded public pension liabilities was affecting “core government services,” including “protecting our most vulnerable and aging citizens to maintaining our highways and funding our schools.” Tobash said this resulted in a “substantial” tax burden on property owners, families and businesses.

The report claims that both funds have underperformed relative to peers and have “consistently underperformed simple multi-asset portfolios” on a risk-adjusted basis. For example, in his letter, Tobash cites a report by the Maryland Public Policy Institute (MPPI) that purported to show that Pennsylvania investment expenses in 2012 were the third and fourth highest among a peer group of 47 other state pension plans, with returns lagging behind most.

Although the PPMAIRC report acknowledges costs have decreased by 50 percent over a 10-year period at SERS and are now close to peer group averages, it says both funds have higher-than-average expenses. But the Commission does not point fingers, noting it does not mean to suggest past decisions were made in bad faith or for “wrong motives.” The Executive Summary stresses that it “does not wish to second guess any decision made in good faith under circumstances that may no longer exist.”

Instead, the Commission describes its recommendations as “forward looking,” including the following:

- **Maintain full payment of the annual actuarially determined contribution.** The report stresses “doing so is fundamental and required to ensure the future financial viability of both retirement systems.” It underscores that without full annual funding, “none of the commission’s other recommendations would be enough to ensure the availability of retirement benefits for future generations of public servants.”

- **Establish a Consolidated Central Pension Investment Office.** The Office would be “exclusively responsible for all investment functions on behalf of and as directed by each retirement system.” It would be staffed by investment professionals who would act in a fiduciary capacity on behalf of each state retirement system. “The Office would leverage the combined size of the Commonwealth’s two pension funds to obtain more favorable investment contract terms, eliminate redundancies between the two
retirement systems and develop internal capacity," the Commission believes.

- **Mandate annual stress testing of each retirement system.** The report recommends this be done in a manner aligned with the recommendations of the Society of Actuaries Blue Ribbon Panel, with the findings of the tests reported to the public.

- **Establish policies at both system boards that “favor and encourage” open public reporting best practices.** These should include public reporting of and access to all investment costs and expenses at fund and manager level, full disclosure of all costs of private market investments, quarterly investment performance by asset class (net-of and gross-of-fees) as measured against robust benchmarks, investment manager expense terms, and materials submitted to board trustees during open meetings.

- **Mandate increased public reporting of all investment expenses (gross fees), and total fund and asset class investment performance (net of fees and gross fees).** These should be measured against similar risk alternative indices and benchmarks. Disclosure of investment manager contract expense terms should also be required, and the use of the Institutional Limited Partner Association (ILPA) reporting template should be mandated for all investment managers. Finally, the Right-to-Know Law “loophole” that permits SERS to avoid disclosing alternative investment records should be repealed.

- **Move to fully index all public market investments in both equities and fixed income at both retirement systems.**

- **Adopt, at both retirement systems, measures to reduce risk.** This would include revised Investment Policy Statements that include a “risk budget;” specific rebalancing policies; a diversified index policy benchmark; setting limits on the level of illiquid investments; and reducing exposure to illiquid private investments from current targets to more appropriate levels at both funds. It would also require “paying particular attention to levels of leverage and illiquid investments at PSERS,” which the Commission identified as a “significant outlier” relative to peer funds.

With regard to the recommendation to index all public market investments in both equities and fixed income, the Commission reported it heard “compelling evidence demonstrating that active management of public securities underperforms, net of costs, in all sectors over the long term when compared to the appropriate risk adjusted index benchmark.” In short, it concluded that there is “no reliable way to select outperforming managers in advance.”

The Commission says that “[t]oday, over 40 years since the birth of indexing, there is virtually no debate that indexing is the right choice for U.S. large capitalization equities.” Although it acknowledges other studies and samples are sometimes cited in defense of active management, the Commission dismisses them as being “usually based on smaller samples or less rigorous methodologies, making their conclusions suspect, and they are often cited or developed by vendors promoting active management.”

However, Commissioner Bernie Gallagher, a budget analyst for the Pennsylvania House Appropriations Committee and a designee for trustees to both SERS and PSERS, at the request of his appointing legislative caucus, submitted a divergent view as to some of the recommendations and findings within the Commission’s final report. It is included in the report as “an overlay to the larger, underlying report” and incorporated in Appendix III.
This “Independent Review of the PPMAIRC Recommendation Report” provides additional context to parts of the report that Commissioner Gallagher and his appointing legislative caucus believed needed further qualification. One of these parts of the report was the proposal to have 100 percent index funds. The Independent Review notes annualized returns of 5.56 percent and 5.44 percent, respectively, for the PSERS and SERS investment portfolios over the 2000-2017 time period. Using a hypothetical 100 percent index fund strategy with 60 percent in global stocks and 40 percent in U.S. bonds would have produced a lower 5.10 percent net return, the Review concludes.

Furthermore, using a stock/bond mix of index funds that better fits the Pennsylvania funds’ risk preference based on their historical asset mix, the Independent Review points out that the average split between public equities and fixed income equals 62 percent stocks, 38 percent fixed income for PSERS and 67 percent stocks, 33 percent fixed income for SERS, covering the same 2000-2017 time period. Using this risk-adjusted methodology, the estimated annualized return for a 100 percent index fund strategy would have been 5.07 percent and 5.01 percent, respectively, for PSERS and SERS. Thus, PSERS’ 5.56 percent return outperforms its equivalent index-only strategy by 0.49 percent per year and SERS’ 5.44 percent return outperforms its equivalent index-only strategy by 0.43 percent per year. “Said differently, PSERS produced $4.2 billion in additional assets over the 17-year period compared to what it would have had at June 30, 2017 if it followed an index-only strategy,” the Gallagher Appendix notes. “Similarly, SERS produced an additional $2.0 billion in assets by June 30, 2017 by not following an index-only strategy,” it continues.

“Combined, the fees paid by PSERS and SERS for investment services produced an additional $6.2 billion in combined value, net of fees, that would not have been available at June 30, 2017 if PSERS and SERS had followed an index-only strategy,” the Independent Review concludes. Furthermore, this was over the 17-year period covering two full market cycles and a period during which pension funding dramatically declined and insufficient contributions were made by the state.

PSERS was not provided with an advance copy of the Commission report, and therefore did not comment on it when it was released, noting that it expected to discuss and conduct a detailed review of the report with the PSERS Board of Trustees at an upcoming Board meeting.

However, in a story in the Central Susquehanna Valley’s The Daily Item, PSERS Executive Director Glen Grell said the pension “has long been a leader in fee transparency.” He noted that accordingly, the pension discloses fees that public pensions in other states do not reveal to the public, and this “higher level of reporting has led to criticism of PSERS since our reported fees look higher.” Grell also told the paper that over the last two decades, the PSERS investment performance has earned $10 billion more than a passive index fund would have generated.

Evelyn Williams, a PSERS spokeswoman, was quoted as saying that pension officials are open to hearing the recommendations of the Commission, but they think that any changes must also take into consideration how the changes will impact the risk-allocation strategy taken by the fund in light of years of underfunding by the state.

- **Chief Investment Officer:** “Pennsylvania Pensions Could Save Nearly $10 Billion over 30 Years”

- **Final Report and Recommendations:** Public Pension Management and Asset Investment Review Commission

- **Appendix III:** Independent Review of the PPMAIRC Recommendation Report
How Truly “Passive” is Index Investing?

A new academic study questions whether indexing, also referred to as passive investing, is really all that different from active management. Can the active decisions made in constructing an index have an impact on the return profile of a passive strategy, and how much do you know about who is making them?

Adriana Robertson, assistant professor in the University of Toronto law faculty, has produced a paper entitled "Passive in Name Only: Delegated Management and 'Index' Investing," issued in November. It has been accepted for publication by the Yale Journal on Regulation, published by the Yale Law School, and will likely appear in mid-2019.

"Rather than being passive in any meaningful sense, index investing simply represents a form of delegated management," Robertson says. "Instead of being truly passive, tracking an index almost always implies choosing a managed portfolio," she writes.

"Not only are these indexes managed portfolios in the strictly financial sense, by their construction they imply a substantial amount of delegated decision-making authority," she argues.

So, is index investing really any different from active management? "The answer is obvious if you think about it," Robertson is quoted as saying by Rick Baert with *Pensions & Investments*. "We have this idea in the back of our minds that indexes are passive because they're divorced from active management decision-making," she explained. "But like active management, indexes are just the result of decisions by people."

Robertson’s paper reviewed more than 900 indexes, including 603 that are used as benchmarks for 3,208 mutual funds. While her paper does not focus on institutional investing, Ms. Robertson said the decisions made by index providers to determine how the indexes are constructed, "should be a concern for all investors, including institutional investors."

Robertson also argued that passive mutual funds and exchange-traded funds (ETFs) often follow indexes that were created for those funds. However, her paper does not detail the impact of index creation for ETFs on expense ratios, although "digging deeper into this phenomenon is something that I intend to pursue in further work," she said.

*P&I* reports one of the chief issues in Robertson’s paper is that there’s no disclosure on who is ultimately making the decisions on index composition. As Robertson noted, there is no required disclosure of who the decision-makers are in index creation and composition, like there would be with decision-makers in a publicly traded company. Also, she said there are many index funds that are following indexes not nearly as prominent as the S&P 500. "These funds sometimes disclose that a third party created the index with the input of fund managers. But you can’t see who actually is deciding what the index will be composed of," she pointed out to Baert.

In short, she says the only difference between an active mutual fund, where the fund manager makes the investment decisions, and the index fund, is who is making the decision on what is in them. The bottom line? “I think we just need to be aware that you need to know how indexes are composed and who is composing them,” Robertson says.
David Lafferty, senior vice president and chief market strategist at Natixis Investment Managers, Boston, and chairman of the research task force on the Investment Advisers Association's Active Managers Council, agrees with the Robertson paper's premise. He told P&I that thinking of index funds as purely passive is a "mistake." Investors may think that when they are buying a passive fund, they are buying the market. However, Lafferty says, this misses a key point that passive strategies are derived from indexes, and the creation of those indexes is a very active process. "Investors are not simply buying the market, they are effectively buying how the index provider defines that particular market," he says.
And those decisions, such as which securities to include, how they are removed, and how frequently the index is rebalanced, is an active decision. “These active construction rules can have an enormous impact on the return profile of a passive strategy, especially those that are focused on more niche areas, like smart beta or factor-based indexes,” he believes.

But Rolf Agather, managing director of North American research at index provider FTSE Russell, says to keep in mind the ultimate goal of an index. “It is important to note that the objective of these [index] decisions is quite distinct from a traditional active strategy in that the goal of the index is to provide exposure to a particular market segment, whereas in a traditional active strategy the objective is to determine relative value of individual securities or market segments,” he is quoted by Baert as saying. In short, the goal of the index is “representation, not outperformance.”

“The active versus passive investing debate has been going on for years,” noted Maureen Westgard, NCTR’s Executive Director. “The Pennsylvania Commission report discussed in the previous story is certainly one example of a strong viewpoint on the subject,” she continued. “However, I do believe that it is important to keep in mind a board’s risk preference based on their historical asset mix when comparing indexes to actively managed accounts,” Westgard pointed out, noting the return calculations contained in the Gallagher Independent Review of the Commission’s report.

“I also think this new academic study raises some interesting questions regarding the creation of an index and the choices made that can have an impact on returns, perhaps as significant as those of an active manager,” she concluded.

- P&I: “Index Investing: Not as Passive as You Might Think”
- Adriana Robertson: "Passive in Name Only: Delegated Management and ‘Index’ Investing"

**New Primer on Infrastructure Financing**

One of the priorities of the new Congress is expected to be infrastructure. A new “primer” on public infrastructure financing has just been released that helps in understanding the ways in which state and local governments currently pay for public infrastructure and capital improvement needs. Understanding this process can help with the design of Federal efforts to improve the nation’s crumbling infrastructure while preserving the important mechanisms currently in place that provide the financing by which a majority of infrastructure projects are funded.

According to the 2017 Infrastructure Report Card by the American Society of Civil Engineers (ASCE), the nation’s infrastructure earned a cumulative grade of D+. For
the years 2016 – 2025, infrastructure spending needs are estimated to be $4.6 trillion, which is expected to be $2.1 trillion short of the likely funding available for this infrastructure. Thus, there appears to be a bipartisan consensus that the Federal government must act to address this growing crisis.

However, the majority of infrastructure costs for libraries, schools, roads and road improvements, water systems, mass transit, affordable housing, public and non-profit hospitals and other capital improvements have traditionally been borne by state and local governments. Furthermore, as the Federal government's contributions to infrastructure spending have remained relatively constant over the past 30 years, the cost of building supplies, as well as inflation have affected construction costs. This has produced increased pressure on state and local governments to provide for the initial infrastructure and to maintain it.

This has been done primarily through the issuance of tax-exempt bonds, which over 50,000 state and local governments and entities are able to issue. Indeed, from 2012-2017, approximately 67,000 long term tax-exempt bonds were issued totaling $2.1 trillion. And the majority of projects funded by these tax-exempt bonds have been related to education.

In order to improve the understanding of the financing options used for public infrastructure, the new Primer has been prepared by the Public Finance Network, a coalition of organizations united to preserve state and local government use of tax-exempt bonds. Formed in 1988, the Network represents a wide array of local and state government financing and infrastructure activities. It is administered by the Government Finance Officers Association (GFOA) and its Director of the Federal Liaison Center, Emily Brock.

The Primer covers numerous issue areas related to tax-exempt financings. These include:

- The fundamentals of tax-exempt bonds and other financing tools that are available to state and local governments and related entities;
- The role tax-exempt bonds play in infrastructure financings and as an investment product; and
- Congressional actions over the past fifty years related to this market.

It will be distributed to Congressional offices beginning today. During debate on the 2017 tax cut legislation, the tax exemption for municipal bonds was on the chopping block, and this new Primer is part of an effort to educate Congress to the impact that its repeal or modification could have on the nation’s infrastructure financing.

GFOA: “Understanding Financing Options Used for Public Infrastructure”

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**NASRA News Clips**

**In the Media**

**Kentucky public health entities face pension contribution rates of 83 percent**

Local health departments, mental health agencies and domestic violence shelters are asking state lawmakers to shield them from massive pension contributions that they say will bankrupt them or severely limit services. As of last July, most state agencies pay 83 percent of

**Studies & Reports**

**Callan Associates reports median public pension fund returns for periods ended 12/31/18**

See the chart
employee salaries to Kentucky's pension system. That means on top of paying an employee's salary, state agencies have to send an additional 83 percent of that salary to pay for state worker retirements. WFPL

**Perspectives**

**New York City should consolidate its pension funds and adopt the Canadian investment management model**

The CPPIB is structured as an independent entity that hires and incentivizes top investment talent. They have produced excellent results. Part of the reason they have done so well is internal management of most of their assets. Consequently, they save a huge sum on management fees. CPPIB has the expertise to directly invest in alternatives such as private equity and infrastructure. ... [Canada] created an independent entity that would be governed and managed at arm's-length from political interference. A board of directors that includes non-partisan, financially minded people oversee the plan. Sal Albanese in CityLimits.org

About the Canadian public pension investment model

**Populist signaling over fees belies strong returns private equity investments have delivered to public pension funds**

Some opportunistic politicians have threatened to deny state pension funds the tools they need to perform best for public workers. In Pennsylvania, New Jersey and North Carolina, elected leaders-eager to posture against Wall Street-have announced plans to reduce or minimize private-equity investments. In each case the move was made against the protests of state fund managers, who point to the way illiquid assets help tighten funding gaps.

Mene Ukueberuwa in The Wall Street Journal

**Costs to access market data are indefensibly high**

It is critical that we continue to strive for transparency in our markets and ensure that all investors have access to the information they need to make crucial investment decisions. Market data is a key part of successful markets, and as an industry we have consistently maintained that market data must be timely, comprehensive, non-discriminatory, and accessible to all market participants at a reasonable cost.

Kenneth Bentsen in RealClearMarkets

**Annual update shows higher education endowment asset allocations and returns**

The National Association of College & University Business Officers (NACUBO) last week released an update to its annual endowment study. Among other findings, the study reported that large university endowments allocated an average 58 percent of their portfolios to alternative investments.

See the data

**Performance audit examines Georgia state retirement systems**

The Senate Appropriations Committee requested this special examination of Georgia's Employees' Retirement System, Teachers Retirement System, and the Optional Retirement Plan. Based on the request, we reviewed: (1) the impact of the creation of Georgia State Employees' Pension and Savings [hybrid] Plan on the financial viability of ERS and whether GSEPS is a competitive retirement plan; (2) options to improve the financial viability of TRS while maintaining it as a defined benefit plan; and (3) how ORP compares to similar plans.

See the report

Georgia@NASRA.org

Retirement Plan Options for University Faculty & Staff

**NCPERS releases 2018 Public Retirement Systems Study**

Funding levels continue to rise despite more conservative actuarial assumptions. For funds reporting in both 2017 and 2018, the average funded level rose more than 3 percent to 72.2 percent. The average funded level for all funds rose from 71.4 percent to 72.6 percent. The average investment assumption is 7.34 percent compared to 7.49 percent in 2017. About 83 percent of funds that responded in 2018 have reduced their assumption or are considering doing so.

Press release and full study

**Texas Pension Review Board: Funding policies for fixed-rate pension plans**

The PRB has expressed concern regarding the fiscal health of fixed-rate contribution plans and the broader effects of increased unfunded liabilities on a plan and its sponsor. The average funded ratio of fixed-rate contribution plans has been declining despite experiencing over nine years of a bull market. ... The funding policy should address how and under what circumstances contribution and benefit levels will be
Ways and Means Committee hearing on retirement security today

The House Committee on Ways and Means is holding a hearing at 10:00 am EST this morning, February 6, on "Improving Retirement Security for America's Workers." Executive Director of the National Institute on Retirement Security Diane Oakley is scheduled to testify on the effect disappearing pensions and declining workplace retirement coverage has had on national retirement security. Among the other six witnesses slated is Andrew Biggs, resident scholar of the American Enterprise Institute, who is expected to claim there is no retirement crisis other than in retirement plans run by federal, state and local governments.

State and local employee wages grow at highest rate since 2009

Wages and salaries for state and local government workers increased by 2.4 percent for the 12-month period ending December 2018, according to data published by the U.S. Bureau of Labor Statistics. This tops the previous quarter's figure of 2.3 percent, and marks the highest rate of annualized growth since 2009. Wages and salaries for private sector employees rose by 3.1 percent for the same period, marking the highest increase since 2008.

Bill to increase Social Security benefits and taxes gains strong support

Legislation sponsored by Rep. John Larson (D-CT), Chairman of the Ways and Means Subcommittee on Social Security, and supported by Ways and Means Chairman Richard Neal (D-MA) and over 200 others, would expand Social Security benefits and taxes and bring the program into long-term solvency. Rep. Larson said he would be holding hearings and forums around the country on the legislation. The bill is expected to have enough support to pass the U.S. House of Representatives. Companion legislation has been introduced in the Senate.

Job Postings

- Investment Audit Specialist, STRS of Ohio
- Senior Acquisition Officer, STRS of Ohio
- Director of Human Resources, Colorado PERA

For details on open positions, visit Careers @ NASRA.org

National Council on Teacher Retirement | lnell@nctr.org | (540) 333-1015 |

Snapshot of this Week’s FYI

1. The Koch brothers and their network of donors are reportedly attempting to rebrand themselves. As part of this effort, they have announced a new K-12 education initiative. But some observers question whether this a genuine effort to change their underlying agenda.

2. Despite the work of a special House-Senate Committee charged with finding a fix for the dire problems confronting some multiemployer pension plans, the 115th Congress ended with no resolution of the matter. But the problem persists, and a legislative solution is more necessary than ever. Is there still a possibility that public plans could be implicated in any proposed solution?

3. Why do similar pension plans, one public and one private, with the same size and the same maturity, have different asset allocations? A new study suggests the reason for this difference lies in the fact that public plans use

See the paper Funding Policies@NASRA.org
an assumed rate of return to value both their liabilities, as well as calculate their required contributions.

The Koch Brothers: A Change of Heart?
The Koch brothers and their network of donors are reportedly attempting to rebrand themselves. As part of this effort, they have announced a new K-12 education initiative. But some observers question whether this a genuine effort to change their underlying agenda.

Charles G. and David H. Koch are the sons of Fred C. Koch, who founded Koch Industries, the second-largest privately held company in the United States. They control the family business, the fortune which they inherited, and the Koch family foundations. The two have provided significant financial support to libertarian and conservative thinktanks. They are also major contributors to GOP candidates, and their network has been described by Politico as rivaling that of the Republican National Committee.

The Koch brothers support, or are members of, the Mercatus Center at Virginia’s George Mason University; the Heritage Foundation; the Manhattan Institute; the Reason Foundation; and the American Enterprise Institute (AEI), to name a few – all of which are well-known to public pension plans as sources of highly critical attacks and well-funded campaigns to replace the defined benefit model for achieving retirement security with a defined contribution approach.

The Koch Network, which the brothers founded, consists of hundreds of donors who pay a minimum of $100,000 each year with the goal of moving the country in a conservative direction. It has been called "one of the nation's most influential political forces" by the Chicago Tribune and "a shadow political party, complete with its own field offices and national voter database."

The Network meets twice a year at invitation-only summits, the most recent of which was just held at the Renaissance Indian Wells Resort in California, with 634 donors in attendance. A recent article in The Washington Post by James Hohmann describes the meeting and the ways in which Hohmann claims the Koch network is trying to "seek out unlikely allies to advance its agenda" as it "aggressively seeks to rebrand itself as kinder, gentler and less political."

For example, Charles Koch told the meeting his top goal is “uniting with people across the whole spectrum, including those who have been adversaries in the past,” in order to pursue shared priorities. Saying that holding things against others who have different beliefs “is tearing our country apart,” he called for “bringing people together.” (His brother David left the network in June 2018 due to ill health.)

“To be sure, the Koch network remains a potent political force on the right,” the Post reporter points out. Nevertheless, his article also noted the relative absence of politicians at the event, which “used to be one of the premier cattle calls for Republicans with presidential ambitions to cultivate the biggest donors on the right.” Instead, the event focused on putting human faces on problems, as the Koch Network’s head of communications explained. For example, Weldon Angelos -- who was released in 2015 after serving 11 years of a 55-year prison term in connection with selling marijuana and who became a symbol of excessive mandatory minimum sentences -- made an appearance. Once he got out of prison, a Koch donor from Colorado hired him at his company, and the Post reports that “the two came onstage … with their arms draped over each other’s shoulders” and departed to “Here Comes
the Sun.” There were many moments like this in what Hohmann refers to as a “heavily choreographed program.”

In a second article in the Post covering the Koch Network gathering, Hohmann describes the Network’s plans to launch a new organization this February to focus on changing K-12 education. It is to begin as a pilot project focused on five states with a combined school-age population of 16 million children. However, Network officials did not identify them “because they’re still finalizing partnerships with some of the country’s leading educational organizations,” the article explains.

Hohmann reports that the “still-unnamed entity” is to focus on three areas:

- changing public policy to address “the root causes” of failing schools;
- developing new technologies to promote individualized learning; and
- investing in teachers and classrooms.

Brian Hooks, the chairman of the Koch Network, explained that the initiative “includes investments in curriculum to better support teachers and students, new technology to help families find the right options for their kids, and in public policy reforms that begin to get at the root causes and not just the symptoms of the challenges we see in the education system today.”

According to an AP News article by Sally Ho, Koch Network donor Frank Baxter, a former charter school executive in California, said he was thrilled the organization was digging into K-12 issues. Private school scholarships, charter schools and online learning could be important avenues to reform failing schools, he said.

The Koch Network also said school choice will likely be one of a dozen or more priorities of the new initiative, the AP News reports. However, officials said it is too early to discuss its comprehensive policy agenda, which was described as “a work in progress.”

This new education initiative also appears to be part of the Koch Network’s new efforts at rebranding. As the Post’s Hohmann observes, “[i]n the past, most conversations about education at these twice-annual Koch confabs have quickly turned into bashing teachers’ unions.” It was therefore “notable,” the reporter said, that Hooks, the Koch Network’s CEO “went out of his way to praise teachers and acknowledge that many have been picketing recently.”

“For too long, this issue has been framed unnecessarily as us vs. them, public vs. private, teacher vs. student, parent vs. administrator,” Hooks said. “The teachers who have expressed frustration in the past several months are good people,” he continued, and they are expressing “legitimate concerns.” However, he went on, “the current approach means that nobody wins, so they need better options.”

The Network recognizes that many will question its motives, Hohmann said. But Hooks insists that the goal is to “really shake things up” by “coming alongside concerned teachers” to “find a better way.”

In response, American Federation of Teachers (AFT) President Randi Weingarten said her union welcomes genuine interest in public education. However, she expressed skepticism of the new program because of Koch’s past support for anti-union efforts. “(O)nly time will tell whether the paradigm shift in favor of public schooling is forcing the Kochs to pivot — to work with those they have tried to destroy — or whether this is simply a PR stunt,” Weingarten said in a statement.

David Safier, writing in the Tucson Weekly, is also very wary of the new education initiative as it has been initially described. He believes new technologies and individualized learning, referred to as "personalized learning", is simply “a euphemism for the de-personalized learning systems where students sit in front of computers loaded with flawed educational software which is supposed to modify its teaching strategies based on students’ individual needs (while sending gigabytes of
data on young children back to the company's mother ship, which can be exploited for the rest of the students' lives)."

As for investing in teachers and classrooms, Safier says “you can bet that translates to boosting the budgets of charters and private schools.”

More overall skepticism was expressed by Senator Sheldon Whitehouse (D-RI), who sent a comment to the Post saying he was “not convinced by the Koch network’s new charm offensive; nor should your readers be.”

“Until we know how much the Kochs, and the 634 other mega-donors who joined them, are spending on dark-money campaigns to block action on climate change, undermine public unions, confirm obedient judges, and cut their own taxes by billions of dollars, we should view their latest PR effort as more obfuscation,” Whitehouse stresses. “If Charles Koch’s top goal is ‘uniting with people across the whole spectrum,’ he should unite them around honest facts and science, not deceitful campaigns funded by dark money,” the Senator insists.

So, what do you think? Is this Koch rebranding an indication of a real willingness to be more inclusive of other viewpoints, or is it more a modification of the tactics and strategies with which to achieve their original agendas?

NCTR’s Executive Director, Maureen Westgard, is willing to give the Koch Network the benefit of the doubt with regard to their interest in public education, but she cautioned, “actions always speak louder than words.” “We will be following the Koch Network’s next steps in this and other areas with much interest,” she continued. “And I hope that any change of heart also applies to their approach to funding groups that have been attacking public pensions in general and teacher pensions in particular,” she said. “After all, truly helping teachers also includes maintaining their retirement security,” Westgard concluded.

- The Washington Post: “Koch Network Poised to Scale Up Efforts to Remake K-12 Education With a Pilot Project in Five States”
- AP News: “Koch Group Touts Education Push on Curriculum, Technology”

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**Multiemployer Plans: An Update**

Despite the work of a special House-Senate Committee charged with finding a fix for the dire problems confronting some multiemployer pension plans, the 115th Congress ended with no resolution of the matter. But the problem persists, and a legislative solution is more necessary than ever. Is there still a possibility that public plans could be implicated in any proposed solution?

A “multiemployer pension plan,” often referred to as a “Taft-Hartley” plan after the Congressional authors of the Labor-Management Relations Act of 1947, is typically an employee pension plan that covers the workers of two or more unrelated companies in accordance with a collective bargaining agreement; it is not a governmental plan. Currently, there are about 1,400 such multiemployer plans covering about 10 million people across the country.

Today, some of these pension funds, about 130 with more than 1.5 million people affected, face significant shortfalls, and some are estimated to run out of money in less than 10 years. Of these, three plans account for more than 62.5 percent of the total in unfunded liabilities of failing multiemployer plans. The Teamsters’ Central
States, Southeast and Southwest Areas Pension Plan (aka “Central States”) has the most unfunded liabilities. Next is the Bakery and Confectionary Union’s plan; and the one with the third largest unfunded liability is the United Mine Workers’ plan. Multiemployer plans that are extremely underfunded can apply to the Treasury Department pursuant to the Multiemployer Pension Reform Act of 2014 (MPRA) for approval to cut member benefits. As an example, in October of last year, the Western States Office and Professional Employees Pension Fund (Portland, Oregon) received final approval from the Treasury Department to cut benefits: retirees older than 80 or under disability retirement will see no change in benefits, but active participants, terminated vested participants and retirees under the age of 80 will see a 30 percent reduction.

Note that this plan was 64 percent funded and would not face insolvency until 2036. Other multiemployer plans are in much worse condition and benefit cuts could therefore be much greater. Also, while these multiemployer pension plans are insured by the Pension Benefit Guaranty Corporation (PBGC), it projects that its insurance program for them will run out of money by the end of 2025. Therefore, in order to avoid further, more draconian cuts to retirees’ pensions in the larger, much more seriously impacted plans, Congress created a bipartisan Joint Select Committee on Solvency of Multiemployer Pension Plans in 2018. It was charged with reporting a bill if a bipartisan majority of at least 10 members agreed on a deal; any such legislation would then have received special expedited consideration.

However, despite public hearings and an informal agreement to extend the Committee’s work beyond its original November deadline, no final deal was agreed upon and the Joint Select Committee was not extended into the new Congress. So, why is this an issue with which public pension plans have been concerned? There are those who would use the legislation as a means of prohibiting any similar federal “bail-outs” of public pension plans by imposing a new Federal reporting scheme on governmental plans, requiring the use of a discount rate based on U.S. Treasuries. Specifically, efforts were made by certain House Ways and Means Committee GOP staff to have the Public Employee Pension Transparency Act (PEPTA) added to any potential deal as a potential “sweetener” that would be insisted upon in order to gain GOP Committee members’ support. This effort included having Joshua Rauh, a Professor of Finance at Stanford University in California and a long-time critic of public plans’ use of an assumed rate of return instead of a “risk free” rate, testify at one of the Joint Committee’s public hearings. Rauh used his oral statement to warn that without such a provision, a “host” of others might come before Congress to ask for assistance. He said that “first and foremost among them are the state and local pension systems.” However, a draft legislative fix that was circulated by the Joint Select Committee staff prior to the end of the last Congress in December did not include any PEPTA language. Does this mean the danger to public plans has, therefore, passed? Not necessarily. The multiemployer plan crisis remains, and only grows more serious by the day for affected plan participants. Indeed, as an indication of the urgency to find a solution, Congressman Richard Neal (D-MA), the new Chairman of the House Ways and Means Committee, made a conscious decision to have the first bill that he introduced in the new Congress be a proposed fix to the multiemployer plan problem. Neal’s new legislation, H.R. 397, the “Rehabilitation for Multiemployer Pensions Act,” would establish the Pension Rehabilitation Administration (PRA), a new agency within the Department of the Treasury, authorized to issue bonds in order to finance loans to “critical and declining” status multiemployer pension plans, plans that have
suspended benefits, and some recently insolvent plans currently receiving financial assistance from the PBGC. The legislation would not allow for any cuts to benefits earned.

Significantly, the bill as introduced already has bipartisan support. Additional original co-sponsors of the legislation are Bobby Scott (D-VA), Don Young (R-AK), Debbie Dingell (D-MI), Chris Smith (R-NJ), Donald Norcross (D-NJ), John Katko (R-NY), Marcy Kaptur (D-OH), and Jeff Fortenberry (R-NE).

But in a sign that the effort to use this legislation as a way to address perceived dangers in the public pension plan arena is not dead and buried, the Washington Times carried an opinion piece by Professor Rauh on January 22 that once again calls for a PEPTA-type prohibition against a Federal bailout of public plans. Rauh once again warns that Neal’s legislation “sets a terrible precedent for a bigger, looming problem: Underfunded state and local government pensions.” He concludes, “the proposed legislation would only exacerbate the pension problems” and Congress should “act now to protect taxpayers from the consequences of irresponsible financial behavior by unions and state officials.”

On the positive side, it should be much more difficult for proponents of PEPTA-type language to obtain its inclusion in a House bill over Democrats’ objections. However, in order to obtain a final measure that the President would sign, inclusion of some type of “defensive language” regarding a public pension bailout could still become a bargaining chip.

“In short, we will not be letting our guard down any time soon,” said Maureen Westgard, NCTR’s Executive Director.

- Pittsburgh Post-Gazette: “As Lawmakers Fail to Reach Deal, Many Pittsburghers’ Pensions Brace for Painful Cuts”
- Office of Congressman Richard Neal: “Neal Introduces Bipartisan Legislation to Address Multiemployer Pension Crisis”
- H.R. 397: “Rehabilitation for Multiemployer Pensions Act”
- Washington Times: “A Costly Way to Address the Pension Crisis”

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**New Brief Links “Risky” Investment Decisions to Return Assumptions**

Why do similar pension plans, one public and one private, with the same size and the same maturity, have different asset allocations? A new study suggests the reason for this difference lies in the fact that public plans use an assumed rate of return to value both their liabilities, as well as calculate their required contributions. This produces riskier investments that tend to be viewed more optimistically by public plans as far as their returns are concerned, the study concludes.

As Jean-Pierre Aubry, associate director of state and local research at the Center for Retirement Research (CRR) at Boston College and co-author of the report, told Pensions and Investments, public plans benefit from a higher assumed rate of return because it reduces reported liabilities and required contributions, and therefore, “to achieve that, their portfolios need to look riskier.”

The new CRR study specifically examines two charges that are often leveled at public pensions:

1. Public plans’ use of the assumed rate of return to value liabilities and set contributions leads to riskier asset allocations.
2. Given the asset allocations of public plans, their assumed returns are overly optimistic.

CRR notes private plans do not use the assumed return to value liabilities in their financial statements, and as a result of the Pension Protection Act (PPA), in 2009 they stopped using it to set required contributions as well. Therefore, CRR believes a private sector comparison of the periods before and after 2009 “can provide insight into how using the assumed return for valuation and funding purposes may impact public sector asset allocation.”

The CRR Brief next compares asset allocations for public and private plans for the periods 2001-2008, when private plans used the assumed return for setting contribution targets, but not for valuing liabilities, and then from 2009-2015, when private plans did not use the assumed return for either valuing liabilities or setting contribution targets.

CRR found that there was no significant difference in allocations for the 2001-2008 period, but there was a 13 percent difference in allocation for 2009-2015. For example, public plans had 72 percent in what CRR labels “risky assets” (50 percent in equities plus 22 percent in alternatives) in this later period compared to 62 percent for private plans (44 percent in equities and 18 percent in alternatives).

The CRR brief then looks at whether the riskier asset allocation of public sector plans results in assumed rates of return that are too high and have the potential for undercutting plans’ financial stability through inadequate contributions. To assess the credibility of these return expectations, CRR compares the public sector’s assumed return to an assumed return based on published expectations from BlackRock.

Specifically, CRR constructed “optimistic” and “pessimistic” return expectations using BlackRock’s expectations by asset class, weighted by the public sector’s average allocation. “The takeaway,” the CRR report finds, “is that the average assumed return for a public plan is 7.4 percent, which equals the optimistic expectations constructed from the BlackRock data.”

CRR concludes, therefore, that public plans do have a riskier portfolio relative to private plans, and that much of the difference in allocation is related to “unobservable differences” between the two sectors, including the public sector’s use of the assumed rate of return. CRR also finds that the assumed returns of public sector plans are on the optimistic end of the assumptions of investment experts. It is well to note, however, that in a footnote, CRR concedes the reason the long-term return assumed by actuaries is at the high end of those published by investment consultants “could be due to the fact that actuaries and plans are slow to move the long-term assumed return in any direction, rather than a deliberate optimism.”

Nevertheless, CRR finds this situation is worth “monitoring closely because optimistic return expectations could yield required contributions that are ultimately inadequate to meet benefit obligations and, thus, threaten the financial stability of public plans.”

“Our plans’ assumed rates of return on their investments are already under attack by critics and have been for many years,” noted Maureen Westgard, NCTR’s Executive Director. She pointed out that systems’ increased investments in alternatives, including private equity, have also been criticized by opponents of public plans as nothing more than chasing returns and too risky and expensive to continue pursuing. “I fear this new study will add fuel to these critics’ fires,” she said.

That is one reason why NCTR is holding a webinar on February 20 at 3:00 PM/ET to discuss steps being taken by institutional investor limited partners, as well as organizations representing them, to address concerns related to private equity investing, which is a significant component of plans’ overall investments in alternatives. “The more we can demonstrate that any investment...
risks taken are reasonable ones will help to assure stakeholders that plans are not being excessively optimistic when structuring their portfolios to reflect the realities of today’s markets challenges as they see them,” Westgard concluded. Be sure to save the date and **register now** for this upcoming members-only webinar as soon as possible, as space is limited and you will not want to miss the latest information in this important area of investments.

- CRR: “Impact of Public Sector Assumed Returns on Investment Choices”

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**Leigh Snell**  
*Director of Federal Relations*

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**NASRA News Clips**  
**February 13, 2019**

**In the Media**

**Josh McGee departs as the Arnold Foundation changes its business strategy**

The Office for Education Policy of the University of Arkansas has announced that Josh McGee has been hired as a research assistant professor. McGee will enhance the office’s capacity to help policy makers and education leaders make evidence-informed decisions to improve Arkansas’ public education system. ... The news in the Arnolds' case is that they have created a holding company to oversee their activities. The Arnolds are taking their foundation, their donor advised fund, and a political action group called Action Now Initiative and creating an umbrella organization surrounding them called Arnold Ventures.  
[University of Arkansas press release](https://www.uofa.edu/news/releases/Arnold_Found_Holding_Company)  

**Federal Focus**

**GAO recommends federal commission on U.S. retirement system**

In testimony before the U.S. Senate Special Committee on Aging, the Government Accountability Office recommended that Congress establish an independent commission to comprehensively examine the U.S. retirement system and make recommendations for improvement. GAO noted that it has been nearly 40

**Studies & Reports**

**NASRA updates investment return assumptions issue brief**

Among the 128 plans measured, 40, or more than 30 percent, have reduced their assumed rate of return since February 2018, and more than 90 percent have done so since fiscal year 2010, resulting in a decline in the average return assumption from 7.91 percent to 7.28 percent.  
*[See the brief](https://www.nasra.org/investments/latest-investment-return-assumptions)*

**Callan Table of Periodic Investment Returns for 20 years through 2018**

The Callan Periodic Table of Investment Returns conveys the strong case for diversification across asset classes, capitalizations, and equity markets. The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.  
*[See the table](https://www.callan.com/reports/periodic-returns)*

**White Paper: Asset managers often fail to optimize scrip dividends for their clients**

We find that investors frequently make the suboptimal election in scrip dividends. In 38% of scrip dividends,
years since a federal commission has conducted a comprehensive evaluation of the nation's approach to financing retirement, many of the last commission's recommendations were not implemented (such as ERISA for state and local government plans and a universal savings program), and fundamental changes over the past four decades have led to various risks and challenges.  

**GAO Testimony**

**Biggest investors in private equity ask SEC to step in**

In response to an SEC request for comments on enhancing investment advisor regulations, the Institutional Limited Partners Association (ILPA) and 35 of its member institutions sent a letter urging the regulator to take action to ensure robust fiduciary duties for investors in the private equity market.  

**Institutional Investor**  
**ILPA press release**

**Perspectives**

**How to wreck a pension fund in three easy steps**

The Omaha World-Herald recently published an expose on the Omaha Public Schools' (OPS) pension fund which provides a perfect example on how a change in investment strategy at the wrong time can be a killer, not only to investment performance but also to the real lives of the people who are dependent on that money. ... Not only were the board members of the pension ill-suited to make investment decisions in specific funds or managers, but they didn't have a formal investment process in place. The former chief executive of the fund would pitch a single alternative investment and in almost all cases there wouldn't be a single negative vote against it.  

**Ben Carlson in A Wealth of Common Sense**  
**GFOA Best Practices:**  
**Investment Policies for Defined Benefit Plans**  
**Selecting Third-Party Investment Professionals for Pension Assets**

**Proxy robo-voting has the potential to violate fiduciary standards**

Proxy advisor recommendations are a key tool for institutional investors, but there are institutions that automatically and without evaluation rely on proxy firms' recommendations. This phenomenon, called the majority of shares are elected in a suboptimal manner. Investors display a propensity to receive cash even when it is suboptimal, such that approximately three-quarters of the suboptimal elections market-wide are in favor of cash over shares.  

**Read the paper**

**About Scorpeo**

**Society of Actuaries study of public pension contribution experience and its effect on funding levels**

This study compares pension plan contributions to benchmarks that represent contribution levels needed to reduce unfunded liabilities of state-based and large-city public pension plans in the U.S. ... Most of the plans studied received insufficient contributions to reduce their unfunded liabilities. In 2003, while still feeling the impact of the dot-com market crash, 55% of plans received insufficient contributions to reduce their unfunded liabilities. After reeling from the 2008 market crash, the percentage of such plans peaked at 84% in 2011 before falling to about 63% for 2016 and 2017.  

**Overview and full paper**

**Contributions@NASRA.org**

**NCSL publishes 2019 legislative session calendar**

The map below provides information on legislative sessions in each state, district and territory. Click on any state to find information on regular session dates, and, if necessary, special session dates. If you would like the session calendar in table form or would like to print the information, go to the PDF version.  

**See the calendar**

**Tweet of the Week**

**ESG investing** refers to the consideration of three non-financial factors--environmental, social, and governance--in assessing an investment's potential risks and opportunities.

**Inflation for the year ended in January was 1.6 percent**

The all items index increased 1.6 percent for the 12 months ending January, the smallest increase since the period ending June 2017. The index for all items less food and energy rose 2.2 percent over the last 12 months, the same increase as the 12 months ending
"robo-voting," has the potential to be a breach of fiduciary duty. Compounding the problem of robo-voting, companies often have little-to-no time to respond to erroneous recommendations, leaving little room to correct proxy advisor mistakes before votes are cast. Frank Placenti in RealClearPolicy

November and December 2018. The food index rose 1.6 percent over the past year, while the energy index declined 4.8 percent. BLS.gov See the chart

Snapshot of this Week's FYI

1. Infrastructure has been frequently mentioned as a likely focus of bipartisan attention in the new 116th Congress. While a recent paper questions public pensions’ performance in this area, infrastructure investments have also been an area of increasing interest to governmental plans.

2. Private equity (PE) is a popular whipping boy for detractors of public pension plans, as investments in this and other forms of alternatives continue to increase overall. Does PE really warrant the criticism it receives, particularly regarding fees?

3. Diane Oakley, Executive Director of the National Institute on Retirement Security (NIRS), was a featured witness at a recent Congressional hearing on the poor state of retirement readiness in America. In a refreshing change, public pension plans were generally not the focus of criticism

Infrastructure and Public Pensions

Infrastructure has been frequently mentioned as a likely focus of bipartisan attention in the new 116th Congress. While a recent paper questions public pensions’ performance in this area, infrastructure investments have also been an area of increasing interest to governmental plans. What should trustees be thinking about when infrastructure projects are being considered?

Over the last two decades, some investors have begun to recognize infrastructure as a distinct asset class that can help with diversification. And, as strong returns in stocks and bonds are believed by many to be winding down, real assets can be increasingly attractive, providing cash-generating, stable investments in a low-interest environment.

Furthermore, inadequate Federal action to provide needed capital for infrastructure funding through the Highway Trust Fund, the gas tax or other sources has exacerbated the need for new solutions, while state and local government financial challenges have had an impact on their traditional ability to finance their infrastructure needs through bonds.

Therefore, it appears infrastructure will continue to be a subject of attention, with President Trump in his recent State of the Union address saying both parties "should be able to unite for a great rebuilding of America’s crumbling infrastructure." Trump said he knows Congress “is eager to pass an infrastructure bill, and I am eager to work with you on legislation to deliver new and important infrastructure investment." The President stressed this was not an option, but rather, a necessity.
Institutional investors, in general, and particularly public pension plans are also increasingly the focus of efforts in this area. However, while the number of institutional investors’ infrastructure investments has been increasing, a paper released last fall purports to find public plans’ choices do not provide more stable cash flows than private equity funds.

The report, a working paper of the National Bureau of Economic Research (NBER), a private non-profit research organization, is entitled “The Subsidy to Infrastructure as an Asset Class.” Its authors include Joshua Rauh, Director of Research and a Senior Fellow with the conservative Hoover Institution at Stanford University. Rauh is a long-time critic of public pension plans and an outspoken advocate of the use of a risk-free rate of return to calculate unfunded pension liabilities.

The paper examines infrastructure as an asset class from an investment perspective of a limited partner and claims U.S. public pension funds’ performance does not compare well with other institutional investors, although they are exposed to underlying deals with very similar project stage, concession terms, ownership structure, industry, and geographical location. The paper concludes that public pension funds obtain about 1.32 percent lower net internal rates of return and are effectively subsidizing infrastructure investments.

So, how should pension trustees react to this growing interest on the part of their investment staff and the likelihood of increased efforts by the Federal government to attract their financial support in the overall effort to improve the nation’s deteriorating infrastructure? The Trustee Leadership Forum for Retirement Security at Harvard – with which NCTR has previously partnered to present NCTR’s annual Trustee Workshop – has developed a “Resource for Pension Trustees” on infrastructure investments that includes a number of questions that trustees can ask to help make infrastructure investment better.

These include:

**Issue: Return on Investment**
- Does the infrastructure asset have a revenue stream? Should it?
- What are the risks and uncertainties attached to the revenue stream? Does private finance exacerbate or mitigate those risks?

**Issue: Risk**
Private equity capital costs more than the municipal bond market. If a government agency is choosing to bypass less expensive capital, trustees may want to consider why that is, and what risks may be involved.
- If a public agency has a lower cost of capital in financing infrastructure, why is the public sector seeking out private sector investors with higher cost financing? Are they paying for a transfer of risk to private investors?
- Is there a clear explanation for what the private sector brings to developing the asset? To financing it?

**Issue: Worker Protection**
Since the cost of capital is higher in a public/private partnership (P3) than in a publicly funded project, investors may reasonably wonder how the investment is making a return.
- Is the return on investment coming from labor arbitrage?
- Are labor standards and regulations, from occupational safety to Davis-Bacon, being applied as they would be to a purely public project?
- Has the investment manager adopted robust worker protections for construction, operations, and maintenance personnel?
- Does this project provide good jobs to the community with collective bargaining agreements and/or a project labor agreement?
Does this project erode current bargaining units?
How does this project provide training and workforce development?

**Issue: Know What You Own**
As important as due diligence on future allocations is understanding the ownership interests in current infrastructure allocations.
- What infrastructure projects do we have exposure to through our current allocation?
- What is the track record of these projects/asset managers on labor, training, safety and health, and use of responsible contractors?
- How does the fund collect and review information about this performance?

**Issue: Privatization of Public Assets or Jobs**
If a P3 includes privatized operation and maintenance, it could involve privatizing public jobs and erosion of public bargaining units.
- Is the infrastructure manager doing private sector deals where assets already sit in the private sector?
- What are the risks for the project associated with privatization of public resources?
- Does this project sell off public assets?
- Does this project privatize public jobs?

**Issue: Public Oversight**
- What control and governance does the government sponsor retain during the terms of the concession agreement?
- What kind of user fees are involved, and how do fees increase over time?
- Are the short-term gains coming at the cost of the long-term benefits of members, beneficiaries, their families and communities in the form of selling of public assets or privatizing public jobs?
- Does this project increase or decrease inequality in our community?
- Does this project decrease the carbon footprint of our community?

“I think our systems are going to have to increasingly grapple with infrastructure issues in the days ahead,” said Maureen Westgard, NCTR’s Executive Director. “NCTR will continue to track developments in this area for our membership, and we will likely include a webinar on recent developments in the area of infrastructure in March, so stay tuned,” she concluded.

- Working Paper: “The Subsidy to Infrastructure as an Asset Class”
- Seeking Alpha: “How Public Pension Funds Are Subsidizing Infrastructure”
- TLF: “Infrastructure Investment: A Resource for Pension Trustees”

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**Why Private Equity Can Make Good Sense**
Private equity (PE) is a popular whipping boy for detractors of public pension plans, as investments in this and other forms of alternatives continue to increase overall. Does PE really warrant the criticism it receives, particularly regarding fees? According to a February 5 piece by markets editor of Chief Investment Officer, Larry Light, PE has “long operated under a cloud of public ill will,” going back to the 1980s and the appearance of corporate raiders and leveraged buyouts. But he argues the bad rap is undeserved.
For example, he notes that PE’s implicit pledge to do better than the stock market appears to be true—referring to a 2016 study by the Center for Economic and Policy Research which contended that PE has an edge over the public market during economic downturns, “when it can buy good assets cheap and has the financial capacity to weather storms.”

He also points out that PE firms, as promised, offer diversification. They also provide longer time horizons than public companies “fixated on the current quarter.”

So, what is the problem? As Light succinctly puts it, “[i]nvesting with private equity ain’t cheap.” And as he explains, PE’s classic “2 and 20” compensation system, with PE firms getting two percent of assets in fees yearly and 20 percent of the profits upon the portfolio’s sale, has also upset a number of what he refers to as “big-name politicians” lately, some of whom have called on their pension plans to eliminate or reduce their stakes in PE.

Also, PE can lock up an investor’s capital for typically five to seven years and getting out of a PE fund quickly is not easy. However, Light observes there is less interest than in the past on taking companies public. He quotes Rich Nuzum, president of consultant Mercer’s wealth business, as saying, “People are more comfortable with keeping a company private for longer.” One reason is the recent volatility in the stock market, such as was the case in 2018, discourages companies from going public, with Light noting that the value of the 8,000 public companies in the mid-1990s has been more than halved.

So, what are some other reasons for investing in private equity? Light lists the following:

1. **Crowd dynamics.** Institutions and wealthy individuals are “scrambling to get into PE,” Light says. It is now a “sellers’ market” for PE funds, he quotes John Molesphini, eVestment’s global director of insights, as saying. The so-called “mega-funds,” with $1 billion or more, account for two-thirds of all PE capital, Prequin tells him, and they report they are routinely oversubscribed. Finally, while the amount of capital raised by PE in 2018 slipped somewhat to $426 billion as compared to 2017’s total of $566 billion, PE is “the clear favorite for new investments” among public pension plans. Specifically, 27 percent of their funds in 2018 went to PE, as compared to public stock (20 percent), direct real estate (14 percent), and hedge funds (11 percent).

2. **The promise of superior performance.** A 2012 paper in the Journal of Finance found that, starting in 1984, buyout funds consistently outperformed public equities, by 20 percent to 27 percent over a fund’s life, more than 3 percent annually. Also, a more recent PitchBook study indicates, through 2017, PE did better than the S&P 500 index over one year and 10 years and almost won out over five years (12.8 percent versus 13.7 percent). Furthermore, Light points out a Preqin study showing that, from the start of the century, PE’s increase was almost double that of the S&P 500. (Light does acknowledge that comparisons like these can be faulted because PE performance is measured differently than the benchmark stock index. Also, the amount of leverage that PE funds often use could distort their returns, artificially improving how they did, according to Larry Swedroe, director of research for BAM Alliance.)

3. **PE funds have a lot of financial firepower.** Light reports that more than 4,800 PE deals were closed in 2018 according to PitchBook research, which he says is the highest number ever. Also, the total deal activity surpassed $700 billion, the second-highest yearly figure; only 2007 did better. And the deals “are getting richer,” Light says. For example, the
preferred multiple for PE operators—enterprise value (equity plus debt minus cash) to EBITDA (earnings before interest, taxes, depreciation, and amortization)—exceeded 10 times for 61.4 percent of deals, which he claims is “the biggest portion in history.” Finally, the amount of capital sitting in PE funds waiting to be committed also has set a record, with $1.2 trillion at the start of 2019.

So, what is the forecast for PE? Light acknowledges that “the current favorable economic cycle will turn at some point,” noting PE suffered from the bursting of the tech bubble in the early 1990s, as well as during the 2008-09 financial crisis. As Nic Millikan, director of research for CAIS Group, told him, looking ahead, “private equity can’t rely on cheap credit and easy terms” to buy cut-rate companies. “They will have to get creative.” But Light argues that PE firms, by and large, “have shown they can deliver that.”

For more information on what is happening in the world of private equity from the limited partner’s perspective, be sure to register for NCTR’s Members-only webinar scheduled for next Wednesday, February 20, at 3:00 PM/ET. Special guest Chris Hayes, Senior Policy Counsel at the Institutional Limited Partners Association (ILPA), will join NCTR’s Director of Federal Relations, Leigh Snell, for an update on activities in this area. Register now!

- Chief Investment Officer: “Why Long-Vilified Private Equity Does So Well”

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**Hearing on Retirement Security**

**Features NIRS**

Diane Oakley, Executive Director of the National Institute on Retirement Security (NIRS), was a featured witness at a recent Congressional hearing on the poor state of retirement readiness in America. In a refreshing change, public pension plans were generally not the focus of criticism. But one witness argued America is not facing a retirement security crisis, and said if there was such a crisis, it involved government pensions at the Federal, state and local level—guess who that witness was?

On February 6, the House Ways and Means Committee held a hearing on “Improving Retirement Security for America’s Workers.” It was presided over by the Committee’s new Chairman, Congressman Richard Neal (D-MA), and its former chairman, Congressman Kevin Brady (R-TX) now its Ranking Republican Member.

As Chairman Neal explained in his opening statement, Americans are currently facing a retirement income crisis, with too many people in danger of not having enough in retirement to maintain their standard of living and avoid sliding into poverty. “Social Security benefits are modest, employer-sponsored pensions are disappearing, and too many people find it hard to save for retirement,” he said. Therefore, Neal explained that one of his priorities as Chairman of the Ways and Means Committee “is helping American workers of all ages prepare for a financially secure retirement,” and he planned for the hearing “to be the first of many conversations on this issue.”

Oakley explained pension coverage among private sector retirement plans continues to decline, reaching an all-time low with only 40 percent of workers aged 21 to 64 covered in 2014. “Some 100 million Americans do not have retirement accounts,” she told the Committee, and four out five working age Americans have retirement savings equal to less than their annual income.
Oakley also testified the type of primary retirement plan coverage that private employers offer employees, which has shifted way from defined benefit (DB) pension plans to defined contribution (DC) individual accounts, such as 401(k)s, has increased the risks and responsibilities for individuals in planning and managing their retirement. “The shift has negatively impacted the bottom half of U.S. households by income, by lowering retirement plan coverage rates for those households,” Oakley said.

In addition to Ms. Oakley, highlights from other witness testimony included Nancy J. Altman, President of Social Security Works, who spoke of the importance of Social Security. She explained that, as important as Social Security is for virtually all of Americans, it is especially important to women, people of color, those who are LGBTQ, and others who have been disadvantaged in the workplace. For example, she pointed out that almost one out of two divorced, widowed or never-married female beneficiaries aged 65 and older rely on Social Security for virtually all of their income.

More than one out of two unmarried African American beneficiaries aged 65 and older similarly rely on Social Security, and for Hispanic Americans the percentage is even higher (nearly six out of ten), she told the Committee. Also, African Americans and Hispanics disproportionately qualify for Social Security disability and survivor benefits, as do their children.

Altman urged the Committee to consider increasing Social Security benefits, pointing out in absolute terms, the average monthly Social Security benefit in December 2018 was $1,342, or $16,104 on an annualized basis. “That is below the 2019 official federal poverty level for a two-person household,” she testified.

Cindy McDaniel, Co-director of the Missouri-Kansas City Committee to Protect Pensions, explained how she and her husband, as well as hundreds of thousands of Americans in the Midwest and across this nation, live in fear that they will lose as much as 70 percent of their earned pensions unless Congress acts to solve the multiemployer pension crisis.

Roger W. Crandall, Chairman, President & CEO of MassMutual, testified on ways to improve the private retirement savings system, including support for the Retirement Enhancement and Savings Act (RESA). This legislation, strongly supported by Chairman Neal, would expand workplace retirement plan coverage through its open multiple employer plan (“open MEP”) proposal, expand small employer tax incentives to help offset the costs associated with establishing a new workplace retirement plan, and simplify and streamline plan administration.

Other witnesses described the effectiveness of new state-sponsored “Secure Choice” private employer retirement savings accounts, as well as how one corporation was “achieving retirement security in a DC-only world,” explaining how lifetime income protection was being provided for their plan participants without a DB plan.

Republicans were allowed to call only one witness, and he was Andrew Biggs, Resident Scholar with the American Enterprise Institute (AEI). Biggs is a long-time opponent of teacher pension plans and has insisted for years there is no retirement security crisis in America. His testimony on February 6 was consistent with these views.

Biggs made several key points:

1. There simply is no retirement crisis. “Retirement incomes have been rising rapidly and the vast majority of retirees state they have sufficient money to live comfortably,” he said.
2. “If there is a retirement crisis, it is in retirement plans run by federal, state and local governments, whose unfunded liabilities exceed even the most pessimistic estimates of shortfalls in retirement saving by U.S. households,” Biggs insisted.

3. Because there is no retirement crisis, proposals such as to expand Social Security should be considered with caution. Expanding benefits could help low-income retirees, but middle and high-income workers would likely reduce their personal saving in response to higher expected Social Security benefits.

The Windfall Elimination Provision, or WEP, was also discussed at the hearing by several members of Congress, indicating continuing strong support for efforts by Chairman Neal and Congressman Brady to reform the WEP formula. However, no new legislation has yet been introduced by them in the new Congress.

“I would commend Diane’s testimony to NCTR systems as an excellent summary of the work that NIRS has done over the years in documenting the causes and the effects of the lack of true retirement security for so many Americans in the private sector,” said Maureen Westgard, NCTR’s Executive Director. “I also think Ms. Altman’s testimony is a real eye-opener for those who may not realize how important Social Security is to so many Americans,” Westgard continued.

“Hopefully, as Chairman Neal promised in his remarks, this hearing will signal a new focus by the Congress on retirement security,” Westgard said. “This is so important for our nation’s future,” she concluded.

- House Ways and Means Committee: “Improving Retirement Security for America’s Workers” witness testimony
- Congress Richard Neal (D-MA) Opening Statement

NASRA News Clips

In the Media

Pensions & Investments: Public plans surf wave of reforms in the aftermath of crisis

NASRA found that 23 states have added one or more risk-sharing features since 2009, ranging from hybrid plans to variable contribution rates and benefits that are subject to change if investment performance or funding levels dip. "In recent years we've seen plans take on additional risk sharing, and in some cases, they are adjusted without being subject to the legislative process," said Mr. Brown. While increasing employee contributions or trimming benefits is not a new concept, "now it is disclosed upfront," he said. Employees "have effectively learned that they were bearing some of the risk." Read the article

Wisconsin Legislative Council publishes update to comparative study of state retirement plans

This report compares significant features of major state and local public employee retirement systems in the United States. The report compares retirement benefits provided to general employees and teachers, rather than benefits applicable only to narrower categories of employees such as police, firefighters, or elected officials. Generally, the report has been prepared every two years since 1982 by the Wisconsin Retirement Research Committee staff or the Legislative Council staff. See the study

S&P Global: Are asset transfers a gimmick or a sound fiscal strategy?
Illinois governor proposes selling state assets to reduce pension liabilities

[Governor] Pritzker wants to sell state assets and deposit the proceeds into the pension funds. [Deputy governor] Dan Hynes estimated they "could be worth tens of billions of dollars. He didn't suggest which assets might be sold, and Pritzker has put together a task force to evaluate the options. Some of the state's biggest holdings include the Illinois Toll Highway Authority, the Illinois Lottery and real estate such as the James R. Thompson Center in the Loop, among others. Chicago Tribune Editorial: More smoke and mirrors

Federal Focus

Asset transfers to public pensions: match made in heaven or smoke and mirrors?

Confronting the nation’s infrastructure gap is one of the rare bipartisan issues in Washington today. It is a priority for the American public and for elected officials at the federal, state and local levels, all of which make it a likely legislative focus for both the 116th Congress and the administration. Some are promoting public pensions investment in infrastructure as a "match made in heaven," while others warn it is "exceptionally subject to smoke and mirrors and would further obscure a pension system that’s already far too opaque." The Hill: Match made in heaven Wirepoints: Be afraid of asset transfers

People

NIRS names successor to executive director Diane Oakley

Dan Doonan has been selected to lead the National Institute on Retirement (NIRS), a non-profit, non-partisan retirement research organization located in Washington, D.C. Doonan will assume the role of executive director beginning on March 11, 2019. ... He comes to NIRS after serving as a senior pension specialist with the National Education Association. Doonan began his career at the Department of Labor, and then spent seven years performing actuarial analysis with Buck Consultants in their retirement practice. His experience also includes positions as a research director and labor economist. Press release

Perspectives

Social investing - including ESG - is inappropriate for public pension funds

Due to the lower investment returns associated with ESG investing and the divergent values across the large number of people that public pension funds represent, it is clear that public pension funds harm public sector employees and retirees when they engage in ESG investing. Given the SEC's clear responsibility to protect investors, the agency should provide clarity, as the Labor Department has, on the role of ESG investing for public pension funds. Wayne Winegarden in Forbes ESG Investing@NASRA.org

One limitation of asset transfer-based solutions is that pensions cannot use physical assets to fulfill their basic mission of providing retirement benefits—they must pay out cash and cash alone. Assets are only valuable to pension systems if they can generate cash (with or without being sold). If a real asset dedicated to the pension system does not generate revenue on its own, the only use a pension system has from it is to sell it and use the proceeds to help fund future benefits. Read the brief

Tweet of the Week

Nearly every state in recent years enacted reforms to public pension plans. As a result, although most public employers in the U.S. have retained DB plans, in many plans, more risk has shifted from employers to employees.

Job Postings

No new listings

For details on open positions, visit Careers @ NASRA.org
Snapshot of this Week’s FYI

1. While the idea of in-kind contributions to pension plans is not a new concept in the private sector, it has never really taken hold in the governmental plan space.

2. The subject of in-kind contributions to public pension plans is drawing increasing attention from cash-strapped government sponsors. What should boards ask when presented with such a proposal from their sponsor?

3. Dan Doonan has been selected as the new Executive Director of the National Institute on Retirement Security (NIRS).

In-kind Contributions: Part One

While the idea of in-kind contributions to pension plans is not a new concept in the private sector, it has never really taken hold in the governmental plan space. However, there is increasing interest in the topic, often linked with the need to address the nation’s infrastructure challenges. Are public pensions and infrastructure “a match made in heaven,” as one recent article suggests, or a cause for serious concern?

Background

A contribution of an investment asset in lieu of cash, paid directly by a plan sponsor to a pension fund and often referred to as an “in-kind” contribution, has been common in corporate pension funding for years, with employers typically contributing and then leasing back their real estate. An oft-cited example is Pan Am’s contribution of its leasehold on the John F Kennedy “Worldport” passenger facility, valued at approximately $170 million, to five of its defined benefit (DB) pension funds as a credit against the company’s funding obligation in the late 1980s. The plans then leased the facility back to Pan Am and received lease payments from the airline as tenant.

The idea has also been discussed for use in the public sector, whereby certain government-owned real estate holdings, such as office buildings and other property, would be contributed in-kind by a government sponsor as a substitute for cash, with the pension plan credited with the fair market value of the transferred assets. The plan would own and manage the property and collect income from it because the transferring government would presumably lease the property back at market rates.

Indeed, as far back as 2011, an article in AICIO asked if in-kind contributions for public pensions were “an overlooked opportunity.” As studies have pointed out, infrastructure assets have features that are appealing to pension investors. For example, they are long-duration and offer some degree of inflation protection. They can generate steady cash flows and are not correlated with other asset classes, so they also provide attractive opportunities for diversification. Finally, an in-kind contribution offers the chance to obtain an asset without acquisition costs.
From the government sponsors’ perspective, in-kind contributions allow them to use a surplus asset in such a way that preserves cash, improves balance-sheet “resiliency” and avoids service cuts or tax increases. And it also permits civic assets to remain in the public sector as opposed to selling them to the private sector.

**Dedicated Revenue Streams**

But the idea of in-kind contributions has never really caught on in the public sector. At least so far. As Jill Eicher, Director of the Infrastructure Lab at the Bipartisan Policy Center (BPC), explains, “[t]he difference between a pension fund buying an asset and receiving one in lieu of cash is important. The former is like a marriage for love, while the latter is more akin to an arranged marriage with a dowry of uncompensated risks.” The BPC is a Washington, DC-based thinktank founded in 2007 by former Senate Majority Leaders Howard Baker (R-TN), Tom Daschle (D-SD), Bob Dole (R-KS), and George J. Mitchell (D-ME).

However, the idea of transferring public assets or the revenue they generate to a public pension plan has been drawing increasing attention and “may be an idea whose time has come,” according to Eicher.

For example, Arizona, Hawaii, Kansas, Louisiana, Montana, Oklahoma, and Pennsylvania have created dedicated funding sources for public employee pension plans, using gaming profits, funds from surplus real estate sales, mineral and corporate tax returns, coal extraction taxes, and so-called “sin taxes” collected on alcohol or tobacco sales.

**Asset Recycling**

More recently, as the infrastructure problems of the nation have drawn increasing public and political attention, the concept of "asset recycling" – selling or leasing infrastructure assets to the private sector and using the proceeds to pay for upgrades, maintenance and new infrastructure – has been attracting growing interest.

Asset recycling was developed by the Australian government in 2014, with $5 billion in Australian federal funding incentives stimulating more than $20 billion in infrastructure investments.

There is now an increasing record of state and local governments using long-term public-private partnerships (P3s), in which investors and developer/operators design, build, finance, operate, and maintain infrastructure facilities under long-term contractual agreements. While most of these long-term P3s have been to develop new facilities, there are also cases of using this kind of agreement to refurbish aging existing infrastructure.

Eicher asks whether this Australian approach – “essentially a garage sale of government-owned infrastructure” – could work in the United States? However, she notes there are significant hurdles, including current tax law disincentives to the selling or leasing of assets. For example, assets that are sold or leased must not only repay associated tax-exempt debt, but state and local governments would also have
to finance any new debt that is incurred on a more expensive, taxable basis, she points out.

Other risks arise when selling or leasing public assets to the private sector, such as accurate valuations to guard against assets being sold on the cheap. Also, there is the issue of protecting the public from what Eicher calls “potential misuse of market power by new private owners tempted to boost profits by increasing user charges.”

**Public Pensions, Infrastructure and In-Kind Contributions**

Enter public pension plans. One way to help guard against such risks is to effectively “sell” these assets to governments’ pensions. Indeed, as a recent article in *The Hill* proclaims, public pensions and infrastructure are “a match made in heaven.”

As the article by Ingo Walter, professor emeritus of finance at NYU's Stern School of Business, and Clive Lipshitz, managing partner of Tradewind Interstate Advisors, explains, “[w]hile there are perfectly suitable public finance tools, a large pool of untapped available capital resides in the retirement funds of public-sector workers.” Now is the perfect time, they believe, “to match pension capital with infrastructure investment needs, creating winners on both ends of the financial chain.”

Specifically, the asset recycling approach which they urge be used should be particularly attractive to public pensions because currently, when pension funds invest in infrastructure, they typically invest in private equity-type funds “that often have first-rate expertise but seek capital gains, not current income.” Therefore, these investments “don't generate much in the way of the cash-flows pension funds need,” they conclude.

They insist that asset recycling is a financing tool that can be used successfully to "repurpose" infrastructure capital. “Public-sector agencies sell long-term concession rights on existing infrastructure to investors (including pension funds) and use the proceeds to finance development of new infrastructure. Everybody wins: the public sector retains ownership of their legacy assets, receives cash proceeds to develop new infrastructure and avoids burdening its public finances with more debt; investors get a stream of proven cash flows from existing infrastructure over a fixed period of time,” the two academics write.

**New In-Kind Initiatives**

Recycling of government assets via in-kind contributions is beginning to pick up, with new proposals appearing more frequently. The contribution of New Jersey’s state lottery, and not just the revenue stream associated with it, to the state’s pension plan is one of the more notable recent examples. Also, last year, Connecticut’s Commission on Fiscal Stability and Economic Growth said the state could benefit from evaluating the in-kind contribution of assets of land, buildings, airports, roads, healthcare facilities and other assets that the state does not need to own and which may have valuable development potential. This could improve pension-funded ratios and lower annual required contributions, the report said.

More recently, Illinois Governor J.B. Pritzker (D) announced the formation of a new task force on asset value and transfers to identify and analyze state assets and make
recommendations as to their best use to help stabilize the state’s finances. Recommendations could include the repurposing or sale of assets or transfer to state pension systems. According to an article on the proposal in the Bond Buyer, such transfers will enable the asset to be accounted for using its higher market value to boost funding ratios.

Meanwhile, in New Jersey, Governor Phil Murphy (D) took what is seen as the first step toward leveraging state assets with the release of a request for qualifications for a state asset financial advisor to determine what assets belonging to the state can be sold, leased or otherwise leveraged to help fund government workers’ pensions. New Jersey’s Treasury Department is soliciting bids from financial advisers to evaluate the many assets owned by the state, and to analyze the state’s assets — including property, buildings, roads, airports, bridges, ports, recreational facilities, transit facilities, rights of way, and air, development or naming rights — and make its recommendations.

And then there is the case of the Municipal Employees Retirement Fund of Hartford, Connecticut, which was given a 600-acre public park – which does not currently produce revenue for the city – two years ago as partial payment of the city’s annual required contribution to the pension plan. Hartford received a $5 million credit against its pension liability and cut its budget deficit by making the transfer.

These asset recycling “sales” involving public pensions are not without their vocal critics. Elizabeth Bauer, an actuary writing in Forbes this month, warns the infrastructure has to have an identified market value, and a return on assets “or, rather, strictly speaking, a plan could hold assets which are expected to have no investment return, but then it must account for that expectation in the expected investment return rate it uses as the valuation interest rate.”

In-kind contributions to public pension plans as a way to address infrastructure financing is an area of increasing attention by cash-strapped governments who may well see the idea as heaven-sent. Should pension plans?

- Governing: “Is It Time for an Infrastructure Garage Sale?”
- The Hill: “Public Pensions and Infrastructure: a Match Made in Heaven”
- Bond Buyer: “How In-Kind Real Estate Asset Contributions Could Ease Connecticut’s Pension Woes”
- Fidelity: “Asset Transfers, Consolidation Eyed for Illinois Pension Quagmire”
- NJ.com: “Public Worker Pensions are a Huge Cost for N.J. Here’s What Phil Murphy is Considering to Pay for Them.”
- Forbes: “Illinois Is Still Not Serious About Pension Funding”

In-kind Contributions: Part Two

The subject of in-kind contributions to public pension plans is drawing increasing attention from cash-strapped government sponsors. What should boards ask when presented with such a proposal from their sponsor?
A state or municipality's contribution of substantial amounts of real property to its pension plan can raise a host of issues. Marc Lieberman and Mark Lasee, partners at the Kutak Rock law firm, represent government pension systems in connection with their alternative investments, including real estate investments. In 2017, they prepared an article for the National Association of Public Pension Attorneys (NAPPA) that discusses a number of these issues. It provides a good resource for boards when confronted with a possible in-kind contribution.

When considering such transactions, the two begin by explaining that “public plan trustees must weigh the economics of the transaction, liquidity constraints and other investment risks, including the potential liability arising from ownership of the transferred assets, as well as the costs attributable to management of the real estate and whether applicable law even allows for such transfers.”

The following are a number of issues for trustees to consider:

**Prohibited Transactions**

As the article notes at the outset, private employers involved in transactions where they contribute and lease back their real estate to company pension plans have overcome significant requirements imposed by the federal Employee Retirement Income Security Act (ERISA) in order to do so. Although governmental plans are not bound by private employer regulations, ERISA's prohibited transaction exemption rules and fiduciary duties can certainly serve as a model, the two attorneys suggest.

To begin with, the acquisition and lease-back by a pension plan of property from its sponsor is a "Prohibited Transaction" under ERISA as it constitutes a direct or indirect sale or exchange, or leasing, of property between the plan and a “party in interest.” However, there are specific exemptions from this rule, and Kutak Rock suggests that government plan trustees “may wish to give consideration to employing these ERISA statutory exemptions in analyzing whether they should accept a proposed in-kind contribution.” These include the following:

- the property must be leased back to the employer (presumably at market rates);
- there must be at least two parcels that are geographically dispersed (to avoid overweighting in a given market) and the property must be capable of use by different types of users;
- the transaction must be for adequate consideration;
- the contribution must be at a price not less favorable to the plan than the fair market value of the asset as determined in good faith by the trustee or named fiduciary pursuant to the terms of the plan;
- the plan cannot be charged a commission for the transaction; and
- an asset transfer cannot exceed 10 percent of the fair market value of the plan.

**Fiduciary Standards**

In addition to meeting ERISA statutory exemptions, private sector employer plan trustees must also adhere to their fiduciary duties to their plan as imposed by ERISA. Once again, the Kutak Rock partners note that even though governmental plans are
not bound by ERISA's fiduciary duties, some States have expressly adopted them. “For other States, ERISA fiduciary standards should serve as a bellwether for a plan trustee's fiduciary obligations,” they note, and even in those States that have not adopted such standards, “it should be kept in mind that many State court cases have borrowed from federal court ERISA cases discussing ERISA fiduciary duties,” the two point out.

Trustees should therefore keep the following in mind:

- ERISA applies the "prudent man" standard of care, which requires plan trustees to act "solely in the interest of the participants and beneficiaries" with the skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
- plan trustees must also act independently; and
- ERISA also requires a fiduciary to diversify the plan investments to minimize any risk of loss arising from geographic and investment concentration.

Applicable State law may modify or replace these ERISA fiduciary standards, but the article stresses that “similar fiduciary standards generally apply.”

Application of Property Contribution Transactions to Governmental Plans

A number of requirements imposed by State law will also need to be met by the contributing governmental entity and the recipient pension plan, Kutak Rock underscores. “The contributing agency and its pension plan are on opposite sides of the transaction - consequently, the transaction will need to be reviewed by each from their own unique perspective.” Such a review will entail the State's constitution, statutory enabling acts, case law, regulations and attorney general opinions, to name a few,” their article notes. Consider the following questions applicable to the intended contributor that trustees should explore:

- Is the government sponsor authorized under State law to undertake the in-kind transaction with its pension plan? Specifically, can it contribute property in exchange for credit against its obligations to fund?
- Is the sponsor authorized to lease back the property from the pension plan, paying rent to the plan during the term of the lease?
- Does the plan sponsor have a budget item for periodic rental payments to the plan for the leaseback of the property?

As the intended recipient of the in-kind contribution, the plan’s trustees also need to answer the following questions:

- Has the governmental plan confirmed its legal authority to engage in the contribution and leaseback? Specifically, trustees should ascertain whether applicable provisions of the constitution, enabling act and other statutes, case law and opinions provide the express authority necessary to undertake the transaction.
- Does the plan's investment policy statement create further restrictions?
- What are the effects of the transaction on plan operations? This should include: (1.) the impact of the transaction on the plan's liquidity requirements; (2.) the ability of the plan to provide oversight or administration of the transferred assets; (3.) the liability posed by the
assets; (4.) the marketability of the assets (and applicable leases) over various terms; (5.) the plan's preferred asset allocation; and (6.) the impact of the transfer on the plan's financial condition.

- Has the appropriate due diligence been undertaken with respect to the real estate transaction, making sure that the assets transferred are not encumbered by environmental hazards or financial liens or have boundary or title issues or code violations?

In other words, in addition to meeting fiduciary and statutory requirements that may exist with respect to the contribution and leaseback of real estate, “plan trustees should ensure the conduct of due diligence ordinarily made with respect to any arm's length real estate investment,” the Kutak Rock attorneys stress. They also note that best practices dictate the use of independent fiduciaries, appraisers, real estate and other professionals in such a process.

In-kind contributions are increasingly being considered by plan sponsors, and there are efforts underway at both the Federal as well as the state and local levels of government to encourage and facilitate such transactions. “Trustees need to be prepared to ask the hard questions,” Maureen Westgard, NCTR’s Executive Director pointed out, “even when everyone around them may think it is the best course of action for the plan, its sponsor, and the resolution of the infrastructure problems the country faces.”

She underscored that NCTR will continue to work to ensure that trustees have all the information they need in order to do so, pointing out that efforts are underway to have an NCTR webinar on the subject of in-kind contributions in March of this year. Watch for the announcement of details in the coming weeks!

Westgard also took this opportunity to welcome Kutak Rock as a new NCTR associate commercial member.


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### NIRS Names New Executive Director

Dan Doonan has been selected as the new Executive Director of the National Institute on Retirement Security (NIRS). Mr. Doonan will replace Diane Oakley, who has led the organization as its second Executive Director since 2011.

Maureen Westgard, Executive Director of NCTR and a NIRS board member who served on the selection committee to find Ms. Oakley’s replacement, echoed Mr. Ingram’s assessment. “Diane has been an excellent leader and will be a tough act to follow, but I am confident that Dan has the experience and the commitment to the cause of retirement security to be a worthy successor,” she said.

- NIRS: “National Institute on Retirement Security Names Executive Director”