

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2019 BUDGET TESTIMONY
APRIL 3, 2018**

INTRODUCTION

Good Afternoon, President Clarke and Members of City Council. I am Francis Bielli, Executive Director. Joining me today are Christopher DiFusco, Chief Investment Officer and Shamika Taliaferro, Deputy Pension Director. I am pleased to provide testimony on the Board of Pensions and Retirement's Fiscal Year 2019 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The Board of Pensions and Retirement manages the assets of the City's pension fund, ensuring there is enough money to pay out to those who have earned benefits. The City Home Rule Charter requires that the pension fund is always able to cover current and future payments to people who have paid into the fund. To do this, the Board oversees all pension contributions from current employees and all benefit payments made to eligible people who have left City service. The Board also makes sure that decisions are made that keep the pension fund financially healthy. All retiring employees meet with one of the Board's pension counselors for assistance in the retirement process. In addition to administering pensions, the Board publishes a quarterly newsletter with helpful pension and pension-planning information.

Plans for Fiscal Year 2019: In FY19, the Board plans to continue to maintain the ratio of manager fees to assets under management at its FY17 year-end ratio of 0.33% (down from 0.69% in FY14; with fees down from \$33.5 million in FY14 to \$15.7 million in FY17) while at least achieving returns equal to the Fund's earnings assumption. This reduction was achieved by increasing its percentage of lower fee passively managed funds from 29.9% in FY14 to 57.5% in FY17. The Board will also continue to balance its commitment to reduced fees with the potential benefits that higher fee actively managed investments might provide in achieving the earnings assumption. 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, and the Board is always seeking 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 in our Plan is generally 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. Managers 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. The Board's returns for FY17 and calendar year 2017 were 13.08% and 15.4% respectively, net of fees.

Per the preliminary valuation report for FY17 provided by Board's actuary, the System's funded status increased from 44.8% at the end of FY16 to 45.5% at the end of FY17. The report indicates that the City's progress on paying down the unfunded actuarial liability (UAL) increased by 2.3%. The Board recently voted to reduce its discount rate from 7.70% to 7.65%, and then to 7.60% over the course of the next two fiscal years.

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As it pertains to benefits for members of the retirement system, 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 from its current 93.2% to 96.5% by the conclusion of FY23. 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.

The Board also plans to work with Nationwide, the 457 Plan Third Party Administrator, to increase the number of 457 Plan participants from its current total of 22,155 to 24,500 by the end of FY23.

Lastly, the Board will continue to develop and maintain a diverse workforce. The current Board staff is 70% 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. The Board's exempt staff is 54% minority and 54% female. The Board also seeks to promote diversity and inclusion in its investment manager selection process. For example, in FY17, 27.65% of all manager fees went to M/W/DSBE firms.

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BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 2017)				
	Total	Minority	White	Female
Number of Full-Time Staff	55	35	19	37
Number of Exempt Staff	13	7	6	7
Number of Executive Staff (deputy level and above)	5	2	3	1
Average Salary, Full-Time Staff	\$62,599	\$56,628	\$76,709	\$54,001
Average Salary, Exempt Staff	\$103,657	\$91,856	\$113,771	\$88,658
Average Salary, Executive Staff	\$143,948	\$107,500	\$168,247	\$125,000
Median Salary, Full-Time Staff	\$50,282	\$44,178	\$57,188	\$44,178
Median Salary, Exempt Staff	\$90,000	\$89,770	\$90,194	\$89,539
Median Salary, Executive Staff	\$125,000	\$107,500	\$175,000	\$125,000

Employment Levels (as of December 2017)		
	Budgeted	Filled
Number of Full-Time Positions	73	55
Number of Exempt Positions	14	13
Number of Executive Positions (deputy level and above)	6	5
Average Salary of All Full-Time Positions	\$53,163	\$62,599
Median Salary of All Full-Time Positions	\$49,973	\$50,282

Pension Fund Financial Summary by Class						
	FY17 Original Appropriations	FY17 Actual Obligations	FY18 Original Appropriations	FY18 Estimated Obligations	FY19 Proposed Appropriations	Difference: FY19-FY18
Class 100 - Employee Compensation	\$7,170,000	\$6,865,440	\$7,644,000	\$7,644,000	\$8,113,000	\$469,000
Class 200 - Purchase of Services	\$2,475,000	\$2,188,352	\$2,267,000	\$2,280,000	\$2,194,000	(\$86,000)
Class 300/400 - Materials, Supplies & Equipment	\$138,000	\$60,597	\$138,000	\$147,000	\$165,000	\$18,000
Class 800 - Payment to Other Funds	\$125,000	\$88,709	\$125,000	\$103,000	\$90,000	(\$13,000)
	\$9,908,000	\$9,203,098	\$10,174,000	\$10,174,000	\$10,562,000	\$388,000

Contracts Summary (Professional Services only)						
	FY13	FY14	FY15	FY16	FY17	FY18 YTD (Q1 & Q2) ¹
Total amount of contracts	\$29,890,980	\$33,529,195	\$28,694,934	\$16,310,256	\$16,424,039	N/A
Total amount to M/W/DSBE	\$3,939,110	\$4,881,899	\$5,204,446	\$4,484,759	\$4,463,693	N/A
Participation Rate	13%	15%	18%	27%	27%	N/A

¹ Fees are billed at least one quarter in arrears.

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY17	FY18	FY19
M/W/DSBE Contract Participation Goal	15%	15%	15%

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PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2019 Pension Fund budget totals \$10,562,000, an increase of \$388,000 over Fiscal Year 2018 estimated obligation levels. This increase is primarily due to the cost of salaries for full staffing and the associated fringe benefits.

The proposed budget includes:

- \$8,113,000 in Class 100, a \$469,000 increase over FY18. This funding will maintain staffing at its optimal level; cover fringe benefits for Board staff, which are paid from the Pension Fund; and provide for a 2.5% pay increase for the Board's District Council 33-represented staff.
- \$2,194,000 in Class 200, an \$86,000 decrease from FY18. This funding will permit the Board to meet all anticipated contractual obligations.
- \$165,000 in Class 300/400, an \$18,000 increase over FY18. This funding will provide staff with the supplies and equipment necessary to deliver services efficiently.
- \$90,000 in Class 800, a \$13,000 decrease from FY18. This funding will reimburse the General Fund for work performed on the Board's behalf by the City's central service agencies.

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STAFFING LEVELS

The department is requesting 73 budgeted positions for FY19, level staffing with FY18.

NEW HIRES

New Hires (from 7/1/2017 to December 2017)	
	Total Number of New Hires
Black or African American	2
Total	2

Three new hires have been made since December: two females who identify as African American, and one male who identifies as White.

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PERFORMANCE, CHALLENGES, AND INITIATIVES

Investments:

FY19 Strategic Goals				
<ul style="list-style-type: none"> Maintain investment ratio (fees to assets under management) of less than 0.34%. Achieve investment return of at least the current earnings assumption. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Investment ratio ¹	0.33%	N/A	< 0.37%	< 0.34%
Investment return	13.08%	4.60%	at least 7.70%	at least 7.65%

¹ This is an annual measure. This measure is calculated by taking fees divided by assets under management. The goal is to continue to reduce fees.

Benefits:

FY19 Strategic Goals				
<ul style="list-style-type: none"> Provide education programs for 1,100 members. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Member education (count of attendees) ¹	1,086	437	1,100	1,100

¹ Six of the Board's 14 educational sessions are held from September to December. The remaining eight sessions are held from January to June.

Executive Direction and Administration:

FY19 Strategic Goals				
<ul style="list-style-type: none"> Increase 457 Plan participation to 22,500. Increase rate of EFT (direct deposit) recipients to 94.5%. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Number of 457 Plan deferred compensation participants	21,547	21,786	22,000	22,500
Percentage of recipients receiving benefits electronically	93.6%	93.9%	94.0%	94.5%

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OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

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

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CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY18											
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]
Marquette	Investment Consultant	\$620,000	2/1/2016	5/25/2016	MBE: Best Efforts	0%	\$0	0%	\$0	No	No
					WBE: Best Efforts	0%	\$0				
					DSBE: Best Efforts	0%	\$0				
Cheiron	Actuary	\$550,000	5/11/2015	7/1/2015	MBE: Best Efforts	0%	\$0	0%	\$0	No	No
					WBE: Best Efforts	0%	\$0				
					DSBE: Best Efforts	0%	\$0				
Nationwide	457 Plan TPA	\$290,656	5/17/2016	5/22/2017	MBE: Best Efforts	0%	\$0	0%	\$0	No	No
					WBE: Best Efforts	0%	\$0				
					DSBE: Best Efforts	0%	\$0				
Managed Medical Review	Independent Medical Examinations	\$90,000	11/3/2014	7/1/2015	MBE: Best Efforts	0%	\$0	0%	\$0	No	No
					WBE: Best Efforts	0%	\$0				
					DSBE: Best Efforts	0%	\$0				
Clifton Larson Allen	Annual Fund Audit	\$87,500	2/26/2016	8/9/2016	MBE: Best Efforts	0%	\$0	0%	\$0	No	No
					WBE: Best Efforts	0%	\$0				
					DSBE: Best Efforts	0%	\$0				

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EMPLOYEE DATA

Staff Demographics (as of December 2017)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	8	25	<i>Total</i>	1	1
<i>% of Total</i>	15%	45%	<i>% of Total</i>	20%	20%
<i>Average Salary</i>	\$58,126	\$53,763	<i>Average Salary</i>	\$90,000	\$125,000
<i>Median Salary</i>	\$55,230	\$44,020	<i>Median Salary</i>	\$90,000	\$125,000
	White	White		White	White
<i>Total</i>	7	12	<i>Total</i>	3	0
<i>% of Total</i>	13%	22%	<i>% of Total</i>	60%	0%
<i>Average Salary</i>	\$114,784	\$54,498	<i>Average Salary</i>	\$168,247	N/A
<i>Median Salary</i>	\$100,000	\$50,707	<i>Median Salary</i>	\$175,000	N/A
	Hispanic	Hispanic		Hispanic	Hispanic
<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>	\$32,714	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$32,714	N/A	<i>Median Salary</i>	N/A	N/A
	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>	\$68,343	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$68,343	N/A	<i>Median Salary</i>	N/A	N/A
	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>	N/A	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	N/A	N/A	<i>Median Salary</i>	N/A	N/A
	Bilingual	Bilingual		Bilingual	Bilingual
<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>	N/A	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	N/A	N/A	<i>Median Salary</i>	N/A	N/A
	Male	Female		Male	Female
<i>Total</i>	18	37	<i>Total</i>	4	1
<i>% of Total</i>	33%	67%	<i>% of Total</i>	80%	20%
<i>Average Salary</i>	\$79,883	\$54,001	<i>Average Salary</i>	\$148,685	\$125,000
<i>Median Salary</i>	\$73,571	\$44,178	<i>Median Salary</i>	\$150,000	\$125,000

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LANGUAGE ACCESS

1) Has your leadership received language access training?

Yes.

2) Do you currently have a language access coordinator?

David Fegan is the Board's language access coordinator.

3) Has your department written a language access plan and is it posted online?

Yes, the Board has a written language access plan and it is posted online: <https://beta.phila.gov/documents/language-access-plans/>

4) Explain what your department has done to improve language access services over the past year.

The Board's primary clientele is composed of City employees and retirees. The demand for language access services is thus very small. In the past year there have been no requests for language access services. There has been only one instance in which language access services were required during the nearly eight years I have been Executive Director. That situation involved a foreign born and residing beneficiary who contacted the Board through the American embassy in her nation. To the extent that language access services may be required, staff has been trained to arrange for provision of these services.