Snapshot of this week’s FYI:

(1) Although the recently-enacted tax reform bill did not directly address public pension reform, the effects of certain provisions -- particularly the limitations on the deductibility of state and local taxes -- could have a significant impact on future efforts at the state level to reduce the impact of governmental plans on state and local spending. This could reinforce efforts already underway to undercut laws protecting retirement benefits and even bolster Federal actions to legitimize reductions of not just future pensions, but current retiree benefits as well.

(2) A new Issue Brief from the Center for Retirement Security (CRR) at Boston College examines the readiness of Millennials for retirement and finds that, despite being better educated and tech savvy than previous cohorts, they are not as well prepared, and face even more serious challenges to becoming so: a labor market where a declining share of jobs provide pension and health benefits; much longer periods of retirement due to rising life expectancy; high and rapidly rising health care costs; and historically low interest rates. Crushing student debt is one culprit, but what about a private sector retirement model that is ill prepared to handle the realities that Millennials face?

(3) Beginning this month, publicly traded U.S. companies must calculate how their CEO's compensation compares with the median pay of all employees, and then disclose these pay ratios in regulatory filings. Will such disclosures lead to improvements in a corporation’s performance, or will a disparity between the pay of a CEO and the average worker that is perceived as unfair result in the deterioration of a firm’s performance? One expert says that new disclosures must be made with the proper context provided, or else they could “ignite worker backlash and harm productivity.” Are you prepared to respond to questions about your investments based on these new disclosures?

The Link between Tax Reform and Pension Reform

- San Jose Mercury News: “Cases Could Open Door to Pension Cuts For California Workers”
- Sacramento Bee: “California Should be Able to Reduce Public Employees’ Pension Benefits, Jerry Brown Argues”
- Manhattan Institute: “Empowering Illinois’ Pension Reform” (See page 20 for legislative language)
New CRR Brief Examines Millennials’ Preparedness for Retirement

- CRR Issue Brief: “Will Millennials be Ready for Retirement?”

At Long Last: CEO Compensation and Median Employee Pay To Be Disclosed

- Forbes: “If The CEO’s High Salary Isn’t Justified To Employees, Firm Performance May Suffer”
- Ethan Rouen: “Rethinking Measurement of Pay Disparity and its Relation to Firm Performance”
- Bloomberg: “Why Companies Fear Disclosing CEO-to-Workers Pay: QuickTake Q&A”

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### NASRA News Clips

**In the Media**

**Public sector union membership held steady in 2017**

The union membership rate was highest in professions in local government, which includes teachers, police officers, and firefighters. ... The American Federation of Teachers has seen membership steadily increase over the past decade, the union said. AFT went from 1.4 million in July 2008, to 1.7 million members by August 2017, when 40,000 educators in Puerto Rico joined the union. ... Nine states had union membership rates below 5.0 percent in 2017, with South Carolina having the lowest rate (2.6 percent). The next lowest rates were in North Carolina (3.4 percent) and Utah (3.9 percent). Two states had union membership rates over 20.0 percent in 2017: New York (23.8 percent) and Hawaii (21.3 percent).

- [BLS news release](#)
- [Bloomberg](#)

**Connecticut municipal group calls for end to collective bargaining**

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### Federal Focus

**In response to federal tax bill, states weigh tax changes that could indirectly affect retirement savings**

Many states are considering policy changes to bypass the new federal tax law that eliminates many deductions and caps what can be deducted for state and local taxes. However, some ideas under consideration could create potential problems, such as a progressive employer compensation expense tax, which could mean lower contributions to retirement plans and Social Security, as well as lower final average salaries for pension calculation purposes.

- [Bloomberg](#)

**Center for State & Local Government Excellence publishes report on public sector succession planning**

The key takeaways include the role of leadership is essential in driving change and building trust, especially when budgets are tight; by investing in people, the organization sends a clear message that...
Connecticut Conference of Municipalities Executive Director Joe DeLong noted that most states don't permit collective bargaining for retirement benefits. "Connecticut is an outlier there, and it has driven costs to an unsustainable level," he said.

CT Mirror
Map of states that collectively bargain pensions

SWIB's David Villa is bullish on stocks

The pension fund was up 16% last year, and an average of 8.6% for the past five years, beating the actuarial target of 7.2%. Villa credits the performance to being 110% invested with 62% in equities and 48% in fixed income. ... Significantly, Wisconsin, over a period of 34 years, has produced an annual increase in annuities that has averaged 3.9%, well ahead of the inflation that has averaged 2.7% over the same period of time. Over this period, the chief investment officer proudly asserts, "I have a contrarian view. I increase active management when everyone else is going into passive. That is the opposite of what individual investors have been doing with their money."

Forbes

Ray Dalio: A cash-fueled "market blowoff" is coming

Bridgewater Associates founder Ray Dalio said the tax cut could lead to some big gains for the U.S. stock market. "We are in this Goldilocks period right now. Inflation isn't a problem. Growth is good, everything is pretty good with a big jolt of stimulation coming from changes in tax laws," Dalio told CNBC on Tuesday from the World Economic Forum in Davos, Switzerland. The investor said we're in the late part of the cycle and predicts we will see "a market blowoff" rally, fueled by cash from banks, corporations and investors.

CNBC

people are valued; and sustained commitment is the key to building a talent pipeline.

Report and video

NCSL 2018 state legislative session calendar

The map provides information on legislative sessions in each state, district and territory. Click on any state to find information on regular session dates, and if necessary, special session dates. If you would like the session calendar in table form or would like to print the information, go to the PDF version.

See the calendar

Tweet of the Week

Retirement plan designs feature a variety of risk-bearing arrangements, ranging from an employer maintaining sole responsibility for funding guaranteed benefits, to employees bearing the full obligation to finance their own retirement savings.

People

Missouri SERS board terminates executive director and names interim successor

The board terminated [John] Watson's contract effective Thursday, "in the interests of more effectively addressing the Board's priorities as to the performance, direction and operation of the System," and "without cause within the meaning" of the Aug. 17, 2015, employment agreement between MOSERS and Watson. ... The board then unanimously approved naming Ronda Stegmann as MOSERS' interim director. News Tribune (Jefferson City)

Job Postings

No new listings

For details on open positions, visit Careers @ NASRA.org

National Association of State Retirement Administrators

www.nasra.org

202.624.1418
In the Media

Illinois gubernatorial candidate says state has too many pension plans

Illinois "has 628 different pension systems," Biss said. "For almost every community in the Daily Herald area there are two pension systems, one for police officers and one for firefighters ... that are served by the same investment and legal consultants. We've built a system whose investment returns cannot be what they should be and that allow politically connected consultants to reach their hands into 628 different pockets and come out with taxpayer dollars." He also advocates allowing buyouts for pension plan participants.

Daily Herald

Illinois AG candidate calls for constitutional convention to revisit pension legal protection

Gary Grasso ... also said he supports calling a state constitutional convention to revisit the pension clause in the 1970 Illinois Constitution. The clause says that public pensions are "an enforceable contractual relationship, the benefits of which shall not be diminished or impaired," language which has been strictly interpreted by the Illinois Supreme Court. "It really has to be addressed. There has to be fair pensions for people, but I think there needs to be a constitutional convention."

The News-Gazette

Studies & Reports

Arizona State Retirement System lowers investment return assumption to 7.5%

The Arizona State Retirement System Board in October 2017 reduced the system's investment return assumption from 8.0% to 7.5%. Other changes included revised mortality assumptions, a change in amortization policy from level dollar to level percent of pay, and a change in the actuarial cost method from projected unit credit to entry age normal.

Experience study presentation

Graphical summary of return assumptions

Manhattan Institute: New Jersey will be challenged to dig out of its unfunded pension liabilities

If the state's financial resources were to increase in the next five years by the same rate that they've grown during the last five, which constitute the most robust years of the current recovery, New Jersey's revenues would reach about $40.4 billion by 2023. At that level, a $4.9 billion taxpayer contribution to pensions-what the state now promises it will make-would constitute nearly three times the share of the budget that pensions currently command. The pension contribution alone would virtually consume all the state's projected revenue growth over the next five years, leaving no money for other spending growth.

Read the paper

Federal Focus

IRS releases 2018 withholding tables to reflect tax reform changes

The Internal Revenue Service has updated the income-tax withholding tables for 2018 to reflect changes made by the recently-passed Tax Cuts and Jobs Act. Employers are instructed to use the 2018 withholding tables as soon as possible, but not later than February 15, 2018. The updated withholding information shows the new rates for employers to use during 2018 and reflect the increase in the standard deduction, repeal of personal exemptions and

S&P Global publishes state outlook for 2018

Pension liabilities continue to be a source of budget pressure for many states and, where they strain credit quality, often reflect a history of poor funding discipline. Some states have managed this long-term liability relatively well by constraining benefit levels and plan offerings and-crucially-adhering to strong funding discipline. States fitting this pattern tend to populate the upper end of the rating spectrum, at 'AAA' and 'AA+'. Even in these cases, however, fiscal pressure is building as states move toward more conservative actuarial assumptions and methods and
changes in tax rates and income brackets. News release IRS Notice Forbes SHRM

Tweet of the Week

Since peaking in August 2008, state and local governments have shed 263,000 jobs, or approximately 1.3 percent of their total. By comparison, the private sector added an estimated 146,000 jobs in December 2017.

Perspectives

Elimination of state & local tax deduction could challenge states with large unfunded retirement obligations

The new federal restriction on SALT deductions will open up a new window on reforming state benefit plans with large unfunded liabilities. As voters absorb the financial implications of the new restriction, they will probably oppose tax increases and service cuts to deal with these liabilities. Instead, they will pressure elected officials to renegotiate benefit plans to the extent legally permissible. Robert Pozen in MarketWatch

Center for Retirement Research: How should we pay for Social Security's missing trust fund?

The current "pay-as-you-go" approach is the result of the policy decision made decades ago to pay benefits far in excess of contributions for early cohorts of workers. By paying benefits in excess of contributions to early cohorts, the nation essentially gave away the Trust Fund that would have accumulated and, importantly, gave away the interest on those contributions. Thus, the payroll tax must cover not only the required contribution but also the missing interest. This paper addresses alternative ways to pay for this Missing Trust Fund, including a comparison of the size of the required changes and their distributional implications.

Executive summary and full paper

Job Postings

For details on open positions, visit Careers @ NASRA.org

The National Council on Teacher Retirement
Supporting Retirement Security for America’s Teachers

SNAPSHOT OF THIS WEEK'S FYI

(1) A new effort is underway to attack public plan investments - particularly Environmental, Social and Governance (ESG) investing. The attacks are being led by the American Council for Capital Formation (ACCF), a “pro-business” lobbying group funded in part by traditional opponents of governmental plans, such as Charles Koch. It has created a new website, apparently a new corporate governance arm of the ACCF, “to shed a light on the performance of America’s public pensions, the increased politicization of these funds for political gains, and the impact these efforts are having on the pocketbooks of taxpayers and beneficiaries.” It has also released two reports, one on the New York City pension system and the other on CalPERS, accusing them of squandering investment opportunities and returns because of politically-
minded investment approaches. The effort is being called an unprecedented organized opposition to shareholder rights.

(2) A new report developed by the Society of Actuaries (SOA) provides insights as to the historical levels and emerging trends in U.S. population mortality, incorporating the most recently released U.S. population mortality experience from 2016, enabling analysis of mortality experience over the period 1999-2016. It shows that the rate of overall mortality improvement has slowed in the most recent five years.

(3) NCPERS' new “2017 Public Retirement Systems Study” finds that during 2017, public retirement systems produced solid returns, kept a lid on expenses, and adopted more conservative investment assumptions. Based on responses from 164 state and local government pension funds, the majority (62 percent) of which are local pension funds, the study determined that public pension systems administered and managed funds at a lower cost than most mutual funds, finding that pension expense ratios averaged 55 basis points per dollar of investment, compared to 63 basis points for equity mutual funds and 74 basis points for hybrid mutual funds.

New Attacks on Public Pension Investing

- ACCF Report: “Point of No Returns Volume 1: CalPERS”
- ACCF Report: Politics Over Performance -- The Politicization of the New York City Retirement Systems”
- The Hill: “Fund Managers Shouldn’t Try to Save the World at Pensioners’ Expense”
- DeSmog: ACCF Background, Funding and Key People


NCPERS 2017 Public Retirement System Study Finds Public Funds Remain Cost Effective

- 2017 NCPERS Public Retirement Systems Study

NASRA News Clips
Analysts predict runup in equities will cause drop in bond yields due to pension fund rebalancing

"One of the biggest forces supporting fixed income are the rebalancing flows emanating from multi-asset investors who are trying to prevent the equity weightings of their portfolios from rising too much," JPMorgan strategists ... . There's "more significant rebalancing required from this year's rapid gains in equity markets." By JPMorgan's calculations, each 1 percent climb in stocks equates to $25 billion of bond buying by U.S. pensions to keep their asset allocation balanced. **Bloomberg**

Illinois legislators hear pitch for mega pension obligation bond sale

Illinois lawmakers on Tuesday expressed interest and skepticism in an idea that the U.S. state should sell $107 billion of bonds to address its huge unfunded pension liability. At a hearing before the Illinois House Personnel and Pensions Committee, Runhuan Feng, an associate professor of mathematics at the University of Illinois, laid out a plan for selling taxable 27-year, fixed-rate bonds to get the state's five retirement systems to a 90-percent-funded level. **Reuters**

Credit Effects@NASRA.org

Kentucky school district worries about losing teachers amid uncertainty of changes to retirement plan

The retirement system estimated recently that of about 9,580 certified teachers, administrators and other staff members with four-year degrees in Jefferson County Public Schools, 1,380

**Studies & Reports**

NCPERS publishes annual study of public pensions

The 2017 NCPERS Public Retirement Systems Study draws on responses from 164 state and local government pension funds with more than 15.5 million active and retired memberships and market assets totaling $1.8 trillion. The majority-62 percent were local pension funds, while 38 percent were state pension funds. NCPERS conducted the seventh annual study in September through December 2017 in partnership with Cobalt Community Research. [Press release and full study](#)

Horizon annual survey of capital market assumptions

As we have seen in prior surveys, expected returns are noticeably lower over the short term than over the long term. This trend is apparent when we focus on the 12 advisors who provided assumptions for both the short term (up to 10 years) and long term (20 years or more). The difference is more pronounced for equity and fixed income investments, and less apparent for certain alternative investments such as real estate. For ongoing pension plans without solvency issues, we believe a horizon of 20 years or more is appropriate for evaluating the reasonableness of the long-term investment return assumption. [See the report](#)

Wages and salaries of state and local government workers continue growth above 2.0 percent

Wages and salaries for state and local government workers increased by 2.1 percent for the 12-month period ending December 2017, according to data published by the U.S. Bureau of Labor Statistics. This marks the sixth consecutive quarter of annualized growth at or above two percent, following seven
could retire right away. Most are age 55 or older and have 27 years of service in the system. In the next five years, more than 3,100 will be eligible, said Beau Barnes, legal counsel for the teacher retirement system. Louisville Courier-Journal

Anticipated US Supreme Court decision this year is expected to decimate public employee unions

On the court's docket next month are fees paid in 22 states by police, firefighters, teachers and other government workers who decline to join unions that must represent them anyway. But much more is at stake in a nation with declining union membership and growing economic inequality. After three tries in 2012, 2014 and 2016, the high court is poised to reverse its own 40-year-old precedent and strike down the so-called "fair share" fees as unconstitutional. The 1977 ruling said workers did not have to pay for unions' political activity. The verdict expected by June would allow them to contribute nothing at all. USA Today

State-run private sector savings plan is up and running in Oregon

OregonSaves, the first state retirement savings program for private-sector employees to go into effect, had about 300 employers registered with the system and 19,230 employees with active accounts as of Jan. 24, a spokesman for the program told Bloomberg Law. The plan took effect in October and is paving the way for similar plans in other states. BNA

Pension statistics for NFL players

Players are fully vested after 3 credited seasons or 5 years of service in other capacities (for example, as a coach), but the amount of retirement benefits is based on the number of credited seasons. The plan considers age 55 to be the standard retirement age. See the data

Federal Focus

President Trump calls for $1.5 trillion in infrastructure; touts stock market gains for pensions

In last night's State of the Union address, the President called on Congress to pass legislation that would spur at least $1.5 trillion in infrastructure spending, and that "every federal dollar should be leveraged by partnering with state and local governments and, where appropriate, tapping into private sector investment." He also noted stock market gains since he took office that have "smashed one record after another, gaining $8 trillion in value. That's great news for Americans' 401(k), retirement, pension and college savings accounts."

Pensions & Investments (subscription)

Job Postings

No new listings

For details on open positions, visit Careers @ NASRA.org

Tweet of the Week

NASRA keeps information on a variety of topics, from actuarial practices to Social Security information. This week we highlighted public pension funding policies.
The National Council on Teacher Retirement  
Supporting Retirement Security for America's Teachers

Snapshot of this week’s FYI

(1) The Treasurer of Pennsylvania has recently released a study that evaluates the impact that insufficient retirement savings will have on the Commonwealth, estimating that it will cost the Commonwealth $14.3 billion in state assistance by 2030. The study focuses not only on direct state assistance costs through public programs, but also on lost private sector activity in the form of reduced household spending - estimated to decline cumulatively by $40.0 billion over the 2015-2030 period -- and its consequences across the state’s economy (including on the level of employment and earnings among the working-age population) and ultimately its tax base, estimated to shrink by a cumulative total of $1.4 billion for the 2015-2030 period.

(2) BlackRock, Inc. is sending letters to its portfolio companies urging them to provide more diversity on their boards. And not only does Blackrock want to see more diversity in its portfolio companies based on race and gender, but the giant firm has also provided a specific number of women it would like to see on boards - at least two - and has made this one of its proxy voting guidelines. Diversity matters, as a new study confirms the statistically significant correlation between a more diverse leadership team and financial outperformance. And while the study finds that gender diversity has improved in financial services companies, overall, progress continues to be slow.

(3) A new “Health and Workplace Benefits Survey,” conducted by the Employee Benefit Research Institute (EBRI) and Greenwald & Associates, finds that 31 percent of workers rank health care as the most critical issue in the nation, with 60 percent of workers reporting that health insurance is extremely important when considering whether to stay in or choose a new job, whereas only 42 percent report that a retirement savings plan is extremely important. Survey results also show that, of the one-half of workers reporting healthcare cost increases, 26 percent state they have decreased their contributions to retirement plans, 27 percent have delayed retirement, 15 percent have taken a loan or withdrawal from a retirement plan, and 43 percent have decreased their contributions to other savings.

The Cost of Retirement Insecurity

- **News Release:** “Treasurer Torsella Unveils New Study: Insufficient Retirement Savings Projected to Cost Commonwealth $14.3 Billion in State Assistance by 2030”
- “The Impact of Insufficient Retirement Savings on the Commonwealth of Pennsylvania”

Diversity Matters!

- **Investopedia:** “BlackRock: Company Boards Should have at Least 2 Female Directors”
- **The Financial Times:** “Big investors Back Push for 30% Target for Female Executives”
- **Investment Week:** “Blackrock, JPMAM and Standard Life Aberdeen Sign Up for New 30% Club Diversity Push”
Health Care Ranked as Number 1 Critical Issue in the U.S. by Workers

- EBRI Notes: “Workers Rank Health Care as the Most Critical Issue in the United States”

NASRA News Clips

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<td>Ohio SERS participants sue system, state AG, and actuary over frozen COLA</td>
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The suit alleges that SERS squandered its solid financial position it held in 2000 with a series of poor decisions over several years, including spending $852.4 million on outside investment fund management fees between 2007 and 2017. "The monies spent by SERS for outside investment consultants is at best a disgrace and its worst evidences inept public policy choices, if not outright criminal conduct, by SERS, its management, and actuary," the complaint says. Joining the lawsuit is the Ohio Association of Public School Employees. [Dayton Daily News](https://www.daytondailynews.com)

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<th>2017 was best year since 2010 for hedge funds</th>
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Hedge funds gained 9.03 percent last year, the best annual performance since a 9.75 percent gain in 2010, led by Long Short Equity funds, and buoyed by the second-longest bull market in the U.S. Last year, 42 percent of all funds notched double-digit gains -- the most since since 2013 -- and more than double the 17 percent that reported negative returns. [Bloomberg](https://www.bloomberg.com)

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<td>Pensions are prominent in Volcker Alliance state fiscal scorecard</td>
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In this report covering all fifty states over the fiscal years of 2015 through 2017, the Volcker Alliance focuses on five critical areas that explain methods used to achieve budgetary balance, as well as how budgets and other financial information are disclosed to the public. States were given grades of A to D-minus for their procedures in estimating revenues and expenditures; using one-time actions to balance budgets; adequately funding their public worker retirement and other postemployment benefits; overseeing and using rainy day funds and other fiscal reserves; and disclosing budget and related financial information. [Press release. Individual state reports](https://www.volckeralliance.org)

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<th>Local government job gains are offset in January by state government job losses</th>
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The U.S. Bureau of Labor Statistics reported that state and local governments lost an estimated 1,000 jobs in January 2018, with local government gains of 10,000 jobs offset by the loss of 11,000 state government jobs. Revisions to prior years' data added 56,000 previously unreported state government jobs to the running total, and subtracted 70,000 local government jobs. As of January 2018 the BLS identifies approximately 19.5 million individuals employed by state and local governments, approximately 13 percent of the nation's workforce. [Employment@NASRA.org](mailto:Employment@NASRA.org)
Pension loan bills pushed for inclusion in spending bill; opponents claim it would set stage for public plan bailout

Certain lawmakers are pushing for a pension loan bill to be part of the federal spending legislation that Congress must pass by February 8 to avoid another government shutdown. Although aimed at private sector pensions and unlikely to be included in this week's spending bill, opponents continue to assert that it would "set the precedent for a $6 trillion taxpayer bailout of troubled state and local pension plans." The Heritage Foundation detailed their opposition in a new report and suggested the federal government should instead enact legislation to prevent any form of financial assistance to private or public pension plans. New York Daily News Heritage Foundation report

Bill forgiving student loans in exchange for delayed Social Security would lower long-term Trust Fund deficit

H.R. 4584, the "Student Security Act of 2017," introduced at the end of last year by freshman Rep. Tom Garrett (R-VA), specifies that individuals could choose to have their Social Security retirement age increased by one month for every $550 (in 2018 dollars) in student loans they have forgiven (up to $40,150). Assuming that one-half of eligible student loan amounts would be forgiven with this offer, the Social Security Chief Actuary estimates the long-range OASDI actuarial deficit would decrease from 2.83 percent of payroll under current law to 2.52 percent of payroll (assuming enactment of the bill). Description and cost analysis

CalSTRS releases annual report on sustainability performance

CalSTRS fourth annual sustainability report documents CalSTRS' sustainability performance for the 2016-17 fiscal year and supports our long-term viability as a sustainable organization. The report was prepared in accordance with the Global Reporting Initiative's G4 framework. Executive summary and full report

Teresa Ghilarducci is co-author of a new book: Rescuing Retirement

Finally, a practical plan to address Americans' lack of adequate retirement savings. This silent crisis, if not solved, will slow growth, challenge budgets, and hurt households across the United States. Tony James and Teresa Ghilarducci are proposing a smarter, more cost-effective way to secure the retirements of all Americans. This plan is critical to warding off a looming retirement savings crisis. (Michael Bloomberg) Amazon

Tweet of the Week

Cost-of-living adjustments (COLAs) in some form are provided on most state and local government pensions. The way in which public pension COLAs are calculated and approved varies considerably.

National Association of State Retirement Administrators