

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2025 BUDGET TESTIMONY
MARCH 27, 2024**

INTRODUCTION

Good Afternoon President Johnson and Members of City Council. I am Francis Bielli, Executive Director. Joining me today are Shahied Lloyd, Administrator and Christopher DiFusco, Chief Investment Officer. I am pleased to provide testimony on the Board of Pensions' Fiscal Year 2025 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 of achieving 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 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. The health of the Pension Fund is critical piece to the City's overall fiscal health, which enables the City to meet the Mayor's policy goals to make Philadelphia the safest, cleanest, and greenest big city in the nation with economic opportunity for everyone.

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 2025:

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The Preliminary Actuarial Valuation results for the fiscal year ending June 30, 2023, resulted in an actuarial funding ratio of 61.9%. Since the implementation of the 2016 Pension Reforms, the Pension Fund has increased its funding ratio from 44.8% in FY16 to the current 61.9%, an improvement of 17.1%. During that same span, the Fund's Net Pension Liability decreased more than \$1.6 billion. The Fund has had an even or positive net cash flow for six (6) consecutive years. The improved health of the Pension Fund is the result of a great collaborative effort among the Board Trustees, Mayoral Administrations, City Council, Municipal Unions, and the State Legislature. The current funding level is the highest funding percentage in over two (2) decades.

The Board voted in February 2024 to reduce the Fund's assumed rate of return for the 13th consecutive year to 7.30%. 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 2028 and 100% funded status by 2032.

In FY25, 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 7.30%. The ratio of manager fees achieved at FY23 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 FY24 Q1 there were 26,507 457 Plan and 401a 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 2023, the percentage of recipients receiving benefits electronically was 96%. As of 2012, all new retirees are required to participate in direct deposit. Since Electronic Funds Transfer (EFT) recipients

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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 laws, 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. Three (3) Board employees participated and graduated from the City's Pilot Elevate Leadership Excellence Program in FY24. One employee graduated as a Certified Adjunct Trainer to be able to facilitate the Elevate Leadership Excellence Course. The program promotes self and team leadership while using the principles of diversity, equity, and inclusion. As of February 2024, the Board's overall workforce is 67.92% diverse by race/ethnicity and 79.25% diverse by gender. Of its Exempt employees, 66.67% are diverse by race/ethnicity and 53.33% by gender. The Board has sought out diverse and qualified prospects both internally and externally to appoint to key management positions.

The Board also seeks to promote diversity and inclusion in its investment manager selection process. Due to its work in the area, the Board was recently notified of its selection as a recipient of the Diversity, Equity and Inclusion Capitalism Power 100 (DEIC Power 100) award for its work in breaking color and gender barriers, supporting diverse firms, and promoting a more inclusive investment management industry. Using Pensions' 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 three-year track record and at least \$100 million in assets under management. The Board's utilization study revealed that 11.84% of the universe of investment management firms meet the investment criteria and are diverse under the City of Philadelphia's definition of M/W/DSBE. As of February 2024, approximately 54.69% of total Pension Fund assets or approximately \$4.23 billion are managed by diverse investment managers. Of the Board's 77 managers, 22 or approximately 28.5% are diverse. The Board has a Diverse Broker Program that encourages and monitors investment managers with at least 35% approved diverse brokers in their brokerage trades. Through December 31, the Fund's managers directed 44% of their year-to-date equity trades to diverse / local brokers.

PROPOSED BUDGET OVERVIEW

General Fund Financial Summary by Class						
	FY23 Original Appropriations	FY23 Actual Obligations	FY24 Original Appropriations	FY24 Estimated Obligations	FY25 Proposed Appropriations	Difference: FY25-FY24
Class 100 - Employee Compensation	\$11,845,500	\$7,119,799	\$12,266,175	\$12,266,175	\$12,572,575	\$306,400
Class 200 - Purchase of Services	\$1,995,000	\$1,958,886	\$2,039,750	\$2,604,750	\$2,463,550	(\$141,200)
Class 300/400 - Materials, Supplies & Equipment	\$74,824	\$74,034	\$81,075	\$81,075	\$82,875	\$1,800
Class 800 - Payment to Other Funds	\$90,000	\$60,609	\$90,000	\$90,000	\$90,000	\$0
Total	\$14,005,324	\$9,213,328	\$14,477,000	\$15,042,000	\$15,209,000	\$167,000

Proposed Funding Request:

The proposed Fiscal Year 2025 Budget totals \$15,209,000 an increase \$457,000 over Fiscal Year 2024 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:

- \$12,572,575 in Class 100, a \$306,400 increase over FY24. This funding will fully fund all budgeted positions and their associated fringe benefits.
- \$2,463,550 in Class 200, a \$148,800 increase over FY24. This funding will fully fund all anticipated contracting expenses, which increased due to inflation, change in contract rates, and an unprecedented increase in service-connected disability applications.
- \$82,875 in Class 300/400, a \$1,800 increase over FY24. 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 FY24. 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 FY25, the same as were requested in FY24.

Employment Levels (as of December 2023)		
	FY25 Budgeted	Filled as of December 2023
Number of Full-Time Positions	73	58
Number of Exempt Positions	22	22

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Number of Executive Positions (deputy level and above)	7	7
Average Salary of All Full-Time Positions	\$74,983	\$76,441
Median Salary of All Full-Time Positions	\$74,983	\$60,857

NEW HIRES

New Hires (from 7/1/2023 to December 2023)	
	Total Number of New Hires
Black or African American	1
Hispanic or Latino	1
White	1
Total	3

Detail for new hires since December 2023, if applicable: White, Female hired as an Office Clerk 2. Hispanic or Latino Male hired as Chief Compliance Officer. Black or African American Female hired as Office Clerk 2

PROGRAM BASED BUDGETING:

PROGRAM NAME: PENSION & RETIREMENT

Program Number: 5301

FY25 Proposed General Fund: N/A (The Board of Pensions does not receive funding from the General Fund.) **Pension Fund:** \$15,209,000

Program Description: The Board was charged under the Philadelphia Home Rule Charter with the creation and maintenance of an actuarially-sound retirement system, providing benefits for all City employees. This program is responsible for ensuring that the Board’s day-to-day operations fully support its mission and for selecting and retaining expert consultants for actuarial analysis and annual audits.

FY25 Strategic Goals:

- Conclude FY25 with a ratio of management fees to assets under management AUM within the range of 0.36 percent to 0.43 percent.
- Achieve an investment return of at least 7.30 percent.
- Continue to recruit and retain a diverse and inclusive workforce, and to search for, hire and invest with available qualified diverse investment managers.
- 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.

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FY25 Performance Measures:

Measure	FY23 Actual	FY4 Target	FY25 Target
Number of 457 Plan deferred compensation participants	26,246	25,500	25,500
Percentage of recipients receiving benefits electronically	96.2%	96.0%	96.0%
Member Education (count of attendees)	6,931	5,200	5,200
Investment Fee Ratio	0.30%	Between 0.36% and 0.43%	Between 0.36% and 0.43%
Investment Return	7.60%	At least 7.35%	At least 7.30%

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

N/A