

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2023 BUDGET TESTIMONY
APRIL 6, 2022**

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 2023 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 (Fund) with the goal to achieve safety of principal and to maximize returns, net of investment fees, at the lowest level of risk, for the optimal value.

The Philadelphia Home Rule Charter (Charter) requires that the Fund is always able to cover current and future payments to eligible members who have paid into the Fund. To fulfill this mandate, the Board oversees all pension contributions and purchases of service by current employees and all benefit payments made to eligible members who have separated from City service. The Board also ensures that its investment, benefit, and other decisions are made to keep the pension fund financially healthy over a long-term horizon.

Plans for Fiscal Year 2023:

The Preliminary Actuarial Valuation results for the fiscal year ending June 30, 2021 resulted in a funding ratio of 55.2%. Following the Board's 11th consecutive annual reduction of the assumed rate of return to 7.45% and update to the mortality tables, the funding percentage stands at 54.9%. In the span of five fiscal years since the implementation of the pension reforms, the Pension Fund has increased its funding ratio from 44.8% in FY16 to the current 54.9%, an improvement of over 10%. The Fund has been Net Cash Flow positive for four consecutive fiscal years after having been consistently cash flow negative for decades. The stream of revenue dedicated to paying down the Unfunded Actuarial Liability (UAL) pursuant to the Revenue Recognition Policy continues to result in an accelerated paydown of the UAL. Since 2018, the UAL has been reduced in the aggregate by 7.6%. By comparison, in 2014 the UAL increased by 7.1% in a single fiscal year. As concluded by an April 2021 Pew stress test of the Pension Fund, "Philadelphia's recent reforms demonstrate that improved funding of a municipal pension system is attainable..."

In FY23, 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 7.45%. The ratio of manager fees achieved at FY22 year-end was 0.30%. Starting in FY16, the Board sought to reduce investment manager fees from the previous 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 \$90 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 are never static, and the Board is

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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 return for FY22 was 29.9%, net of fees. The FY22 return is the highest annual Pension Fund return on record.

As it pertains to benefits to members of the retirement system, the Board offers retirement appointments in-person and via electronic and regular mail. 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.

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 96.2% by the end of FY23. 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 67% 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 44% diverse and 39% 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 8.6% of firms and 4.6% of the products had greater than 50% diverse or female ownership. Through February 28, 2022, the Fund's current lineup of investment managers includes 29% diversity managers, far surpassing the universe that the utilization study revealed. For the last full fiscal year reported (FY21), diverse firms earned \$6,827,420 or 30.21% of total investment manager fees.

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.

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Please refer to attached FY23 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.

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2023 Pension Fund budget totals \$13,790,586, an increase of \$814,586 over Fiscal Year 2022 estimated obligation levels. This increase is primarily due to full funding of all budgeted positions, along with their associated fringe benefits, as well as anticipated increases in contracting expenses.

The proposed budget includes:

- \$11,734,086 in Class 100, a \$1,103,086 increase over FY22. This funding will fully fund all budgeted positions and their associated fringe benefits.
- \$1,895,000 in Class 200, a \$268,000 decrease over FY22. This funding will fully fund all anticipated contracting expenses.
- \$71,500 in Class 300/400, a 20,500 decrease over FY22. This funding will provide staff with supplies and equipment necessary to deliver services efficiently.
- \$90,000 in Class 800, the same as anticipated expenses as in FY22. 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 FY23, the same as were requested in FY22.

NEW HIRES

Please refer to attached FY23 Budget Hearing Summary Charts in section 8: New Hires Information.

PERFORMANCE, CHALLENGES, AND INITIATIVES

PENSION AND RETIREMENT

Performance Measure	FY21 Actual	FY22 Target	FY23 Target
Investment Ratio	0.30%.	Between 0.31% and 0.38%	0.31% to 0.38%
Investment Return	26.70%	at least 7.50%	at least 7.5%
Member Education (count of attendees)	5,228	5,000	5,200
Number of 457 Plan deferred compensation participants	24,517	25,000	25,200
Percentage of recipients receiving benefits electronically	95.7%	96.0%	96.20%

Program FY23 Strategic Goals

- Conclude FY23 with a ratio of management fees to assets under management (AUM) within the range of 0.31 percent to 0.38 percent.
- Achieve an investment return of at least 7.45 percent.
- Continue to recruit and retain a diverse and inclusive workforce, and to search for, hire and invest with available qualified diverse investment managers.
- Provide member educational programs and sessions to 5,200 members.
- Adapt benefit application and other necessary forms to enable electronic processing of applications of members, beneficiaries, and survivors.
- Consider and implement if appropriate additional administrative steps to further expedite processing time from benefit application to payment.
- Increase the number of deferred compensation plan (DCP) participants to 25,000.
- Continue to increase the percentage of monthly pension benefits received by direct deposit (EFT).
- Continue to conduct virtual hearing panels on administrative appeals with the consent of the appellants and attorneys.

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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 FY23 Budget Hearing Summary Charts in section 4: Contracts Summary.

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EMPLOYEE DATA

Please refer to attached FY23 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.**

Teresa Gray is the Board's language access coordinator. The Board's language access plan is at <https://www.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 March of 2022. 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 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 eleven 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.

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 the expand the use of its proxy role to address issues related to climate change. The Board has worked in tandem with Councilperson Gilmore-Richardson's office, who introduced Resolution No. 210010 that Council adopted on March 4, 2021, to formalize and document the Board's existing practices and commitments in applying and tracking ESG factors in its investment portfolio, particularly on climate change-related risk disclosures. As a result, the Board is considering the adoption of ESG criteria in its Investment Policy Statement, including requesting and tracking climate-related risk disclosures.

1. Staff Demographics Summary

Staff Demographics Summary (as of December 2021)				
	Total	Minority	White	Female
Number of Full-Time Staff	57	38	19	38
Number of Exempt Staff	18	8	10	7
Number of Executive Staff (deputy level and above)	9	4	5	3
Average Salary, Full-Time Staff	\$67,494	\$58,551	\$88,170	\$58,238
Average Salary, Exempt Staff	\$111,487	\$98,257	\$122,070	\$103,673
Average Salary, Executive Staff	\$136,784	\$113,145	\$155,696	\$117,441
Median Salary, Full-Time Staff	\$55,194	\$54,782	\$55,194	\$53,249
Median Salary, Exempt Staff	\$101,113	\$100,255	\$101,113	\$96,925
Median Salary, Executive Staff	\$111,395	\$108,150	\$111,395	\$108,150

2. Employment Levels

Employment Levels (as of December 2021)		
	Budgeted	Filled
Number of Full-Time Positions	73	57
Number of Part-Time Positions	0	0
Number of Exempt Positions	18	18
Number of Executive Positions (deputy level and above)	9	9
Average Salary of All Full-Time Positions	\$67,494	\$67,494
Median Salary of All Full-Time Positions	\$55,194	\$55,194

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).

Financial Summary by Class						
	FY21 Original Appropriations	FY21 Actual Obligations	FY22 Original Appropriations	FY22 Estimated Obligations	FY23 Proposed Appropriations	Difference: FY23-FY22
Class 100 - Employee Compensation	\$10,214,000	\$8,043,048	\$10,631,000	\$10,631,000	\$11,734,086	\$1,103,086
Class 200 - Purchase of Services	\$2,600,000	\$1,696,728	\$2,517,000	\$2,163,000	\$1,895,000	(\$268,000)
Class 300/400 - Materials, Supplies & Equipment	\$92,000	\$51,387	\$92,000	\$92,000	\$71,500	(\$20,500)
Class 800 - Payment to Other Funds	\$80,000	\$86,406	\$90,000	\$90,000	\$90,000	\$0
	\$12,986,000	\$9,877,569	\$13,330,000	\$12,976,000	\$13,790,586	\$814,586

FY23 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, FY22

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]
Emerald Advisors	Investment Management	\$723,095	1/1/2008	6/1/2016	MBE: Best Effort	0%	\$0	0%	\$0	No	No
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Brandywine Global	Investment Management	\$612,163	1/1/2008	1/1/2020	MBE: Best Effort	0%	\$0	0%	\$0	Yes	No
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Causeway Capital Management	Investment Management	\$509,335	1/1/2019	6/1/2020	MBE: Best Effort	3%	\$15,280	52%	\$264,854	No	No
					WBE: Best Effort	49%	\$249,574				
					DSBE: Best Effort	0%	\$0				
Northern Trust MSCI EAFE+Canada	Investment Management	\$457,271	1/1/2016	6/1/2021	MBE: Best Effort	0%	\$0	0%	\$249,574	No	No
					WBE: Best Effort	0%	\$249,574				
					DSBE: Best Effort	0%	\$0				
Longfellow	Investment Management	\$403,923	1/1/2013	9/1/2016	MBE: Best Effort	0%	\$0	50%	\$201,962	No	No
					WBE: Best Effort	50%	\$201,962				
					DSBE: Best Effort	0%	\$0				

Non-Profit Vendor Demographics

N/A

5. Performance Measures Table

Please refer to the FY23 Budget Testimony narrative for Performance Measure data.

6. Participation Rate and Goal

The Contracts Summary table is for **professional services contracts only**.

Contracts Summary (Professional Services only)					
	FY19	FY20	FY21	FY22 (Q1 & Q2)	FY23
Total amount of contracts	\$20,068,543	\$17,507,243	\$22,600,000	\$11,500,000	\$23,000,000
Total amount to M/W/DSBE	\$5,179,691	\$4,097,896	\$6,827,460	\$3,450,000	\$6,900,000
Participation Rate	26%	23%	30%	30%	30%

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY21	FY22	FY23
M/W/DSBE Contract Participation Goal	25%	25%	30%

FY23 Budget Hearing Summary Charts - Board of Pensions

7. Staff Demographics

Totals in this table should tie out to numbers in tables 1 and 2 above.

Staff Demographics (as of December 2021)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	5	28	<i>Total</i>	1	3
<i>% of Total</i>	9%	49%	<i>% of Total</i>	11%	33%
<i>Average Salary</i>	\$66,170	\$58,175	<i>Average Salary</i>	\$100,255	\$117,441
<i>Median Salary</i>	\$46,662	\$54,782	<i>Median Salary</i>	\$100,255	\$108,150
	White	White		White	White
<i>Total</i>	8	10	<i>Total</i>	5	N/A
<i>% of Total</i>	14%	18%	<i>% of Total</i>	56%	N/A
<i>Average Salary</i>	\$126,122	\$63,391	<i>Average Salary</i>	\$155,696	N/A
<i>Median Salary</i>	\$109,773	\$54,770	<i>Median Salary</i>	\$111,395	N/A
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	2	N/A	<i>Total</i>	N/A	N/A
<i>% of Total</i>	4%	N/A	<i>% of Total</i>	N/A	N/A
<i>Average Salary</i>	\$36,824	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$45,396	N/A	<i>Median Salary</i>	N/A	N/A
	Asian	Asian		Asian	Asian
<i>Total</i>	3	N/A	<i>Total</i>	N/A	N/A
<i>% of Total</i>	5%	N/A	<i>% of Total</i>	N/A	N/A
<i>Average Salary</i>	\$78,838	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$84,278	N/A	<i>Median Salary</i>	N/A	N/A
	Other	Other		Other	Other
<i>Total</i>	1	N/A	<i>Total</i>	N/A	N/A
<i>% of Total</i>	2%	N/A	<i>% of Total</i>	N/A	N/A
<i>Average Salary</i>	\$32,352	N/A	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$32,352	N/A	<i>Median Salary</i>	N/A	N/A
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	N/A	N/A	<i>Total</i>	N/A	N/A
<i>% of Total</i>	N/A	N/A	<i>% of Total</i>	N/A	N/A
<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>	19	38	<i>Total</i>	6	3
<i>% of Total</i>	33%	67%	<i>% of Total</i>	67%	33%
<i>Average Salary</i>	\$88,544	\$59,548	<i>Average Salary</i>	\$146,456	\$117,441
<i>Median Salary</i>	\$55,194	\$55,194	<i>Median Salary</i>	\$111,395	\$108,150

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

8. New Hire Information

Date range is 7/1/21 to December 2021 increment run. Detail for any hires since then can be added in the text box below the table.

New Hires (from 7/1/2021 to December 2021)	
	Total Number of New Hires
Black or African American	2
Asian	0
Hispanic or Latino	1
White	1
Other	1
Total	5

Detail for new hires since December 2021, if applicable:	
	Total Number of New Hires
Black or African American	2
Asian	0
Hispanic or Latino	0
White	1
Total	3