

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2022 BUDGET TESTIMONY
MAY 4, 2021**

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 and Christopher DiFusco, Chief Investment Officer. I am pleased to provide testimony on the Board of Pensions' Fiscal Year 2022 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The Board of Pensions and Retirement administers the Retirement System and the payment of retirement benefits to eligible members and their beneficiaries or survivors. The Board also 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 eligible members 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 members 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 2022: Despite the impact of COVID-19 had on the 4th Quarter of FY20, the Board was able to continue to provide services with minimal disruption, processing 8.2% more retirement and beneficiary transactions than in FY19.

In FY22, the Board plans to continue to maintain a reduced ratio of manager fees to assets under management, while achieving returns at least equal to the Fund's earnings assumption of 7.50%. The ratio achieved at FY20 year-end was 0.31%. For the period from FY16 to FY20, the Board had an average ratio of 0.33%, which is a reduction from the average ratio of 0.64% during the period from FY11 to FY15. The Board's emphasis on fee reduction has led to Fund savings of over \$80 million over the past five fiscal years. The Board will 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 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

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assets under management, renegotiation of fees, or termination. The Board's return for FY20 was 1.5%, net of fees. For FY21 through March 31, the Board's return is 19.6%, net of fees.

Per the actuarial valuation for FY20 provided by the Board's actuary, the System's funded status increased from 46.8% at the end of FY18 to 49.7% at the end of FY19, and then to 51.9% at the end of FY20. The report indicates that the City's progress on paying down the unfunded actuarial liability (UAL) increased by 2.24% in FY19 and 2.35% in FY20.

As it pertains to benefits to members of the retirement system, the Board will provide in-person retirement education sessions to system members once able to do so and is developing virtual presentations. The Board's initiative to further expand its outreach to operating departments and bargaining units is 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 24,432 as of January 2021 to 26,000 by the end of FY22.

The Board's goal is to increase the percentage of monthly pension benefits received via direct deposit from 95.5% as of December 2020 to 96.7% by the end of FY22. As of 2012, all new retirees are required to participate in direct deposit. Since Electronic Funds Transfer (EFT) recipients receive quarterly statements instead of monthly pension 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 59% diverse and 67% female. 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 50% diverse and 44% female. The Board also seeks to promote diversity and inclusion in its investment manager selection process. Using our investment manager database, the Board once again conducted a utilization study to determine the universe of investment managers that meet the Fund's criteria, which is having a 3-year track record and at least \$100 million in assets under management. The results are that 8.7% of firms and 5.0% of the products had greater than 50% diverse or female ownership. Through February 18, 2021, the Fund's current lineup of investment managers includes 27% diversity managers, far surpassing the universe that the utilization study revealed. Diverse plus local firms manage approximately of the Fund's assets under management. The Board continues to seek out high quality, diverse, local, and emerging managers for allocation across all asset classes. The Board is active in multiple organizations (NASP, 30% Coalition) and uses its shareholder power to support the advancement of persons of color and females in the financial industry, including filing proposals at corporations seeking greater board diversity and/or further disclosure of corporation demographics.

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BUDGET SUMMARY & OTHER BUDGET DRIVERS

Please refer to attached FY22 Budget Hearing Summary Charts in section 1: Staff Demographics Summary, section 2: Employment Levels, section 3: Financial Summary by Class, section 6: Participation Rate and Goal.

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PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2022 Pension Fund budget totals \$13,330,000, an increase of \$2,024,000 over Fiscal Year 2021 estimated obligation levels. This increase is primarily due to full funding of all budgeted positions, as well as their associated fringe benefits, as well as anticipated increase in contracting expenses.

The proposed budget includes:

- \$10,631,000 in Class 100, a \$1,345,000 increase over FY21. This funding will fully fund all budgeted positions and their associated fringe benefits.
- \$2,517,000 in Class 200, an increase of \$678,000 over FY21. This funding will fund anticipated increase in contracting expenses.
- \$92,000 in Class 300/400, the same as anticipated expenses for FY21. This funding will provide staff with supplies and equipment necessary to deliver services efficiently.
- \$90,000 in Class 800, the same as anticipated expenses for FY21. 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 FY22, the same as were requested in FY21.

NEW HIRES

Please refer to attached FY22 Budget Hearing Summary Charts in section 8: New Hires Information.

PERFORMANCE, CHALLENGES, AND INITIATIVES




Investments

Measure	 FY20 ACTUAL	 FY21 TARGET	 FY22 TARGET
Investment ratio	0.31%	Between 0.33% and 0.38%	Between 0.33% and 0.38%
Investment return	1.5%	At least 7.50%	At least 7.50%

Program FY22 Strategic Goals

- Conclude FY22 with a ratio of fees to assets of between 0.33% and 0.38%.
- Achieve an Investment Return of at least 7.5%.




Benefits

Measure	 FY20 ACTUAL	 FY21 TARGET	 FY22 TARGET
Member Education (count of attendees)	5,386	4,000	6,500

Program FY22 Strategic Goals

- Provide defined benefit plan, 457 plan, and defined contribution plan educational programs to 6,500 members. Defined benefit programs serve two groups of employees: those nearing retirement and younger vested employees. Defined contribution and 457 programs are available for all employees to encourage them to actively save for retirement and thereby supplement their pensions. The sessions cover a wide variety of topics including, but not limited to taxes & retirement income, women & retirement, social security. The current list of 2021 webinars is available [here](#). An increase in the number of attendees is anticipated if COVID-19 vaccination administration proceeds as expected which will allow for the gradual re-establishment of in person sessions.

Executive Direction and Administration

Measure	 FY20 ACTUAL	 FY21 TARGET	 FY22 TARGET
Number of 457 Plan deferred compensation participants	24,272	25,000	26,000
Percentage of recipients receiving benefits electronically	95.3%	96.0%	96.7%

Program FY22 Strategic Goals

- Increase the percentage of recipients receiving monthly benefits via direct deposit to 96.7%.
- Increase the number of participants in the 457 Plan to 26,000.

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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

Please refer to attached FY22 Budget Hearing Summary Charts in section 4: Contracts Summary.

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EMPLOYEE DATA

Please refer to attached FY22 Budget Hearing Summary Charts in section 7: Staff Demographics.

LANGUAGE ACCESS

- 1. Provide the name of your language access coordinator, the date of your last department training, and a link to the posting of your language access plan.**

David Fegan is the Board's language access coordinator. The Board's last training was in January 2020. The Board's language access plan is at <https://beta.phila.gov/documents/language-access-plans>.

- 2. Breakdown new hires and existing staff by race and language. Breakdown how many front-line personnel are trained to provide language access services.**

Existing staff is entirely English speaking. A breakdown of staff by race appears in the employee data section above. No new staff have been hired since September of 2019. Staff responsible for covering the reception desk have been trained to provide language access services.

- 3. How many requests for language access services did your department receive in the past year? How many language access services were delivered by staff? Breakdown language access services provided, by language, including but not limited to the language line, translation of public notices and documents, website language services, and advertisement/publication services.**

No requests for language access services have been received in the past year.

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

The Board's primary clientele is composed primarily of City employees and retirees. Thus, the demand for language access services is low. In the past year, there have been no requests for language access services. There has only been one instance in which language access services were required during the last decade. That situation involved a foreign-born beneficiary who contacted the Board through the US embassy in her nation. To the extent that language access services may be required, staff has been trained to arrange for provision of such services.

CLIMATE CHANGE

1. How has climate change affected your department's provision of services?

Climate change has not affected the Board's provision of services.

2. How might worsening climate change increase costs and demands for your department?

The Board does not foresee increased costs or demands associated with climate change.

3. How does your department intend to mitigate and adapt to climate change?

The Board has a tradition of supporting proxy initiatives in order to effect social change and intends to expand the use of its proxy role to address issues related to climate change. The Board has worked in tandem with Council to formalize and document the Board's existing practices and commitments in applying and tracking environmental, social, and corporate governance (ESG) factors in its investment portfolio, particularly on climate change-related risk disclosures. As a result, the Board has adopted ESG criteria in its Investment Policy Statement, including requesting and tracking climate-related risk disclosure.

1. Staff Demographics Summary

Staff Demographics Summary (as of December 2020)				
	Total	Minority	White	Female
Number of Full-Time Staff	55	38	17	37
Number of Exempt Staff	18	9	9	8
Number of Executive Staff (deputy level and above)	13	7	6	5
Average Salary, Full-Time Staff	\$68,500	\$59,486	\$88,727	\$57,805
Average Salary, Exempt Staff	\$103,614	\$92,404	\$114,823	\$93,709
Average Salary, Executive Staff	\$109,952	\$93,301	\$129,545	\$97,958
Median Salary, Full-Time Staff	\$55,473	\$54,770	\$75,457	\$54,468
Median Salary, Exempt Staff	\$96,040	\$93,571	\$100,940	\$95,786
Median Salary, Executive Staff	\$100,940	\$93,571	\$114,840	\$98,000

2. Employment Levels

Employment Levels (as of December 2020)		
	Budgeted	Filled
Number of Full-Time Positions	73	55
Number of Part-Time Positions	0	0
Number of Exempt Positions	19	18
Number of Executive Positions (deputy level and above)	13	13
Average Salary of All Full-Time Positions	\$60,341	\$68,500
Median Salary of All Full-Time Positions	\$48,377	\$55,473

3. Financial Summary by Class

Some departments may also want to provide financial summary tables for other funds, such as the Grants Fund. Departments should delete any budget lines that have \$0 in every year (i.e. if a department has no Class 500 appropriations, actuals, or proposed appropriations, the Class 500 row should be deleted).

General Fund Financial Summary by Class						
	FY20 Original Appropriations	FY20 Actual Obligations	FY21 Original Appropriations	FY21 Estimated Obligations	FY22 Proposed Appropriations	Difference: FY22-FY21
Class 100 - Employee Compensation	\$4,355,000	\$3,808,968	\$4,445,000	\$3,882,000	\$4,445,000	\$563,000
Class 100 - Fringe Benefits	\$4,938,000	\$5,301,470	\$5,769,000	\$5,403,000	\$6,186,000	\$783,000
Class 200 - Purchase of Services	\$2,478,000	\$1,801,174	\$2,600,000	\$1,839,000	\$2,517,000	\$678,000
Class 300/400 - Materials, Supplies & Equipment	\$92,000	\$50,188	\$92,000	\$92,000	\$92,000	\$0
Class 800 - Payment to Other Funds	\$80,000	\$91,199	\$80,000	\$90,000	\$90,000	\$0
	\$11,943,000	\$11,052,999	\$12,986,000	\$11,306,000	\$13,330,000	\$2,024,000

FY22 Budget Hearing Summary Charts - Board of Pensions

4. Contracts Summary

This table focuses on large professional services contracts with for-profit vendors.

"Large" is defined as meaning that an RFP was required.

Departments should focus on contracts that have been conformed to date.

Any departments that have large contracts with non-profit providers are encouraged to provide board makeup information in the optional "Non-Profit Vendor Demographics" table below.

M/W/DSBE Participation on Large Professional Services Contracts

Top Five Largest Contracts, FY21

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]
BRANDYWINE GLOBAL FIXED INCOME	Investment Grade Fixed Income Active	\$561,477	2/19/2008	1/2/2009	MBE:	0%	\$0	0%	\$0	Yes	No
					WBE:	0%	\$0				
					DSBE:	0%	\$0				
CAUSEWAY INTERNATIONAL*	Non US Equity Investment Manager	\$513,088	6/29/2010	11/1/2011	MBE:	0%	\$0	0%	\$0	No	No
					WBE:	0%	\$0				
					DSBE:	0%	\$0				
INVESTORS GROUP	Non US Equity Investment Manager	\$461,566	6/17/2016	11/1/2017	MBE:	0%	\$0	0%	\$0	No	No
					WBE:	0%	\$0				
					DSBE:	0%	\$0				
LONGFELLOW INVESTMENT MANAGEMENT	Core Plus Fixed Income Investment Manage	\$387,619	11/7/2013	9/1/2014	MBE:	3%	\$11,629	66%	\$255,829	No	No
					WBE:	63%	\$244,200				
					DSBE:	0%	\$0				
Northern Trust	Passive equity Investment Manager	\$382,314	10/13/2006	3/1/2007	MBE:	0%	\$0	0%	\$0	No	No
					WBE:	0%	\$0				
					DSBE:	0%	\$0				

*More than 50% of the outstanding equity interest of Causeway Capital Holdings LLC, the parent holdings company of Causeway Capital Management LLC, are controlled by woman and minority members.

Non-Profit Vendor Demographics: N/A

5. Performance Measures Table

Please refer to the FY22 Budget Testimony narrative for Performance Measure data.

6. Participation Rate and Goal

The Contract Participation Goal table is for **all** contracts (Public Works, SS&E, and Professional Services, combined).

Contracts Summary (Professional Services only)

	FY18	FY19	FY20	FY21	FY22	FY21 YTD (Q1 & Q2)*
Total amount of contracts	\$15,819,326	\$20,068,543	\$17,507,243	\$17,500,000	\$17,500,000	Data not yet available
Total amount to M/W/DSBE	\$4,966,441	\$5,179,691	\$4,097,896	\$4,375,000	\$4,375,000	Data not yet available
Participation Rate	31%	26%	23%	25%	25%	Data not yet available

*At this time FY21 Q1 and Q2 data is not yet available. Data is typically available 5 to 7 months after the end of each quarter.

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

	FY20	FY21	FY22
M/W/DSBE Contract Participation Goal	25%	25%	25%

FY22 Budget Hearing Summary Charts - Board of Pensions

7. Staff Demographics

Biracial employees should be included under "Other."

Staff Demographics (as of December 2020)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	7	28	<i>Total</i>	3	4
<i>% of Total</i>	13%	51%	<i>% of Total</i>	23%	31%
<i>Average Salary</i>	\$66,566	\$56,519	<i>Average Salary</i>	\$77,196	\$105,380
<i>Median Salary</i>	\$63,017	\$54,770	<i>Median Salary</i>	\$75,000	\$100,984
	White	White		White	White
<i>Total</i>	8	9	<i>Total</i>	5	1
<i>% of Total</i>	15%	16%	<i>% of Total</i>	38%	8%
<i>Average Salary</i>	\$119,016	\$61,804	<i>Average Salary</i>	\$141,800	\$68,269
<i>Median Salary</i>	\$103,819	\$61,028	<i>Median Salary</i>	\$125,982	\$68,269
	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>	\$39,852	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$39,852	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>	\$86,048	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$86,048	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	<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>	8	5
<i>% of Total</i>	33%	67%	<i>% of Total</i>	62%	38%
<i>Average Salary</i>	\$90,558	\$57,805	<i>Average Salary</i>	\$117,573	\$97,958
<i>Median Salary</i>	\$86,910	\$54,468	<i>Median Salary</i>	\$102,519	\$98,000

Detail for non-binary employees, if applicable: N/A

8. New Hire Information/Language Access

Date range is 7/1/20 to December 2020 increment run. Detail for any hires since then can be added in the text box below the table.

New Hires (from 7/1/2020 to December 2020)	
	Total Number of New Hires
Black or African American	0
Asian	0
Hispanic or Latino	0
White	0
Other	0
Total	0

Detail for new hires since December 2020, if applicable: N/A

All Staff	
	English
Black or African American	35
Asian	2
Hispanic or Latino	1
White	17
Other	0
Total	55

Frontline Staff	
	English
Black or African American	2
Asian	0
Hispanic or Latino	0
White	2
Other	0
Total	4