

**BOARD OF PENSIONS AND RETIREMENT  
FISCAL YEAR 2018 BUDGET TESTIMONY  
APRIL 5, 2017**

**INTRODUCTION**

Good Morning, President Clarke and Members of City Council. I am Francis Bielli, Executive Director. Joining me today are Shamika Taliaferro, Deputy Pension Director, Christopher DiFusco, Chief Investment Officer, and other members of our executive staff. I am pleased to provide testimony on the Board of Pensions and Retirement's Fiscal Year 2018 Operating Budget.

**DEPARTMENT MISSION & PLANS**

**Mission:** The Board of Pensions and Retirement 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 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 consistent with its fiduciary duties. In addition, the Board is responsible for approving all benefit applications and, through the Executive Director and his staff, administering the day-to-day activities of the Retirement System, providing services to nearly 66,000 members. Among these are the payment of pension benefits; payment of contribution withdrawals; receipt of payment for service credit purchases; maintenance of member records and transactions; provision of member education programs; administration of due process hearings; and related services.

The Pension Fund is 44.8% funded as of the July 1, 2016 actuarial valuation, which was released in March 2017.

The Board accomplishes this work through the following programs:

- **Investments:** This program is responsible for managing the assets of the Pension Fund; acting with skill and care in investing the Fund's assets; arranging for safe custody of and accounting for the Fund's assets; managing the Fund on an actuarially-sound basis; selecting and retaining expert consultants for non-discretionary investment advice; adopting, and modifying as needed, investment strategies designed to achieve the Board's obligations and objectives; selecting and retaining competent external investment managers; and monitoring and reporting on investment performance.
- **Benefits:** This program is responsible for establishing, recording, and reviewing for accuracy and timeliness all pension contributions received from active employees and all benefit payments disbursed to eligible recipients.
- **Executive Direction & Administration:** The Board of Pensions and Retirement was charged under the Philadelphia Home Rule Charter with the creation and maintenance of an actuarially-sound Retirement System providing benefits for all City employees. This program is responsible for ensuring that the Board's day-to-day operations fully support this Charter-stated mission and for selecting and retaining expert consultants for actuarial analysis.

## BOARD OF PENSIONS AND RETIREMENT

**Plans for Fiscal Year 2018:** In FY18, the Board will continue to reduce the ratio of manager fees to assets under management from its FY16 year-end ratio of 0.38% (down from 0.62% at the close of FY15, a reduction of \$12.4 million) while achieving returns equal to or exceeding the Fund's earnings assumption. The reduction in fees is the result of the Board migrating many of its assets from actively managed to passively managed investments. Passively managed assets have increased from 36.4% of the Board's portfolio in December 2015 to 51.0% today.

The Fund maintains a diversified asset mix designed to achieve the long-term actuarial target rate of return across a wide range of market cycles. The asset allocation and investment strategy is never static. The Board works with its investment staff and its consultants to improve and adjust the Fund's exposure to reflect the current market environment; while maintaining core positions based on a long-term investment horizon. The Board focuses continually on maximizing returns at the lowest level of risk and for the best possible value. Core market exposure to public equities can be achieved at a very low cost via index funds and is the Board's starting point when evaluating any investment strategy. When an active investment management is appropriate, the Fund's investment partners are viewed in relation to the overall value provided in terms of performance, strategy, process, and cost. Manager performance is reviewed regularly, and those who are not meeting the Fund's long-term objectives are brought to the attention of the Board for possible action including, but not limited to, a reduction of assets under management, renegotiation of fees, or termination.

As of February 28, 2017, 36.17% of the Fund's managers are diversity managers. Using the PSN Database, Staff created a filter to get a universe of managers that have a 3-year track record and an active product with at least \$100 million in AUM. After running the filter, 806 firms with 5,086 products were available. Of this amount, 70 firms and 237 products had greater than 50% minority or woman ownership. This equates to 8.6% of firms and 4.6% of products. As of 2/28/2017, CPBPR had a total 94 managers, of which 34 were MWBE products, a percentage of 36.17%. In FY16, fees paid to Minority- and Women-owned firms accounted for 28% of all fees paid. The Board continues to seek out high-quality, diverse, local, and emerging managers for allocations across all asset classes. Board members will continue to participate in Mid Atlantic Plan Sponsors (MAPS), the National Association of Securities Professionals (NASP), and other non-profit organizations that are proponents of diversity investment professionals. The Board is a member of a national association called the Thirty Percent Coalition, which is a national organization committed to the goal of increasing women participation on corporate boards. The Board will continue to support proxy initiatives promoting issues such as inclusive corporate boards, equal pay, and other important social issues.

The Board will continue to provide retirement education sessions to system members by further expanding its outreach to operating departments and bargaining units.

The Board's goal is to increase the percentage of monthly pension benefits received via direct deposit (92.6% at the end of FY16) to 96% by the conclusion of FY22. Since Electronic Funds Transfer (EFT) recipients receive quarterly statements instead of monthly checks, increased EFT participation means that the Board uses less paper and saves on postage costs. Since 2012, all new retirees are required to participate in direct deposit.

The Board also plans to increase the number of 457 Plan participants by 18%, from 20,329 at the end of FY16, to 24,000 by the end of FY22.

## BOARD OF PENSIONS AND RETIREMENT

The Board will continue to develop and maintain a diverse workforce. The current Board staff is 75% female and 67% minority. While staff size is limited and primarily governed by the Civil Service Regulations, the Board is committed to further developing and maintaining a diverse workforce.

BOARD OF PENSIONS AND RETIREMENT

**BUDGET SUMMARY & OTHER BUDGET DRIVERS**

Staff Demographics Summary (as of December 2016)				
	Total	Minority	White	Female
Number of Full-Time Staff	57	37	20	43
Number of Civil Service-Exempt Staff	12	5	7	7
Number of Executive Staff (deputy level and above)	8	4	4	4
Average Salary, Full-Time Staff	\$59,065	\$53,434	\$73,139	\$52,209
Average Salary, Civil Service-Exempt Staff	\$104,481	\$92,227	\$113,233	\$88,658
Average Salary, Executive Staff	\$110,428	\$92,385	\$141,185	\$88,635
Median Salary, Full-Time Staff	\$49,351	\$49,351	\$54,431	\$52,209
Median Salary, Civil Service-Exempt Staff	\$89,867	\$89,539	\$90,194	\$89,539
Median Salary, Executive Staff	\$107,270	\$84,770	\$150,000	\$84,770

Employment Levels (as of December 2016)		
	Budgeted	Filled
Number of Full-Time Positions	73	57
Number of Part-Time Positions	0	0
Number of Civil-Service Exempt Positions	14	12
Number of Executive Positions (deputy level and above)	10	8
Average Salary of All Full-Time Positions	\$54,832	\$59,065
Median Salary of All Full-Time Positions	\$44,020	\$49,351

Pension Fund Financial Summary by Class						
	FY16 Original Appropriations	FY16 Actual Obligations	FY17 Original Appropriations	FY17 Estimated Obligations	FY18 Proposed Appropriations	Difference: FY18-FY17
Class 100 - Employee Compensation	\$7,170,000	\$6,012,275	\$7,170,000	\$7,242,000	\$7,644,000	\$402,000
Class 200 - Purchase of Services	\$2,538,000	\$2,279,257	\$2,475,000	\$2,267,000	\$2,267,000	\$0
Class 300 - Materials and Supplies	\$125,000	\$52,819	\$125,000	\$125,000	\$125,000	\$0
Class 400 - Equipment	\$13,000	\$2,108	\$13,000	\$13,000	\$13,000	\$0
Class 500 - Contributions	\$0	\$0	\$0	\$0	\$0	\$0
Class 700 - Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
Class 800 - Payment to Other Funds	\$125,000	\$77,993	\$125,000	\$125,000	\$125,000	\$0
Class 900 - Advances/Misc. Payments	\$0	\$0	\$0	\$0	\$0	\$0
	<b>\$9,971,000</b>	<b>\$8,424,452</b>	<b>\$9,908,000</b>	<b>\$9,772,000</b>	<b>\$10,174,000</b>	<b>\$402,000</b>

Professional Services Contracts Summary						
	FY12	FY13	FY14	FY15	FY16	FY17 YTD (Q1 & Q2)
Total amount of contracts	\$27,410,231	\$29,890,980	\$33,529,195	\$28,694,934	\$16,310,256	N/A*
Total amount to M/W/DSBE	\$2,560,146	\$3,939,110	\$4,881,899	\$5,204,446	\$4,584,813	N/A*
Participation Rate	9%	13%	15%	18%	28%	36.17%

\* Fees are billed at least one full quarter in arrears.

BOARD OF PENSIONS AND RETIREMENT

<b>M/W/DSBE Contract Participation Goal</b>			
	FY16	FY17	FY18
M/W/DSBE Contract Participation Goal	15%	15%	15%

## BOARD OF PENSIONS AND RETIREMENT

### **PROPOSED BUDGET OVERVIEW**

#### **Proposed Funding Request:**

The proposed Fiscal Year 2018 General Fund budget totals \$10,174,000, an increase of \$402,000 over Fiscal Year 2017 estimated obligation levels. This increase is primarily due to Class 100 expenses.

The proposed budget includes:

- \$7,644,000 in Class 100, a \$402,000 increase over FY17. This funding will maintain staffing at its optimal level, and covers fringe benefits, as well as a scheduled 3% raise for the Board's District Council 33 represented staff.
- \$2,267,000 in Class 200, the same as projected in FY17. This funding will permit the Board to meet all anticipated contractual obligations.
- \$125,000 in Class 300, the same as projected in FY17. This funding will provide staff with the supplies necessary to deliver services efficiently.
- \$13,000 in Class 400, the same as projected in FY17. This funding will allow for the purchase of equipment as needed during the fiscal year.
- \$125,000 in Class 800, the same as projected in FY17. This funding will reimburse the General Fund for work performed on the Board's behalf by the City's central service agencies.

## BOARD OF PENSIONS AND RETIREMENT

### STAFFING LEVELS

The current budgeted staffing level appears to be at the appropriate level. Our intent is to continue to evaluate and review the vacancy level based on necessity. The Fiscal Year 2018 budget contains funding for 73 positions that service over 66,000 participants. This is the same number of positions that are budgeted for in the current fiscal year. To date in FY17, the Board has not authorized any expenditures for temporary staff and utilized minimal overtime.

The staff of the Board of Pensions is 75% female, 62% African-American, 2% Hispanic, and 3% Asian American. The Board's executive staff is composed of the Executive Director, Deputy Pension Director, Chief Investment Officer, Deputy Chief Investment Officer, Chief Compliance Officer, three Investment Officers, and two Benefit Administrators. The demographic of the executive staff is 50% female and 50% minority. There is not a large multilingual population at the Board. One staff member speaks Italian.

The Board has hired eight staff to date in FY17. Of these new hires, six are African American and six are female.

### NEW HIRES

New Hires (from December 2016 to present)	
	Total Number of New Hires
Black or African American	2
White	1
Total	3

## BOARD OF PENSIONS AND RETIREMENT

### **PERFORMANCE, CHALLENGES, AND INITIATIVES**

The Board reduced the ratio of manager fees to assets under management from 0.62% at the close of FY15 to 0.38% at the end of FY16, a savings of approximately \$12.4 million. This was accomplished by increasing the use of lower cost passive investment managers. Between FY14 and FY16, fees were reduced by \$17.2 million, or 51%. In FY17, the Board has:

- Continued the process of reducing its exposure in certain high-cost trading strategies while achieving an 8.5% rate of return net of fees FY17 to date through February 2017.
- Restructured the Fund's portfolio, including an almost complete redemption of hedge funds.
- Reduced its assumed rate of return from 7.75% to 7.70%.
- Selected Torrey Cove as its private equity consultant and Marquette as its general and real estate consultant.
- Selected Nationwide to serve as the third-party administrator of the City's deferred compensation (457) plan, at fees significantly lower than those of the incumbent. The transition to Nationwide will be complete by the end of May 2017 and will include a full-time Certified Financial Planner who will be available daily to all plan members.
- Hired a full-time compliance officer.

The Board continues to provide retirement education sessions to system members, annually reaching 1,100 employees through in-house training as well as visits to various operating departments and participating in seminars for members of the police and firefighters' unions.

The Board increased the percentage of monthly pension benefits received via direct deposit from 91.8% in FY15 to 92.6% in FY16 and increased the number of 457 Plan participants from 19,388 to 20,329, or 73% of employees eligible to participate. The 457 Plan allows employees to contribute a portion of their earnings into a pre-tax defined contribution program, and to self-manage the investment of these contributions within available options. Participation in the 457 Plan is encouraged as a way for employees to create retirement income in addition to their accrued defined benefit pension. As of February 2017, this plan has exceeded \$1 billion in total assets.

As of the close of FY16, the number of benefit recipients and the annual rate of benefit payments had reached an all-time high.



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FY18 Performance Measures: Investments				
Measure	FY16 Actual	FY17 YTD (Q1 & Q2)	FY17 Estimate	FY18 Target
Investment Ratio (fees divided by assets under management) *	0.37%	N/A	0.35%	<0.37%
Investment Return	-3.17%	6.99%	at least 7.7%	at least 7.7%

\* The goal is to continue to reduce fees. Measure is tabulated annually.

FY18 Performance Measures: Benefits				
Measure	FY16 Actual	FY17 YTD (Q1 & Q2)	FY17 Estimate	FY18 Target
Member Education (count of attendees) *	1,100	400	1,100	1,100

\* Six of the Board's 14 educational sessions are held from September to December. The remaining sessions are held from January to June.

FY18 Performance Measures: Executive Direction & Administration				
Measure	FY16 Actual	FY17 YTD (Q1 & Q2)	FY17 Estimate	FY18 Target
Number of 457 Plan deferred compensation participants	20,329	20,828	21,300	21,300
Percentage of recipients receiving benefits electronically	92.6%	92.9%	93.2%	93.8%

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**OTHER BUDGETARY IMPACTS**

**Federal and State**

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

BOARD OF PENSIONS AND RETIREMENT

**CONTRACTING EXPERIENCE**

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY17											
Vendor Name	Service Provided	Dollar 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 % Participation - All DSBES	Total \$ Value Participation - All DSBES	Local Business (principal place of business located within City limits) [yes / no]	Waiver for Living Wage Compliance? [yes / no]
Blue Harbor	Invest Manager	\$1,141,840	N/A	1/1/2014	MBE:	0%	\$0	0%	\$0	no	no
					WBE:	0%	\$0				
					DSBE:	0%	\$0				
Apollo Franklin	Invest Manager	\$859,740	N/A	5/1/2013	MBE:	0%	\$0	0%	\$0	no	no
					WBE:	0%	\$0				
					DSBE:	0%	\$0				
KKR-PBPR	Invest Manager	\$789,039	N/A	6/1/2012	MBE:	0%	\$0	0%	\$0	no	no
					WBE:	0%	\$0				
					DSBE:	0%	\$0				
Causeway	Invest Manager	\$464,344	N/A	12/1/2011	MBE:	0%	\$0	0%	\$0	no	no
					WBE:	0%	\$0				
					DSBE:	0%	\$0				
Avenue Coppers	Invest Manager	\$396,046	N/A	12/1/2013	MBE:	0%	\$0	0%	\$0	no	no
					WBE:	0%	\$0				
					DSBE:	0%	\$0				

BOARD OF PENSIONS AND RETIREMENT

**EMPLOYEE DATA**

<b>Staff Demographics (as of December 2016)</b>					
<b>Full-Time Staff</b>			<b>Executive Staff</b>		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	5	30	<i>Total</i>	1	3
<i>% of Total</i>	9%	53%	<i>% of Total</i>	13%	38%
<i>Average Salary</i>	\$51,571	\$51,835	<i>Average Salary</i>	\$75,000	\$98,180
<i>Median Salary</i>	\$49,573	\$44,198	<i>Median Salary</i>	\$75,000	\$89,539
	White	White		White	White
<i>Total</i>	6	13	<i>Total</i>	3	1
<i>% of Total</i>	11%	23%	<i>% of Total</i>	38%	13%
<i>Average Salary</i>	\$116,621	\$53,071	<i>Average Salary</i>	\$168,247	\$60,000
<i>Median Salary</i>	\$106,440	\$47,276	<i>Median Salary</i>	\$175,000	\$60,000
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	1		<i>Total</i>	0	0
<i>% of Total</i>	2%	0%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$30,962	-	<i>Average Salary</i>	-	-
<i>Median Salary</i>	\$30,962	-	<i>Median Salary</i>	-	-
	Asian	Asian		Asian	Asian
<i>Total</i>	2	0	<i>Total</i>	0	0
<i>% of Total</i>	4%	0%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$66,580	-	<i>Average Salary</i>	-	-
<i>Median Salary</i>	\$66,580	-	<i>Median Salary</i>	-	-
	Other	Other		Other	Other
<i>Total</i>	0	0	<i>Total</i>	0	0
<i>% of Total</i>	0%	0%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	-	-	<i>Average Salary</i>	-	-
<i>Median Salary</i>	-	-	<i>Median Salary</i>	-	-
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	1	0	<i>Total</i>	0	0
<i>% of Total</i>	2%	0%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$41,755	-	<i>Average Salary</i>	-	-
<i>Median Salary</i>	\$41,755	-	<i>Median Salary</i>	-	-
	Male	Female		Male	Female
<i>Total</i>	14	43	<i>Total</i>	4	4
<i>% of Total</i>	25%	75%	<i>% of Total</i>	50%	50%
<i>Average Salary</i>	\$80,122	\$52,209	<i>Average Salary</i>	\$144,935	\$88,635
<i>Median Salary</i>	\$60,680	\$44,178	<i>Median Salary</i>	\$150,000	\$84,770

## BOARD OF PENSIONS AND RETIREMENT

### NUMBER OF BILINGUAL EMPLOYEES

Number of Bilingual Employees	
	Italian
Benefits	1
Total - All Divisions	1
Total - # of Bilingual Employees	1
Total - # of Languages Spoken	1

It is the goal of the Board of Pensions and Retirement to ensure that LEP individuals have meaningful access to the Board. To that end, the Board has adopted a policy to ensure that individuals who have limited English proficiency can gain equal access to the Board of Pensions and Retirements' services.