

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2024 BUDGET TESTIMONY
MARCH 29, 2023**

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 Shahied Lloyd, Administrator. I am pleased to provide testimony on the Board of Pensions' Fiscal Year 2024 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The Philadelphia Home Rule 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 Fund financially healthy over a long-term horizon.

All retiring employees meet with one of the Board's pension counselors for assistance in the retirement process. Pension Administrators review and approve benefit applications that comply with the Philadelphia Code.

In addition, the Board publishes a newsletter periodically with helpful pension and pension-planning information. The Board also posts on its website minutes and recordings of public meetings, investment performance, actuarial and audit reports, a plan summary and reference guide, forms, and other helpful information.

Plans for Fiscal Year 2024:

The Preliminary Actuarial Valuation results for the fiscal year ending June 30, 2022 resulted in an actuarial funding ratio of 57.4%. In the span of seven 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 57.4%, an improvement of 12.6%. The Fund had a positive net cash flow for a 5th consecutive year and continues to use the additional streams of revenue from the Revenue Recognition Policy (RRP) to reduce the unfunded actuarial liability (UAL). The Board voted in March 2023 to reduce the Fund's assumed rate of return for the 12th consecutive year to 7.35%. Based on current assumptions, including the City's contributions based on the Revenue Recognition Policy, the actuary projects that the Fund will attain 80% funded status by 2029 and 100% funded status by 2033.

In FY24, 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 7.35%. 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

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, risk, 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.

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 through offering retirement seminars and attending departmental and union new employee on-boarding sessions 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 will continue its work with Nationwide to increase the number of 457 Plan participants. As of FY23 Q1 there are 25,867 457 Plan Deferred Compensation Participants compared to 24,495 participants in FY22 Q1.

The Board's goal is to increase the percentage of monthly pension benefits received via direct deposit. As of December 2022, the percentage of recipients receiving benefits electronically is 96%. 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.

Subject to duties established by the Charter, Code, and fiduciary/trust and other applicable law, the Board of Pensions and Retirement (Board of Pensions) administers the Retirement System and manages the assets of the City's Pension Fund (Fund). By law, the Board of Pensions must ensure that the Fund is always able to cover current and future payments of retirement benefits to eligible members or their beneficiaries or survivors. The Board of Pensions must also use the assets of the Fund for the exclusive benefit of members and their beneficiaries or survivors and solely for the purpose of defraying expenses related to the administration of the Retirement System and management of the Fund.

The Board of Pensions has adopted and diligently and intentionally implemented policies and practices that advance racial equity in the investment management space and has created and fostered a diverse and inclusive workforce at the Board. As of December 2022, the Board's overall workforce is 67% diverse by race/ethnicity and 67% diverse by gender. Of its Executive Exempt employees, 58% are diverse by race/ethnicity and 42% by gender. The Board has made internal promotion of diverse employees to key management positions a hallmark of its workforce plans.

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 Board's most recent utilization study revealed that 10.24% of the universe of investment management firms, who meet the investment criteria established to satisfy fiduciary duties, are diverse under the City of Philadelphia's definition of M/W/DSBE. Approximately 57.44% of total Fund assets or approximately \$3.64 billion are managed by diverse investment managers. Of Board's 77 managers, 22 or approximately 30% are diverse. The Board

has a Diverse Broker Program that encourages and monitors investment managers at least 35% approved diverse brokers in their brokerage trades. Through December 31, 2022, the Fund's managers directed 53% of their year-to-date equity trades to diverse / local brokers.

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 2022)				
	Total	Minority	White	Female
Number of Full-Time Staff	52	35	17	35
Number of Exempt Staff	18	9	9	8
Number of Executive Staff (deputy level and above)	12	7	5	5
Average Salary, Full-Time Staff	\$76,745	\$66,791	\$97,238	\$65,026
Average Salary, Exempt Staff	\$119,333	\$101,934	\$136,732	\$114,260
Average Salary, Executive Staff	\$126,494	\$104,298	\$157,570	\$110,788
Median Salary, Full-Time Staff	\$58,930	\$56,988	\$82,600	\$56,988
Median Salary, Exempt Staff	\$107,069	\$100,800	\$116,965	\$108,660
Median Salary, Executive Staff	\$113,608	\$105,268	\$142,724	\$110,250

Employment Levels (as of December 2022)		
	Budgeted	Filled
Number of Full-Time Positions	73	52
Number of Exempt Positions	18	18
Number of Executive Positions (deputy level and above)	12	12
Average Salary of All Full-Time Positions	\$68,900	\$76,745
Median Salary of All Full-Time Positions	\$52,648	\$58,930

Pension Fund Financial Summary by Class						
	FY22 Original Appropriations	FY22 Actual Obligations	FY23 Original Appropriations	FY23 Estimated Obligations	FY24 Proposed Appropriations	Difference: FY24-FY23
Class 100 - Employee Compensation	\$10,631,000	\$7,107,566	\$11,845,500	\$11,845,500	\$12,266,175	\$420,675
Class 200 - Purchase of Services	\$2,517,000	\$1,790,291	\$1,895,000	\$1,895,000	\$2,039,750	\$144,750
Class 300/400 - Materials, Supplies & Equipment	\$92,000	\$68,738	\$71,500	\$71,500	\$81,075	\$9,575
Class 800 - Payment to Other Funds	\$90,000	\$87,841	\$90,000	\$90,000	\$90,000	\$0
	\$13,330,000	\$9,054,436	\$13,902,000	\$13,902,000	\$14,477,000	\$575,000

Contracts Summary (Professional Services only)						
	FY20	FY21	FY22	FY23 ¹	FY23 YTD (Q1 & Q2)	FY24 Projected
Total amount of contracts	\$17,507,243	\$22,600,000	\$20,382,472	N/A	\$12,000,000	\$23,250,000
Total amount to M/W/DSBE	\$4,097,896	\$6,827,460	\$7,823,266	N/A	\$3,911,633	\$8,250,000
Participation Rate	23%	30%	38%	N/A	33%	35%

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY22	FY23	FY24 Projected
M/W/DSBE Contract Participation Goal	25%	25%	25%

¹ Listed as N/A as a result of FY23 actual number not yet report for the full year.

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2024 Pension Fund budget totals \$14,477,000, an increase of \$575,000 over Fiscal Year 2023 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:

- \$12,266,175 in Class 100, a \$420,675 increase over FY23. This funding will fully fund all budgeted positions and their associated fringe benefits.
- \$2,039,750 in Class 200, a \$144,750 increase over FY23. This funding will fully fund all anticipated contracting expenses, which increased due to inflation.
- \$81,075 in Class 300/400, a \$9,575 increase over FY23. This funding will provide staff with supplies and equipment necessary to deliver services efficiently, which increased due to inflation.
- \$90,000 in Class 800, the same as anticipated expenses as FY23. This funding will reimburse the General Fund for work performed on the Board's behalf by the City's central service agencies.

STAFFING LEVELS

The department is requesting 73 budgeted positions for FY24, the same as were requested in FY23.







NEW HIRES

New Hires (from 7/1/2021 to December 2022)	
	Total Number of New Hires
Black or African American	6
Asian	1
Hispanic or Latino	1
White	4
Total	12

Detail for new hires since December 2022, if applicable: One staffer was hired after December 2022.

PERFORMANCE, CHALLENGES, AND INITIATIVES






INVESTMENTS

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Investment ratio	0.39%	0.31% to 0.38%	Between 0.36% to 0.43%	
Investment return	-7.30%	At least 7.50%	At least 7.35%	

FY24 Strategic Goals

- Conclude FY24 with a ratio of management fees to AUM within the range of 0.36 percent to 0.43 percent.
- Achieve an investment return of at least 7.35 percent.
- Continue to recruit and retain a diverse and inclusive workforce, and to search for, hire and invest with available qualified diverse investment managers.






BENEFITS


Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Member Education (count of attendees)	3,286	5,200	5,200	

FY24 Strategic Goals

- 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.

EXECUTIVE DIRECTION AND ADMINISTRATION

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Number of 457 Plan deferred	25,418	25,200	25,500	

compensation participants				
Percentage of recipients receiving benefits electronically	96.0%	96.2%	96.2%	

FY24 Strategic Goals

- Increase the number of Deferred Compensation Plan (DCP) participants to 25,500.
- Continue to increase the percentage of monthly pension benefits received by direct deposit (EFT).
- Continue to conduct virtual and in-person hearing panels on administrative appeals with the consent of the appellants and attorneys.
- Modernize the pension payroll system.

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

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

CONTRACTING EXPERIENCE

[Budget will insert the Excel tables: *M/W/DSBE participation on large professional services contracts and/or non-profit vendor demographics*]

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY23											
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]
Ariel	Investment Management	\$847,778	2/13/2015	11/3/2015	MBE: Best Effort	58%	\$491,711	100%	\$847,778		
					WBE: Best Effort	42%	\$356,067				
					DSBE: Best Effort	0%	\$0				
DWS/REEF Global Infrastructure	Investment Management	\$845,626	3/2/2017	3/15/2018	MBE: Best Effort	0%	\$0	0%	\$0		
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Rhumblin	Investment Management	\$792,550	7/18/2016	12/1/2016	MBE: Best Effort	18%	\$142,659	78%	\$618,189		
					WBE: Best Effort	60%	\$475,530				
					DSBE: Best Effort	0%	\$0				
Emerald	Investment Management	\$702,466	5/13/2016	6/1/2009	MBE: Best Effort	0%	\$0	0%	\$0		
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				
Northern Trust	Investment Management	\$634,849	2/8/2017	6/1/2009	MBE: Best Effort	0%	\$0	0%	\$0		
					WBE: Best Effort	0%	\$0				
					DSBE: Best Effort	0%	\$0				

Non-Profit Vendor Demographics:

N/A

EMPLOYEE DATA

Staff Demographics (as of December 2022)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	5	23	<i>Total</i>	3	3
<i>% of Total</i>	10%	44%	<i>% of Total</i>	25%	25%
<i>Average Salary</i>	\$87,519	\$62,642	<i>Average Salary</i>	\$86,715	\$123,313
<i>Median Salary</i>	\$100,000	\$56,988	<i>Median Salary</i>	\$86,369	\$116,965
	White	White		White	White
<i>Total</i>	8	9	<i>Total</i>	4	1
<i>% of Total</i>	15%	17%	<i>% of Total</i>	33%	8%
<i>Average Salary</i>	\$125,663	\$71,972	<i>Average Salary</i>	\$175,962	\$86,000
<i>Median Salary</i>	\$101,743	\$50,233	<i>Median Salary</i>	\$173,706	\$86,000
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	2	1	<i>Total</i>	0	0
<i>% of Total</i>	4%	2%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$78,982	\$48,179	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$39,491	\$48,179	<i>Median Salary</i>	\$0	\$0
	Asian	Asian		Asian	Asian
<i>Total</i>	2	1	<i>Total</i>	0	1
<i>% of Total</i>	4%	2%	<i>% of Total</i>	0%	8%
<i>Average Salary</i>	\$96,470	\$100,000	<i>Average Salary</i>	\$0	\$100,000
<i>Median Salary</i>	\$96,470	\$100,000	<i>Median Salary</i>	\$0	\$0
	Other	Other		Other	Other
<i>Total</i>	0	1	<i>Total</i>	0	0
<i>% of Total</i>	0%	2%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$0	\$39,229	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$0	\$39,229	<i>Median Salary</i>	\$0	\$0
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	0	1	<i>Total</i>	0	1
<i>% of Total</i>	0%	2%	<i>% of Total</i>	0%	8%
<i>Average Salary</i>	\$0	\$100,000	<i>Average Salary</i>	\$0	\$100,000
<i>Median Salary</i>	\$0	\$100,000	<i>Median Salary</i>	\$0	\$100,000
	Male	Female		Male	Female
<i>Total</i>	17	35	<i>Total</i>	7	5
<i>% of Total</i>	33%	67%	<i>% of Total</i>	58%	42%
<i>Average Salary</i>	\$65,026	\$65,026	<i>Average Salary</i>	\$137,713	\$110,788
<i>Median Salary</i>	\$56,988	\$56,988	<i>Median Salary</i>	\$116,965	\$110,250

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://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 March of 2023. 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 twelve 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 pursuit of its fiduciary duty that promote social change and intends to expand the use of its proxy role to address issues related to climate change. The Board 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, in April 2021, the Board adopted in its Investment Policy Statement a policy of considering applicable sustainability factors in evaluating investment managers and making investment decisions, including requesting and tracking climate-related risk disclosures and other ESG criteria.