

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2017 BUDGET TESTIMONY
May 10, 2016**

INTRODUCTION

Good morning, President Clarke and Members of City Council. I am Francis Bielli. Joining me today are Shamika Taliaferro, Deputy Pension Director, Christopher DiFusco, Chief Compliance Officer, and other members of our executive staff. I am pleased to provide testimony on the Board of Pension and Retirement's Fiscal Year 2017 operating budget.

DEPARTMENT MISSION/PLANS

Mission: The Board of Pensions and Retirement (the Board) is responsible for the creation and maintenance of an actuarially sound Retirement System for the benefit of all current and future benefit recipients. The nine-member Board is composed of the Director of Finance, who serves as chairperson; the Managing Director, the City Solicitor, the Human Resources Director, the City Controller and four members who are elected by the Civil Service employees of the City. In addition, there is one non-voting member on the Pension Board, who is appointed by the President of City Council. The Executive Director administers the day-to-day activities of the Retirement System, providing services to over 66,000 members. The Board acts as a 'trustee' to make sure that the Retirement System remains actuarially and financially sound for the benefit of current and future benefit recipients. With the assistance of staff and professional consultants, the Board manages assets in the pension system and develops policies and strategies that enable the Board to successfully implement its fiduciary duties. In addition, the Board formally approves all benefit applications.

Plans for Fiscal Year 2017:

The Board's goals and priorities are ongoing long-term concerns that change little from one fiscal year to another. The Board will continue to work diligently to reduce management fees and costs, see its participation in the OnePhilly project to completion, increase the number of deferred compensation participants, increase the percentage of monthly benefit recipients who receive their payment through electronic funds transfer and operate independent of the need to utilize overtime.

**BOARD OF PENSIONS AND RETIREMENT
BUDGET SUMMARY AND OTHER BUDGET DRIVERS**

Staff Demographics Summary (as of January 2016)

	Total	Minority	White	Female
Full-Time Staff	56	36	20	43
Executive Staff	5	3	2	3
Average Salary - FTS	\$56,147	\$50,324	\$66,627	\$48,918
Average Salary - ES	\$116,000	\$90,000	\$155,000	\$90,000
Median Salary - FTS	\$49,773	\$51,210	\$51,232	\$43,359
Median Salary - ES	\$105,000	\$90,000	\$155,000	\$90,000

Employment Levels (as of January 2016)

	Budgeted	Approved	Filled
Full-Time Positions	73	73	56
Part-Time Positions	0	0	0
Executive Positions	5	5	5
Overall Average Salary	\$51,053	\$51,053	\$56,147
Overall Median Salary	\$43,359	\$43,359	\$49,773

Financial Summary by Class - Pension Fund

	Fiscal 2015 Actual Obligations	Fiscal 2016 Original Appropriations	Fiscal 2016 Estimated Obligations	Fiscal 2017 Proposed Appropriations	Difference FY17-FY16
Class 100 - Employee Compensation	\$3,270,688	\$3,750,000	\$3,750,000	\$3,750,000	\$0
Class 200 - Purchase of Services	\$4,918,176	\$2,538,000	\$2,538,000	\$2,475,000	(\$63,000)
Class 300 - Materials and Supplies	\$58,968	\$125,000	\$125,000	\$125,000	\$0
Class 400 - Equipment	\$6,672	\$13,000	\$13,000	\$13,000	\$0
Class 500 - Contributions	\$0	\$0	\$0	\$0	\$0
Class 700 - Debt Service	\$0	\$0	\$0	\$0	\$0
Class 800 - Payment to Other Funds	\$69,907	\$125,000	\$125,000	\$125,000	\$0
Class 900 - Advances/Misc. Payments	\$0	\$0	\$0	\$0	\$0
TOTAL	\$8,324,411	\$6,551,000	\$6,551,000	\$6,448,000	(\$63,000)

Contracts Summary (as of December 2015)

	FY11	FY12	FY13	FY14	FY15	FY16*
Total amount of contracts	\$32,546,075	\$27,410,231	\$29,890,980	\$33,529,195	\$28,694,934	\$12,464,882
Total amount to M/W/DBE	\$4,216,549	\$2,560,146	\$3,939,110	\$4,881,899	\$5,204,446	\$2,555,301
Participation Rate	13%	9%	13%	15%	18%	21%

* as of December 2015

BOARD OF PENSIONS AND RETIREMENT PROPOSED BUDGET OVERVIEW

PROPOSED FUNDING REQUEST

The proposed Fiscal Year 2017 Pension Fund budget totals \$6,488,000, a decrease of \$63,000 over Fiscal Year 2016 estimated obligation levels. This decrease is primarily due to non-recurring costs associated with the OnePhilly project.

The proposed budget includes:

- \$3,750,000 in Class 100, the same amount as FY16. This funding will maintain staffing at its optimal level.
- \$2,475,000 in Class 200, a decrease of \$63,000 over FY16. This funding will permit the Board to meet all anticipated contractual obligations.
- \$125,000 in Class 300, the same amount as FY16. This funding will provide staff with the supplies necessary to deliver services efficiently.
- \$13,000 in Class 400, the same amount as FY16. This funding will allow for the purchase of equipment as needed during the fiscal year.
- \$125,000 in Class 800, the same amount as FY16. This funding will pay the General Fund for work performed on the Pension Board's behalf by the City's central service agencies.

STAFFING LEVELS

The current budgeted staffing level appears to be at or close to the appropriate level. Our intent is to continue to evaluate and review the vacancy level based on necessity. The fiscal year 2017 budget contains funding for 73 positions that service nearly 66,000 participants. This is four fewer positions than are budgeted for in the current fiscal year. To date in FY16, the Board has no expenditures for temporary staff or overtime.

The staff of the Board of Pensions is 77% female, 57% African-American, 4% Hispanic, and 4% Asian. The Board's executive staff is composed of the Executive Director, Deputy Pension Director, the Chief Compliance Officer and two Benefit Administrators. The demographics of the executive staff is 60% female and 60% minority. There is not a large multilingual population at the Board. One staff member speaks Italian.

The Board has hired three staff to date in FY16, all of whom are African-American females.

**BOARD OF PENSIONS AND RETIREMENT
PERFORMANCE, CHALLENGES AND INITIATIVES**

DEPARTMENT PERFORMANCE (OPERATIONS)

One of the measures we use is the administrative cost per member to perform our duties. The most recent data available shows that through June 30, 2015, our cost to administer the plan is \$130 per member. According to the Pennsylvania Employee Retirement Commission, our annual cost per employee is among the lowest in the industry.

An additional measure we use is the time it takes an individual to obtain an appointment with a counselor. Since implementation of a more coordinated scheduling process, the time has reduced considerably, from more than four weeks to often less than two weeks. The availability of the counselors also improved by allowing estimates and retirements via mail.

DEPARTMENT CHALLENGES

Ongoing management challenges include harnessing advanced technology in the marketplace to create further efficiencies for our employees to utilize. The burgeoning availability of forms on our web site that are commonly used by members, along with the ability to complete retirement via mail, are examples of using technology and/or alternatives to the traditional counselor appointment to provide additional options for our members and increase efficiency.

An initial challenge was to coordinate the workflow of the department in a manner that enabled the talented and knowledgeable staff to fully use their skills. By creating a largely flat organization and empowering our employees to challenge the conventional or accepted way of doing things, we believe the free flow of ideas among all of us has resulted in finding improvement of processes and growth of our professionals.

The current challenge is to continue to ensure that silos do not exist and that everyone feels empowered to share their ideas and/or question established procedures to improve the workplace. A central challenge of the Board and investment staff is to continue to work diligently to identify investments which will reduce fees, provide above- market returns and mitigate risk.

ACCOMPLISHMENTS & INITIATIVES

Improved Returns and Updated Investment Strategy: Following the financial distress and contraction of the world stock markets in 2007-2009, the Fund reviewed its asset allocation and adopted an asset mix intended to create more income and reduce relative risk; while positioning itself to capture positive market performance. The annual market returns and corresponding actuarial returns are listed in the following table. The actuarial return smooths gains and losses over ten years to lessen their impact on any given year, as directed by PA Act 205.

Fiscal Year	Market Return	Actuarial Return
FY11	19.4%	9.9%
FY12	0.2%	2.4%
FY13	12.1%	5.1%
FY14	15.7%	4.8%
FY15	0.3%	5.8%

Increased Number of Electronic Fund Transfers: The Board continues to increase the percentage of monthly benefit recipients who receive their payment through electronic funds transfer (EFT). That number now stands at 32,653, representing over 92% of the Board's monthly payments. Each monthly EFT recipient saves the Board \$4 in postage annually.

Improved Online Access to Information: The Board continues to update its website to include more forms that are commonly used by members and provide access to retirement benefit and investment information for those who are interested in learning more about the Pension Fund. Minutes of the Board's monthly benefit, investment, and deferred compensation meetings are posted to this site as soon as they are approved by the Board.

Increased Number of Deferred Compensation Participants: The Board continued to increase the number of deferred compensation participants by holding deferred compensation seminars at department locations, distributing educational materials, implementing online enrollment and contribution authorization, and by generally increasing employee awareness of the benefits of the program. Membership in deferred compensation through April 30, 2016 was 20,032 (up from 18,763 on April 30, 2015) with total assets of \$964 million (up from \$916 million on April 30, 2015).

**BOARD OF PENSIONS AND RETIREMENT
OPERATIONS**

Performance Measure	FY15	FY16 YTD	FY17 Target
Increase percent of electronic funds transfer (EFT) payments	91.8%	92.2%	94.5%

**BOARD OF PENSIONS AND RETIREMENT
OTHER BUDGETARY IMPACTS**

FEDERAL AND STATE (WHERE APPLICABLE)

- The Board of Pensions' annual operating budget does not receive Federal or State funds.

OTHER

Funding Percentage:

According to the Board's 2015 Actuarial Valuation Report, the funding percentage for the plan year ending on June 30, 2015 is 45.0%, a decrease from the 45.8% funding level for the same period in FY14. According to the actuary, the valuation results reflect the effect of a decrease in the assumed rate of return from 7.80% to 7.75% and the application of a 0.54% liability load to account for funding of benefits payable under the Pension Adjustment Fund (PAF). The actuary states further that "while this ratio may appear to reflect lack of progress in funding, the Fund's risk profile is being improved by including funding for the PAF and lowering the discount rate."

The Board continues to work with the Administration to reduce the assumed rate of return. The Board voted in March 2016 to reduce this rate from 7.80% to 7.75%. Over the last eight years, the assumed rate of return has been reduced one hundred basis points (8.75% to 7.75%), which is four times greater than the combined reductions in the entire history of the fund. As indicated by the actuary, although reducing the assumption rate is a factor that reflects negatively on the current funding ratio, the lower rate improves the Fund's risk profile going forward. Through June 30, 2015, the average annual rate of return of the Fund since inception was 7.71%.

Legislation:

The Board continues to administer the terms of Council legislation concerning DROP and PLOP, subject to applicable stipulations agreed to by the unions and the administration, staying full implementation pending the outcome of current litigation.

Plan 10, the hybrid defined benefit and defined contribution plan, has been implemented for new Police, Fire, Exempt, Non-Represented, District Council 33 and 47 represented, Deputy Sheriff's, Correctional Officers, and Register of Wills employees. The Correctional Officers and Register of Will employees are mandatory Plan 10 participants; while all other employees have the option to opt out of Plan 10 and pay an additional 1% pension contribution rate. Plan 10 membership as of April 2016 stands at 1,027.

Retirements:

In FY15 there were 1,285 retirements, 490 DROP enrollments, and 276 withdrawals of contributions, compared to FY14, in which there were 829 retirements, 417 DROP enrollments, and 255 withdrawals of contributions.

Retirement Seminars:

Retirement Planning Seminars continue to be attended by an average of 60 persons per session. Eight (8) of these programs are held per year.

A secondary retirement education program designed to serve those employees in the early stages of retirement planning, has been in place for several years. The average attendance at these sessions, which are held six times per year, is 60 employees.

The Board utilizes its own staff and that of the 457 Plan Third Party Administrator to deliver presentations.

at these seminars. In addition, the Board's Deferred Compensation Provider has a Certified Financial Planner available for consultation free of charge for all members.

Pension staff also participates in education seminars at the Fraternal Order of Police, Firefighters Local 22, District Council's 33 & 47, as well as various City departments for non-represented and exempt employees several times per year.

Investments:

The Pension Fund returned 0.3% on a market basis for the fiscal year ending June 30, 2015. Based on the annual actuarial valuation, the Fund's actuarial return, which is the ten-year smoothed return, as of June 30, 2014 was 5.80% and the funding ratio was 45.0%, a reduction from the funding ratio of 45.8% for June 30, 2014, reflecting mainly the 0.05% decrease in the assumption rate and the 0.54% liability for the Pension Adjustment Fund.

The Board continues to follow the asset allocation strategy adopted in January of 2015. This allocation strategy continues to focus on the optimal allocation mix of investment strategies that will achieve the targeted actuarial level of return at the lowest possible level of risk to the Plan. The asset mix targets strategies that are designed to generate current income while also dampening the overall level of return volatility. However, the Board recently selected a new consultant, a new Chief Investment Officer, a new Deputy Chief Investment Officer and a new Senior Investment Officer. The consultant and investment staff will work collectively to review the asset allocation going forward.

The Board continues to manage its Opportunity Fund allocation in a way that better reflects the current investment landscape and its asset allocation and strategy implementation, further moving the Plan away from the Manager-of-Manager model and focusing on creating a direct relationship with the underlying investment managers. The benefits of this approach are as follows:

- Direct relationship provides the Board with greater flexibility and control for the review, selection, sizing, monitoring and termination of investment managers. In addition, direct relationships allow greater flexibility to adjust the overall portfolio to meet asset allocation targets and the payment of benefits.
- Removes the additional layer of fees that were charged by the Manager-of-Managers and provides the opportunity to negotiate investment manager fees directly.
- Diverse, local and emerging investment managers want to have a direct relationship with Institutional Investors. This relationship is symbiotic as the City benefits from greater control of its investments and the manager benefits in the marketplace by having a direct institutional relationship which is often required prior to receiving more capital from other institutional investors.
- Focuses the Opportunity Fund mission to invest in diversity, local, and emerging managers across all asset classes, including Alternative Investments, including (but not limited to) private equity and private real estate. This will increase the number of funds available beyond the current universe and offer the Plan more options for the strategic deployment of capital.

The Board continues to seek out high quality diverse, local, and emerging managers for allocations across all asset classes, including alternative investments. It is also expected that these additional allocations will increase the diversity participation in the Plan while providing superior risk adjusted returns to the beneficiaries.

Using the PSN database, staff created a filter to get a universe of managers that have a three-year track record and an active product with at least \$100 million in AUM. After running the filter, 1,190 firms with 8,435 products were available. Of this amount, 113 firms and 518 products had greater than 50% minority or woman ownership. This equates to 9.5% of firms and 6.1% of products. As of 2/29/16, CPBR had a total of 99 managers, of which 22 were MWBE products, a percentage of 22.2%.

It is the goal of Board of Pensions staff to continue to provide education and improved services to its members.

BOARD OF PENSIONS AND RETIREMENT- CONTRACTING EXPERIENCE

**M/W/DSBE Participation on Large Contracts
FY16 Contracts**

Vendor	Service Provided	Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DSBE Participation Achieved	\$ Value of M/W/DSBE Participation	Total % and \$ Value Participation - All DSBES	Local Business	Living Wage Compliant?
400 Capital	Hedge Fund Mgr	\$3,716,822			MBE:	0%	\$0		y/n	y/n
					WBE:	0%	\$0	0%		
					DSBE:	0%	\$0	\$0		
Axonic	Hedge Fund Mgr	\$2,889,712			MBE:	0%	\$0		y/n	y/n
					WBE:	0%	\$0	0%		
					DSBE:	0%	\$0	\$0		
ESG	Hedge Fund Mgr	\$2,763,074			MBE:	0%	\$0		y/n	y/n
					WBE:	0%	\$0	0%		
					DSBE:	0%	\$0	\$0		
Archview	Hedge Fund Mgr	\$1,920,833			MBE:	0%	\$0		y/n	y/n
					WBE:	0%	\$0	0%		
					DSBE:	0%	\$0	\$0		
Caspian	Hedge Fund Mgr	\$1,855,757			MBE:	0%	\$0		y/n	y/n
					WBE:	0%	\$0	0%		
					DSBE:	0%	\$0	\$0		

Contracts Summary (as of December 2015)

	FY11	FY12	FY13	FY14	FY15	FY16*
Total amount of contracts	\$32,546,075	\$27,410,231	\$29,890,980	\$33,529,195	\$28,694,934	\$12,464,882
Total amount to M/W/DBE Participation Rate	\$4,216,549	\$2,560,146	\$3,939,110	\$4,881,899	\$5,204,446	\$2,555,301
	13%	9%	13%	15%	18%	21%

* as of December 2015

Board of Pensions and Retirement – EMPLOYEE DATA

Staff Demographics (as of January 2016)

<i>Full-Time Staff</i>			<i>Executive Staff</i>		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	4	28	<i>Total</i>	0	3
<i>% of Total</i>	7.1%	50.0%	<i>% of Total</i>	0.0%	60.0%
<i>Average Salary</i>	\$53,550	\$50,783	<i>Average Salary</i>	\$	\$90,000
<i>Median Salary</i>	\$57,386	\$47,487	<i>Median Salary</i>	\$	\$90,000
	White	White		White	White
<i>Total</i>	6	14	<i>Total</i>	2	0
<i>% of Total</i>	10.7%	25.0%	<i>% of Total</i>	40.0%	0.0%
<i>Average Salary</i>	\$113,523	\$50,382	<i>Average Salary</i>	\$155,000	\$
<i>Median Salary</i>	\$93,912	\$47,067	<i>Median Salary</i>	\$155,000	\$
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	1	1	<i>Total</i>	0	0
<i>% of Total</i>	1.8%	1.8%	<i>% of Total</i>	0.0%	0.0%
<i>Average Salary</i>	\$27,627	\$27,627	<i>Average Salary</i>	\$	\$
<i>Median Salary</i>	\$27,627	\$27,627	<i>Median Salary</i>	\$	\$
	Asian	Asian		Asian	Asian
<i>Total</i>	2	0	<i>Total</i>	0	0
<i>% of Total</i>	3.6%	0.0%	<i>% of Total</i>	0.0%	0.0%
<i>Average Salary</i>	\$74,846	\$	<i>Average Salary</i>	\$	\$
<i>Median Salary</i>	\$74,846	\$	<i>Median Salary</i>	\$	\$
	Other	Other		Other	Other
<i>Total</i>	0	0	<i>Total</i>	0	0
<i>% of Total</i>	0.0%	0.0%	<i>% of Total</i>	0.0%	0.0%
<i>Average Salary</i>	\$	\$	<i>Average Salary</i>	\$	\$
<i>Median Salary</i>	\$	\$	<i>Median Salary</i>	\$	\$
	Bi-lingual	Bi-lingual		Bi-lingual	Bi-lingual
<i>Total</i>	0	1	<i>Total</i>	0	0
<i>% of Total</i>	0.0%	1.8%	<i>% of Total</i>	0.0%	0.0%
<i>Average Salary</i>	\$	\$38,767	<i>Average Salary</i>	\$	\$
<i>Median Salary</i>	\$	\$38,767	<i>Median Salary</i>	\$	\$
	Male	Female		Male	Female
<i>Total</i>	13	43	<i>Total</i>	2	3
<i>% of Total</i>	23.2%	76.8%	<i>% of Total</i>	40.0%	60.0%
<i>Average Salary</i>	\$79,453	\$48,918	<i>Average Salary</i>	\$155,000	\$90,000
<i>Median Salary</i>	\$65,600	\$43,359	<i>Median Salary</i>	\$155,000	\$90,000

**BOARD OF PENSIONS AND RETIREMENT
APPENDIX (Other Relevant Data and Charts)**

One staff member speaks Italian.

The Board is working with the Mayor's Office of Immigrant and Multicultural Affairs to develop its language access plan. While the Board's client base of City employees and retirees may have few non-English speakers, it is possible that some of their beneficiaries and survivors might require translation services in order to discuss their benefits. The Board is committed to providing such services when needed.