

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2020 BUDGET TESTIMONY
APRIL 2, 2019**

INTRODUCTION

Good Afternoon, President Clarke and Members of City Council. I am Francis Bielli, Executive Director. Joining me today are Shamika Taliaferro, Deputy Pension Director and Christopher DiFusco, Chief Investment Officer. I am pleased to provide testimony on the Board of Pensions' Fiscal Year 2020 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 2020: In FY20, the Board plans to continue to maintain a reduced ratio of manager fees to assets under management. The ratio achieved at FY18 year-end was 0.31%. The Board goal for FY20 is a ratio of 0.33% to 0.38%, while achieving returns at least equal to the Fund's earnings assumption of 7.55%. The Board has reduced this ratio over the past several years from a high of 0.69% in FY14 by increasing its percentage of lower fee passively managed funds from 29.9% in FY14 to 54.7% in FY18. 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, net of investment fees, 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 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 FY18 and calendar year 2018 were 9.01% and -4.2% respectively, net of fees.

Per the preliminary valuation report for FY18 provided by Board's actuary, the System's funded status increased from 45.3% at the end of FY17 to 46.8% at the end of FY18. The report indicates that the City's progress on paying down the unfunded actuarial liability (UAL) increased by 2.1%. The Board has also reduced its discount rate, for the tenth consecutive year, from 7.60% to 7.55%.

BOARD OF PENSIONS AND RETIREMENT

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. This initiative is further enhanced by the outreach efforts of Nationwide, the Board's Third-Party Administrator for the 457 Plan and for the Defined Contribution component of Plans 10 and 16. The Board also plans to work with Nationwide to increase the number of 457 Plan participants from its current total of 23,140 as of January 2019, to 25,000 by the end of FY24.

The Board's goal is to increase the percentage of monthly pension benefits received via direct deposit from its current 94.8% as of February 28, 2019, to 95.5% in FY20 and to 97.5% by the conclusion of FY24. 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.

Lastly, the Board will continue to develop and maintain a diverse workforce. The current Board staff is 70% female and 66% 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 59% minority and 41% female. The Board also seeks to promote diversity and inclusion in its investment manager selection process. For example, in FY18, 30.4% of all manager fees went to M/W/DSBE firms.

BOARD OF PENSIONS AND RETIREMENT

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of November 2018)				
	Total	Minority	White	Female
Number of Full-Time Staff	56	37	19	39
Number of Exempt Staff	17	10	7	7
Number of Executive Staff (deputy level and above)	8	5	3	4
Average Salary, Full-Time Staff	\$61,317	\$58,212	\$78,082	\$54,009
Average Salary, Exempt Staff	\$91,737	\$90,228	\$93,893	\$92,354
Average Salary, Executive Staff	\$105,516	\$101,875	\$111,583	\$104,169
Median Salary, Full-Time Staff	\$53,420	\$49,833	\$58,167	\$49,447
Median Salary, Exempt Staff	\$92,700	\$92,700	\$92,700	\$92,700
Median Salary, Executive Staff	\$103,000	\$92,700	\$103,000	\$97,850

Employment Levels (as of November 2018)		
	Budgeted in FY19	Filled as of the Increment Run (11/18)
Number of Full-Time Positions	73	56
Number of Exempt Positions	18	17
Number of Executive Positions (deputy level and above)	8	8
Average Salary of All Full-Time Positions	\$58,167	\$61,317
Median Salary of All Full-Time Positions	\$48,425	\$53,420

Pension Fund Financial Summary by Class						
	FY18 Original Appropriations	FY18 Actual Obligations	FY19 Original Appropriations	FY19 Estimated Obligations	FY20 Proposed Appropriations	Difference: FY20-FY19
Class 100 - Employee Compensation	\$7,644,000	\$7,697,196	\$8,113,000	\$8,734,000	\$9,293,000	\$559,000
Class 200 - Purchase of Services	\$2,267,000	\$2,413,081	\$2,194,000	\$2,439,000	\$2,478,000	\$39,000
Class 300/400 - Materials, Supplies & Equipment	\$138,000	\$71,366	\$165,000	\$165,000	\$92,000	(\$73,000)
Class 800 - Payment to Other Funds	\$125,000	\$67,834	\$90,000	\$90,000	\$80,000	(\$10,000)
	\$10,174,000	\$10,249,477	\$10,562,000	\$11,428,000	\$11,943,000	\$515,000

Contracts Summary (Professional Services only)						
	FY14	FY15	FY16	FY17	FY18	FY19 YTD (Q1 & Q2)*
Total amount of contracts	\$33,529,195	\$28,694,934	\$16,310,256	\$16,424,039	\$13,981,242	N/A
Total amount to M/W/DSBE	\$4,881,899	\$5,204,446	\$4,484,750	\$4,463,693	\$3,663,084	N/A
Participation Rate	15%	18%	27%	27%	26%	N/A

*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)			
	FY18	FY19	FY20
M/W/DSBE Contract Participation Goal	15%	25%	25%

BOARD OF PENSIONS AND RETIREMENT

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2020 Pension Fund budget totals \$11,943,000, an increase of \$515,000 over Fiscal Year 2019 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:

- \$9,293,000 in Class 100, a \$559,000 increase over FY19. 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 3% pay increase for the Board's Civil Service staff.
- \$2,478,000 in Class 200, a \$39,000 increase over FY19. This funding will permit the Board to meet all anticipated contractual obligations, including expanded capacity to examine disability applicants in a timely manner.
- \$92,000 in Class 300/400, a \$73,000 decrease from FY19. This funding will provide staff with the supplies and equipment necessary to deliver services efficiently. This reduction reflects the non-recurring FY19 costs associated with the Board's new telephone system.
- \$80,000 in Class 800, a \$10,000 decrease from FY19. This funding will reimburse the General Fund for work performed on the Board's behalf by the City's central service agencies. This reduction reflects Class 800 charges to the Board being less than budgeted in recent years.

BOARD OF PENSIONS AND RETIREMENT

STAFFING LEVELS

The department is requesting 73 budgeted positions for FY20, level staffing with FY19.

NEW HIRES

New Hires (from 7/1/2018 to 11/25/18)	
	Total Number of New Hires
Black or African American	3
White	2
Total	5

Since the 11/25/18 increment run the Board has hired one employee, an African American female.

BOARD OF PENSIONS AND RETIREMENT

PERFORMANCE, CHALLENGES, AND INITIATIVES

INVESTMENTS PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> Conclude FY20 with a ratio of fees to assets between 0.33% and 0.38%. Achieve an Investment Return of at least 7.60%. 				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Investment Ratio ¹	0.33%	N/A	Between 0.33% and 0.38%	Between 0.33% and 0.38%
Investment Return	9.60%	-5.60%	at least 7.60%	at least 7.60%

¹This is an annual measure, and FY19 data will be available at year-end. This measure is calculated by taking fees divided by assets under management. The goal is to continue to reduce fees.

BENEFITS PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> Provide defined benefit plan educational programs to 1,150 members. Provide 457 plan and defined contribution plan educational programs to 6,700 members. 				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Member education (count of attendees) ¹	N/A	2,984	7,625	7,850

¹This is a new measure for FY19, so FY19 data is not available. Six of the Board's 14 educational sessions are held from September to December. The remaining sessions are held from January to June. This measure includes attendees at educational sessions for members of 457, defined contribution, and defined benefit plans.

EXECUTIVE DIRECTION AND ADMINISTRATION PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> Increase the percentage of recipients receiving monthly benefits via direct deposit to 95.5%. Increase the number of participants in the 457 Plan to 24,000. 				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Number of 457 Plan deferred compensation participants	22,085	22,995	22,500	24,000
Percentage of recipients receiving benefits electronically	94.6%	94.7%	95.0%	95.5%

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.

BOARD OF PENSIONS AND RETIREMENT

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts with For-Profit Vendors											
Top Five Largest Contracts over \$34,000 for FY19											
Vendor Name	Brief Description of 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	Is This a Local Business? (principal place of business located within City limits) [yes / no]	Does the Vendor Have a Waiver for Living Wage Compliance? [yes / no]
Marquette	Investment Consultant	\$620,000	2/1/2016	5/25/2016	MBE: Best Effort	0%	\$0	0%	\$0	No	No
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Cheiron	Actuary	\$400,000	5/11/2015	7/1/2015	MBE: Best Effort	0%	\$0	0%	\$0	No	No
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Causeway	Investment Manager	\$308,438	6/29/2010	6/1/2011	MBE: Best Effort	0%	\$0	0%	\$0	No	No
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Torrey Cove	Investment Consultant	\$300,000	3/12/2015	10/22/2015	MBE: Best Effort	0%	\$0	0%	\$0	No	No
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Nationwide ¹	457 Plan TPA	\$290,656	5/17/2016	5/22/2017	MBE: Best Effort	0%	\$0	0%	\$0	No	No
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				

¹ Note: Fees are paid by Plan Members, not the Board.

BOARD OF PENSIONS AND RETIREMENT

EMPLOYEE DATA

Staff Demographics (as of November 2018)				
Full-Time Staff			Executive Staff	
	Male	Female		
	African-American	African-American		
<i>Total</i>	7	27	<i>Total</i>	1
<i>% of Total</i>	13%	48%	<i>% of Total</i>	13%
<i>Average Salary</i>	\$68,945	\$54,649	<i>Average Salary</i>	\$92,700
<i>Median Salary</i>	\$77,250	\$49,447	<i>Median Salary</i>	\$92,700
	White	White		White
<i>Total</i>	7	12	<i>Total</i>	3
<i>% of Total</i>	13%	21%	<i>% of Total</i>	38%
<i>Average Salary</i>	\$92,722	\$52,568	<i>Average Salary</i>	\$111,583
<i>Median Salary</i>	\$92,890	\$54,075	<i>Median Salary</i>	\$103,000
	Hispanic	Hispanic		Hispanic
<i>Total</i>	1	0	<i>Total</i>	0
<i>% of Total</i>	2%	0%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$34,436	\$0	<i>Average Salary</i>	\$0
<i>Median Salary</i>	\$34,436	\$0	<i>Median Salary</i>	\$0
	Asian	Asian		Asian
<i>Total</i>	2	0	<i>Total</i>	0
<i>% of Total</i>	4%	0%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$80,644	\$0	<i>Average Salary</i>	\$0
<i>Median Salary</i>	\$80,644	\$0	<i>Median Salary</i>	\$0
	Other	Other		Other
<i>Total</i>	0	0	<i>Total</i>	0
<i>% of Total</i>	0%	0%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$0	\$0	<i>Average Salary</i>	\$0
<i>Median Salary</i>	\$0	\$0	<i>Median Salary</i>	\$0
	Bilingual	Bilingual		Bilingual
<i>Total</i>	0	0	<i>Total</i>	0
<i>% of Total</i>	0%	0%	<i>% of Total</i>	0%
<i>Average Salary</i>	\$0	\$0	<i>Average Salary</i>	\$0
<i>Median Salary</i>	\$0	\$0	<i>Median Salary</i>	\$0
	Male	Female		Male
<i>Total</i>	17	39	<i>Total</i>	4
<i>% of Total</i>	30%	70%	<i>% of Total</i>	50%
<i>Average Salary</i>	\$78,082	\$54,009	<i>Average Salary</i>	\$106,683
<i>Median Salary</i>	\$87,550	\$49,447	<i>Median Salary</i>	\$103,000
				Female
				4
				50%
				\$104,169
				\$97,850

BOARD OF PENSIONS AND RETIREMENT

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. Thus, the demand for language access services is 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 nine 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.