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

Good Afternoon, Council President Clarke and Members of City Council. I am Francis Bielli, the Board's Executive Director. Joining me today are Shamika Taliaferro, Deputy Pension Director, Christopher DiFusco, Chief Investment Officer, members of our executive staff, and the Chair of the Board, Mr. Rob Dubow. I'd like to thank those of you with whom I've met during the past few years for your input and ideas on strengthening the Plan.

Our budget request is slightly higher than FY19 estimated obligation levels, largely due to increased wages and fringe benefits. This funding will maintain staffing at its optimal level.

The demographics of our staff are 70% female, 61% African American, 4% Asian American, and 2% Hispanic.

The Plan's funding percentage increased from 45.3% to 46.8% as of July 1, 2018.

Important factors contributing to the increased funding percentage are the recent changes and the decision to dedicate additional funds to paying down the Unfunded Actuarial Liability (UAL), resulting in slashing the UAL by 2.1% in FY19. As part of the strategy to strengthen the Fund, any additional pension contributions resulting from the last round of collective bargaining negotiations, along with the proceeds the pension fund receives from the sales tax, are held in a separate notional account as part of the adopted Revenue Recognition Policy. The funds in the RRP notional account are dedicated / mandated to paying down the UAL. The annual City pension contribution is now based on the higher RRP, not the lower Minimum Municipal Obligation mandated by state law. Accordingly, the dedicated stream of RRP money will result in a continued accelerated paydown of the UAL.

It should also be noted that approximately 81% of the UAL is from Plan 67, a plan which no new employee has entered since 1987 (exempt & non-rep), 1988 (police & fire) and 1992 (DC 33 & 47). As the RRP continues to pay down the UAL at an accelerated pace, the effect of the Plan 67 legacy liability will decrease.

The improvements to the Fund also resulted in a positive annual cash flow for the Fund for the first time in my memory. The gradual and continued reduction of the assumed rate of return, the adoption of the Revenue Recognition Policy and other responsible steps explored and adopted by all parts of our government interested in the health of the fund reduces the fund's risk profile and will continue to benefit the members of the fund and the taxpayers.

The desire to adopt strategies to further strengthen the Fund among the Board, City Administration, Municipal Unions and City Council resulted in the adoption and formalization of a plan for new non-uniformed municipal employees. Plan 16 is a hybrid defined benefit / defined contribution plan. An employee in Plan 16 receives the traditional Plan Y defined pension benefit up to $65,000 in annual pensionable earnings, with the opportunity to make additional contributions for earnings above $65,000 into the 457-plan including a partial city match.

While new uniformed employees are not members of Plan 16, new uniformed employees pay an additional 2.50% toward their base pension contribution; while existing uniformed employees pay an additional 1.84% to their baseline rate.

All employees, including uniformed employees, are required to make additional employee pension contributions as part of the new Tiered Contribution Tables. Tiered Contributions require employees to make contributions above their base contribution rate based on a sliding salary scale. The additional contribution sliding scale begins for those making $45,001 at .5% and culminates at 2.75% for those above $100,000. Additional tiered contributions for those in Plan 16 are capped at 1.5%, the rate associated with their $65,000 defined benefit cap.

The Board voted to once again reduce the assumed rate of return to 7.60% for the current fiscal year and to 7.55% for the following fiscal year. The Board has reduced the assumed rate of return for 10 consecutive years, a total of 120 basis points or 1.20% over the past 11 years. Per the Board's actuary, while the funding ratio may appear to reflect lack of progress in funding, the decrease in the assumed rate of return represents improvement of the Fund's risk profile, improving the likelihood of achieving the assumption in the future. Based on recent actuarial analysis, the fund is projected to reach 80% funding by 2029 (one year ahead of previous actuarial projections) and 100% funding by 2033.

The Fund's investment return for the fiscal year ending June 30, 2018 was 9.01% net of fees.

You may recall the Fund's portfolio was restructured following the Board's decision in fiscal year 2016 to divest from all but one hedge fund and other underperforming high cost investment products. Accordingly, there has been a drastic reduction in investment fees paid by the Board, from $33.5. million (an investment ratio of 0.69%) in FY14 to $15.7 million (an investment ratio of 0.31%) in FY18, an overall reduction of 55.1% during that time frame. The Board and staff continues to diligently monitor fees to ensure the Fund is operating efficiently and in a cost-effective manner. Passively managed investments now account for approximately 52% of the Fund's assets, up from roughly 29% just 4 years ago.

Using our investment manager database, the Board once again conducted a utilization study to determine the universe of diverse 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 9.5% of firms and 5.27% of the products had greater than 50% minority or women ownership. Through February 29, 2019, the Fund's current lineup of investment managers includes 22.10% diversity managers, far surpassing the universe that the utilization study revealed. Diverse plus local managers are approximately 30% of the Fund. The Board continues to seek out high quality diverse, local, and emerging managers for allocations across all asset classes.

Board members and staff continue to participate in Mid Atlantic Plan Sponsors (MAPS), the National Association of Securities Professionals (NASP), and other non-profit organizations that are proponents of diversity in the investment professional ranks. The Board is an active member of a national association called the Thirty Percent Coalition, which is an organization committed to the goal of increasing women participation on corporate boards. The Board supports proxy initiatives promoting issues such as inclusive corporate boards, equal pay, and other important social issues.

The Board has encouraged Investment managers to create and/or expand diversity outreach through internships, mentoring and hiring programs. The Board is seeing real results by Investment Firms in this area as a result of our efforts.

Our investment staff participates in a local financial education program for high school students called Invest in Girls and another school-based financial education program called Operation Hope. The mission of Operation Hope is to expand economic opportunity in underserved communities through financial literacy, dignity and empowerment. Topics include basics of budgeting, banking, fundamentals of credit and introduction to savings and investment. By all accounts the program is very successful and well received. As a staff, we have periodically been panel members or guest lecturers at various industry education conferences and at local colleges, including graduate classes at Temple University and the University of Pennsylvania.

The Board is the recipient of a Certificate of Transparency from the National Conference of Public Employees Retirement Systems in furtherance of our level of public disclosure.

A large percentage of employees continue to use the Deferred Compensation program to enhance their retirement savings. There are currently 23,281 employees participating in the 457-plan administered by Nationwide. As of February 2019, the plan had approximately $1.2 billion in total assets. Starting this month, employees have greater flexibility in bolstering their retirement savings by participating in a Roth 457, which allows after-tax contributions to the 457 plan. Those who wish to participate in the Roth 457 pay the tax now by contributing with after tax money and avoid paying the tax on a deferred basis when they withdraw the money in retirement. Another new feature will allow 457 participants to set their contribution level at a percentage, not a dollar amount, that will automatically increase their contribution to match the percentage when a pay increase is received. Members of the deferred compensation plan can also meet free of charge with a full-time certified financial planner to assist in making sound financial decisions.

The Board continues to provide retirement education sessions to system members on multiple topics relating to retirement and retirement planning, annually reaching thousands of employees through in-house training as well as visits to various operating departments and participating in seminars. The Board also participates in the Personnel Department's 2-day on-boarding seminar for new employees.

We respectfully request that you approve our budget and we'd be glad to answer any questions.