



AGENDA

Date: July 14, 2016

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, July 21, 2016, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

A. EVENTS OF JULY 7, 2016 INVOLVING DFPF MEMBERS

- 1. Moment of silence**
- 2. Requests to help**

B. CONSENT AGENDA

- 1. Approval of Minutes**

Regular meeting of June 9, 2016

- 2. Approval of Refunds of Contributions for the Month of June 2016**
- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for July 2016**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Alternate Payee Benefits**
- 8. Approval of Earnings Test**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

- 1. January 1, 2016 actuarial valuation**
- 2. Amendment of Bank of America Loan**

- 3. 2015 audit**
- 4. 2015 Comprehensive Annual Financial Report**
- 5. Amendment of Investment Management Agreements**
- 6. Clarion Partners: 4100 Harry Hines vacant land**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

- 7. Investment reports**
- 8. Disability recall**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

- 9. Ad hoc committee reports**
- 10. Board Members' reports on meetings, seminars and/or conferences attended**

Society of Pension Professionals

11. Employee recognition – Second Quarter 2016

- a.** Employee Service Award
- b.** Employee of the Quarter award

12. 2016 Board/staff workshop

D. BRIEFING ITEMS

- 1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**
- 2. Executive Director's report**
 - a.** Future Education and Business Related Travel
 - b.** Future Investment Related Travel
 - c.** Associations' newsletters
 - NCPERS PERSist (Summer 2016)
 - TEXPERS Outlook (June 2016)
 - TEXPERS Outlook (July 2016)

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by the Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.



DISCUSSION SHEET

ITEM #A

Topic: EVENTS OF JULY 7, 2016 INVOLVING DFPF MEMBERS

1. Moment of silence
2. Requests to help

Discussion: The Board will recognize a moment of silence for all members who died or were wounded by the attack which occurred in downtown Dallas on the evening of July 7, in addition to those members or pensioners who died since the last board meeting. Additionally, staff has received many offers of help from managers and vendors to DFPF. Staff seeks direction from the Board as to how to advise such parties.



ITEM #A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(June 1, 2016 – July 8, 2016)

FIRE	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Jim W. Calloway	Retired	Fire	June 1, 2016
John C. Robinson	Active	Police	June 1, 2016
Robert J. Crider, II	Retired	Police	June 5, 2016
Haskell L. Willeford	Retired	Fire	June 9, 2016
William F. Turnage	Retired	Police	June 11, 2016
V. W. Gunter	Retired	Fire	June 17, 2016
Bobby D. Williams	Retired	Police	June 18, 2016
Leland G. Hancock	Retired	Fire	June 20, 2016
Burl W. Martin	Retired	Fire	June 26, 2016
Sim R. Caldwell	Retired	Fire	June 29, 2016

Regular Board Meeting – Thursday, July 21, 2016



ITEM #A
(continued)

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(June 1, 2016 – July 8, 2016)

FIRE	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Michael L. Krol	Active	Police	July 7, 2016
Michael J. Smith	Active	Police	July 7, 2016
Patricio E. Zamarripa	Active	Police	July 7, 2016
Lorne B. Ahrens	Active	Police	July 8, 2016

Dallas Police and Fire Pension System
Thursday, June 9, 2016
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

Regular meeting, Samuel L. Friar, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30 Samuel L. Friar, Kenneth S. Haben, Joseph P. Schutz, Brian Hass,
Jennifer Gates, Tho T. Ho, Clint Conway, John M. Mays
Present at 8:49 Philip T. Kingston
Present at 9:25 Erik Wilson
Absent: Scott Griggs, Gerald D. Brown

Staff

Kelly Gottschalk, Joshua Mond, Summer Loveland, John Holt, Corina Terrazas, Damion Hervey, Kelly Dean, Pat McGennis, Ryan Wagner, Milissa Romero, Christina Wu, Greg Irlbeck, Linda Rickley, Kevin Killingsworth

Others

Rhett Humphreys, Keith Stronkowsky, Chris Hart, David Gullen, Scott Eversole, Paul Boyne, Bryce Brunsting (by telephone), Dan Wojcik, Rick Salinas, Ken Sprecher, Larry Lewis, Nancy Lewis, Jerry M. Rhodes, Rick Allen, Jim Aulbaugh, Michael Bell, Bill Ingram, Michael Jones

* * * * *

The meeting was called to order at 8:30 a.m.

* * * * *

A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers, Charley L. Daniel, Paul D. Jarrell, William R. Jordan and Jerry W. Smiddy, and retired firefighters, Clifford C. Gladney, Roger J. Murphy, James F. Roberts and Sylvester Thomas, Jr.

* * * * *

**Regular Board Meeting
Thursday, June 9, 2016**

B. BOARD OF TRUSTEES

1. Welcome of newly-appointed Trustee

Mr. Friar, Chairman, on behalf of the Board, welcomed Councilmember Jennifer S. Gates as a new Trustee. On Wednesday, May 25, 2016, the City Council approved her appointment to the Dallas Police & Fire Pension System Board to fill the City Council Position #1.

No motion was made.

* * * * *

2. Election of officers of the Board of Trustees to fill vacant position(s)

In accordance with Section 3.01(f) of the Plan Document, the Board held an election to fill the vacant Vice Chairman position for the period from June 9, 2016, through May 31, 2017. The vacancy was created by the resignation of Lee Kleinman, effective May 24, 2016. The Chairman asked for nominations.

Mr. Mays made a motion to nominate Ken Haben for the Vice Chairman position. Mr. Conway seconded the motion.

Mr. Ho made a motion to nominate Joe Schutz for the Vice Chairman position. The motion died due to the lack of a second.

No further nominations were made.

The Board voted on the original motion by Mr. Mays to nominate Ken Haben for the Vice Chairman position, which was seconded by Mr. Conway. The motion was passed by the following vote:

For: Mays, Friar, Hass, Conway, Haben, Gates

Against: Ho, Schutz

Absent: Kingston, Wilson

* * * * *

3. Authorized signatories for the Board of Trustees

The Board officers completed a new Signature Authorization Form to facilitate the day-to-day operations of DPFPP.

No motion was made.

**Regular Board Meeting
Thursday, June 9, 2016**

* * * * *

4. Committee appointments

The Chairman provided his nominations to the Audit Committee and the Professional Services Committee for the Board's consideration. Mr. Friar proposed the following Committee assignments:

Audit Committee: Jennifer Gates (Chair), Jerry Brown, John Mays, Sam Friar

Professional Services Committee: Ken Haben (Chair), Brian Hass, Scott Griggs, Sam Friar

Additionally, Mr. Friar stated that Erik Wilson will fill the Long-Term Financial Stability Sub-committee position formerly occupied by Mr. Kleinman.

After discussion, Mr. Haben made a motion to approve the Chairman's nominations to the Audit Committee and the Professional Services Committee and the designated Chairs of the committees. Mr. Ho seconded the motion, which was unanimously approved by the Board. Messrs. Kingston and Wilson were absent when the vote was taken.

* * * * *

C. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of May 12, 2016

2. Approval of Refunds of Contributions for the Month of May 2016

3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for June 2016

4. Approval of Estate Settlements

5. Approval of Survivor Benefits

6. Approval of Service Retirements

7. Approval of Alternate Payee Benefits

**Regular Board Meeting
Thursday, June 9, 2016**

C. CONSENT AGENDA (continued)

8. Approval of Earnings Test

9. Approval of Payment of DROP Revocation Contributions

After discussion, Mr. Haben made a motion to approve the items on the Consent Agenda, subject to the final review of the staff. Mr. Ho seconded the motion, which was unanimously approved by the Board. Messrs. Kingston and Wilson were absent when the vote was taken.

* * * * *

D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Equity structure study

The strategic asset allocation approved at the March 10, 2016 Board meeting established a 20% target allocation to global equity and a 5% target allocation to emerging markets equity. Staff and Rhett Humphreys, CFA, Partner, and Keith Stronkowsky, CFA, Senior Consultant, of NEPC, presented the equity structure study, which explained the build out of the global equity and emerging markets portfolios. Discussion included rationale, recommendations of managers to retain or liquidate, and expected timeline to complete.

After discussion, Mr. Conway made a motion to approve liquidation of the Pyramis investment and allocating the proceeds as set forth in the equity structure study. Mr. Mays seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 10:00 a.m.

The meeting was reconvened at 10:06 a.m.

* * * * *

2. Boston Partners

As part of the equity structure study, Staff and NEPC presented the rationale for adding a value oriented investment manager to the global equity portfolio. Chris Hart, CFA, Senior Portfolio Manager, and David Gullen, CFA, CAIA, Relationship

**Regular Board Meeting
Thursday, June 9, 2016**

2. Boston Partners (continued)

Manager, of Boston Partners, presented an overview of the firm and global equity product.

After discussion, Mr. Haben made a motion to approve an initial investment of \$80 million in the Boston Partners global equity strategy, and authorize the Executive Director to negotiate and execute documentation, and perform all necessary acts and exercise all appropriate discretion to facilitate this investment. Mr. Mays seconded the motion, which was unanimously approved by the Board.

* * * * *

3. Manulife Asset Management

As part of the equity structure study, Staff and NEPC presented the rationale for adding a value oriented investment manager to the global equity portfolio. Scott Eversole, Managing Director, Institutional Sales, and Paul Boyne, Senior Managing Director, Senior Portfolio Manager, of Manulife Asset Management, presented an overview of the firm and global equity product.

After discussion, Mr. Conway made a motion to approve an initial investment of \$80 million in the Manulife Asset Management global equity strategy, and authorize the Executive Director to negotiate and execute documentation, and perform all necessary acts and exercise all appropriate discretion to facilitate this investment. Mr. Mays seconded the motion, which was unanimously approved by the Board.

* * * * *

4. Ashmore Global Special Situations IV extension

Staff reported that the Ashmore Global Special Situation Fund IV, LP (the Fund) commenced in 2007 and is approaching the expiration of the Fund on July 31, 2016. The General Manager has requested that the limited partners consent to a one-year extension in order to wind down the remaining assets in the Fund and maximize return. This extension is the second extension of the Fund and requires approval of 50% of the limited partners in interest. The manager will continue to manage the wind down process without charging a management fee. DFPF represents 5.07% of total limited partners' interest.

After discussion, Mr. Mays made a motion to approve the one-year extension of the Ashmore Global Special Situation Fund IV, LP as requested by the General Partner. Mr. Conway seconded the motion, which was unanimously approved by the Board.

* * * * *

**Regular Board Meeting
Thursday, June 9, 2016**

The meeting was recessed at 12:01 p.m.

The meeting was reconvened at 12:33 p.m.

* * * * *

5. NEPC: First Quarter 2016 Investment Performance Analysis and Fourth Quarter 2015 Private Markets Review

Rhett Humphreys and Keith Stronkowsky, of NEPC, DPF’s investment consultant, presented the First Quarter 2016 Investment Performance Analysis and Fourth Quarter 2015 Private Markets Review. NEPC also discussed their reporting responsibilities for Investment Monitoring, as outlined in Section VII of the recently adopted Investment Policy Statement, which will be included in the second quarter performance reports.

No motion was made.

* * * * *

6. Investment reports

Staff reviewed the investment performance and rebalancing reports, for the period ending May 31, 2016, with the Board.

No motion was made.

* * * * *

7. Hearthstone: Idaho and Colorado properties update

Hearthstone and Staff updated the Board on the status of the Sandstone and Spring Valley investments, which are located in Douglas County, Colorado and Eagle, Idaho, respectively. Hearthstone was engaged as the investment manager for the properties in February 2015 and presented their asset review and recommendations at the August 27, 2015 Board meeting.

The Board went into a closed executive session – real estate at 3:14 p.m.

The meeting was reopened at 3:33 p.m.

No motion was made.

* * * * *

**Regular Board Meeting
Thursday, June 9, 2016**

8. Plan amendment – retiree voting

At the request of certain retirees, the Board discussed whether or not a change should be proposed when the next plan amendment election occurs, which would allow retirees to vote in future elections on matters other than electing retirees to the Board.

No motion was made.

* * * * *

9. Ad hoc committee reports

Mr. Hass, Chair of the Long-Term Financial Stability Sub-committee, and Mr. Schutz, Chair of the Governance Sub-committee, gave updates on the ad hoc sub-committees. Mr. Mond reported on the Legal Search Sub-committee.

No motion was made.

* * * * *

10. Board Members’ reports on meetings, seminars and/or conferences attended

Reports were given on the following meetings. Those who attended are listed.

a. NCPERS Accredited Fiduciary (NAF) Program

Messrs. Haben, Friar, Conway, Schutz, Hass, Ms. Gottschalk

b. NCPERS Annual Conference

Messrs. Haben, Friar, Mays, Conway, Schutz, Hass, Mond, Ms. Gottschalk

c. TEXPERS Basic Trustee Training Class

Mr. Wilson

d. Pharos Annual Investor Conference

Messrs. Haben, Irlbeck

No motion was made.

* * * * *

**Regular Board Meeting
Thursday, June 9, 2016**

11. 2016 Annual Board and Staff Workshop

The Board and staff discussed possible topics for the 2016 annual workshop.

No motion was made.

* * * * *

12. Spouse Wed After Retirement

Staff briefed the Board regarding a request by a member to make a SWAR election.

The Board went into a closed executive session – legal at 1:24 p.m.

The meeting was reopened at 2:09 p.m.

After discussion, Mr. Ho made a motion to approve the request for a Spouse Wed After Retirement (SWAR) election, contingent upon either the Member coming to DFPF’s offices to make the election or the required medical documentation being provided within a maximum of thirty (30) days. Mr. Kingston seconded the motion, which was passed by the following vote:

For: Ho, Kingston, Mays, Friar, Haben, Gates, Schutz
Against: Hass, Conway
Absent: Wilson

* * * * *

13. Legal issues

- a. Police Officer and Firefighter pay lawsuits
- b. Potential claims involving fiduciaries and advisors
- c. 2014 Plan amendment election and litigation
- d. Employment agreement

The Board went into a closed executive session – legal at 2:14 p.m.

The meeting was reopened at 2:49 p.m.

No motion was made.

* * * * *

**Regular Board Meeting
Thursday, June 9, 2016**

Mr. Wilson left at 2:30 p.m.

The meeting was recessed at 2:49 p.m.

The meeting was reconvened at 2:59 a.m.

* * * * *

14. Mid-year 2016 budget adjustment

Mr. Mond briefed the Board on actual legal fees incurred to date in 2016 and anticipated expenses for the remainder of the year, as compared to the budgeted expense of \$750,000.

After discussion, Mr. Conway made a motion to approve an increase to the budget line item for Legal fees to \$2 million for the year ending December 31, 2016. Mr. Schutz seconded the motion, which was unanimously approved by the Board. Messrs. Kingston and Wilson were absent when the vote was taken.

* * * * *

15. Audit status

Ms. Loveland updated the Board on the status and findings to date related to the 2015 financial statement audit.

No motion was made.

* * * * *

16. Emerging Managers

The Board discussed the issue of Emerging Managers.

No motion was made.

* * * * *

**Regular Board Meeting
Thursday, June 9, 2016**

E. BRIEFING ITEMS

1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

The Board received comments during the open forum.

No motion was made.

* * * * *

2. Executive Director's report

- a. Future Education and Business Related Travel
- b. Future Investment Related Travel
- c. Associations' newsletters
 - TEXPERS Pension Observer (Spring 2016)
- d. CalPERS to study possible reinvestments in tobacco (Reuters)

The Executive Director's report was presented. No motion was made.

* * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Haben and a second by Mr. Ho, the meeting was adjourned at 4:00 p.m.

Samuel L. Friar
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

CONSENT AGENDA ITEM #B8 Detail

Topic: Adjustments to Disability Pensions Based on Earnings Test

Discussion: Section 6.03 (k) of the Plan requires the System to test the outside earnings of any Pensioner who first became a Member of Plan B on or after May 1, 1990 and who is receiving a disability pension. If a Disability Pensioner's total earned income from employment plus disability benefits received from the System during the prior calendar year exceeds the adjusted annualized amount of the average of Computation Pay being received by the Pensioner as of the date the Pensioner left Active Service, the pension amount payable over the next 12 months shall be reduced dollar for dollar by the amount of the overage. For the purposes of this calculation, the Pensioner's average Computation Pay is deemed increased at the rate of 4 percent, un compounded, as of January 1 of each year the Pensioner receives the disability pension.

In accordance with Section 6.03 (k) of the Plan, staff has tested the current disability pension and outside earnings, as supported by their Federal income tax return and Form W-2, of Disability Pensioners subject to this provision.

The names of Disability Pensioners who passed the earnings test were included on the Consent Agenda included in the June 9, 2016, Board meeting agenda. Three Disability Pensioners reported income in excess of the amount permitted under the earnings test.

The disability pension benefits of the Disability Pensioners who reported income in excess of the amount permitted under the earnings test are subject to change based on earnings received in 2015. The earnings test calculations are attached.



DISCUSSION SHEET

ITEM #C1

- Topic:** January 1, 2016 actuarial valuation
- Attendees:** Jeff Williams and Deborah Brigham, Segal Consulting
- Discussion:** Jeff Williams and Deborah Brigham of Segal Consulting, DFPF's actuarial firm, will be present to discuss results of the January 1, 2016 actuarial valuation report, including the GASB No. 67 actuarial valuation.
- Staff Recommendation:** **Approve** issuance of the January 1, 2016 actuarial valuation report, subject to final review and approval by the Executive Director.



Annual Valuation Summary as of January 1, 2016

Board of Trustees Meeting, July 21, 2016

Dallas Police and Fire Pension System

 Segal Consulting

Agenda

1. Introduction
2. Portrait of a Pension Valuation
3. Summary of 2016 Actuarial Valuation Results
4. Summary of Data
5. Historical Results
6. Plan Funding Needs vs. Projected Income
7. Solvency Projection
8. GASB Accounting Disclosures
9. Supplemental Plan Results



Introduction



- This is Segal Consulting's first valuation for the Dallas Police and Fire Pension System.
- The presentation of results differs in some ways from the prior actuary.
- The Texas Pension Review Board requires municipal plans in the State that have effective amortization periods of over 40 years for three consecutive annual valuations to develop a Funding Soundness Restoration Plan.
 - For the second consecutive year, the effective amortization period for the Combined Pension Plan is infinite.
 - The recommended contribution in Segal's report reflects a 40-year amortization of the unfunded actuarial accrued liability, rather than 30 years.
- This year's report for the Combined Pension Plan focuses on the total recommended contribution rate, rather than the City's rate.

Introduction



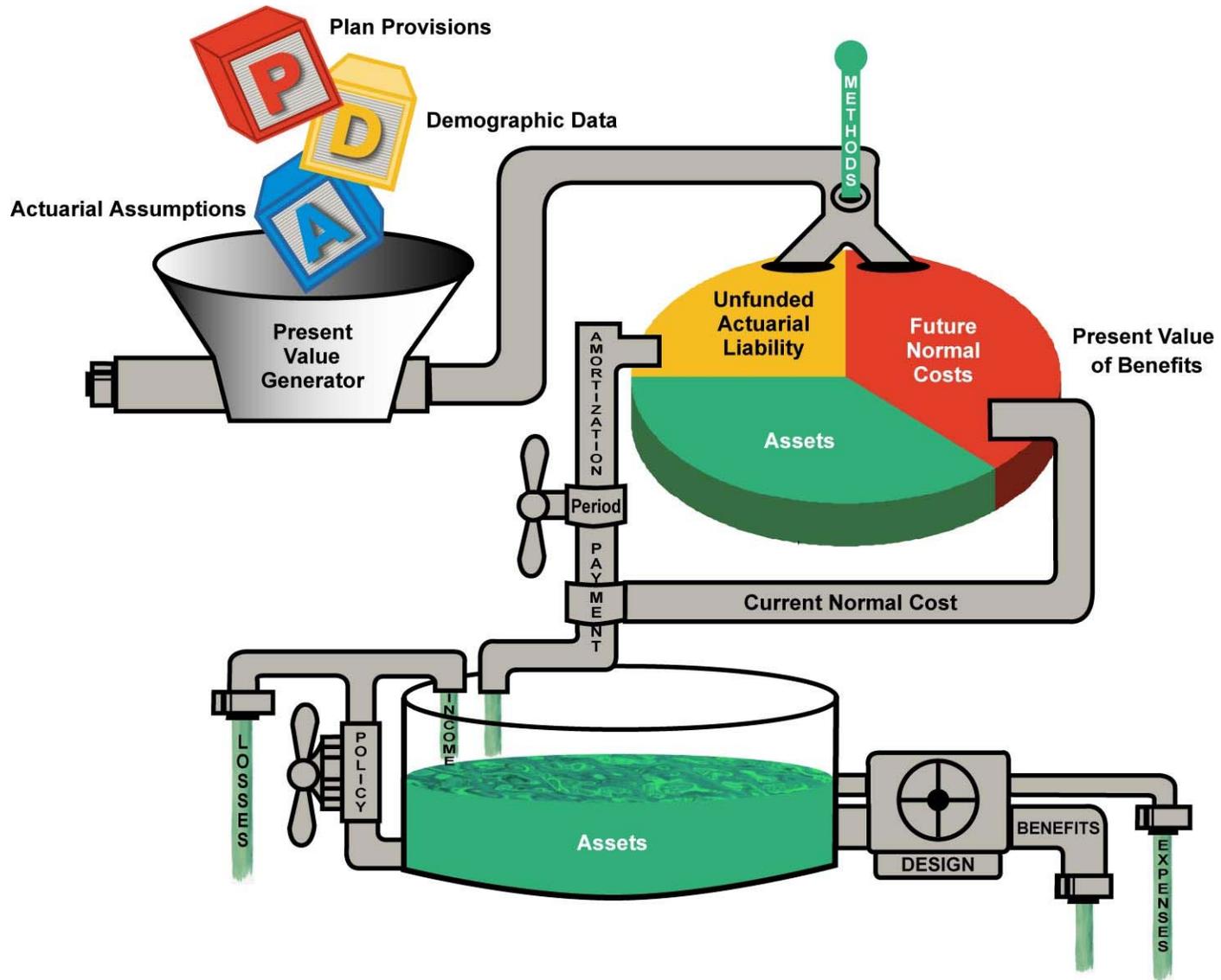
- When the results are shown as a percentage of payroll, the payroll is *computation pay*, which is the salary used to calculate benefit amounts.
 - The City contributes not only on computation pay, but on overtime and other non-computation pay as well. The 27.50% City contribution rate is effectively 30.53% of computation pay, based on an assumption that the non-computation items add 11% on top of computation pay.
 - The members contribute on computation pay only. The member rate is 8.50% when not in DROP, and 4.00% after entering DROP. Based on the population on the valuation date, the weighted average rate is 7.08% of computation pay.
 - Therefore, the total contribution rate as of January 1, 2016 is 37.61% of computation pay. (This effective rate changes slightly each year based on the salaries for DROP vs. non-DROP.)

Introduction



- A five-year experience study was completed in April for the 2010-2014 period, and new actuarial assumptions were approved by the Board. These are reflected in the January 1, 2016 valuation.
- The Board also approved a change in the actuarial asset method.
 - Since 2013, the actuarial value of assets used for funding purposes has been based on ten-year smoothing of market gains and losses.
 - Effective with the 2016 valuation, the actuarial value of assets was set equal to market value, and five-year smoothing will be implemented prospectively.
- The System's reported assets this year reflect write-downs in the value of some investments.

Portrait of a Pension Valuation



Summary of 2016 Actuarial Valuation Results

- The actuarial value of assets declined from \$3.7 billion last year to \$2.7 billion this year.
 - The underlying market value is \$0.4 billion lower.
 - Last year's actuarial value was 120% of market; this year's value is 100% of market.
- The recommended contribution rate for the Combined Pension Plan increased from 53.53% to 72.72% of computation pay.
 - Since the total contributions being made by the City and Police and Fire members is currently 37.61%, there is a shortfall of 35.11% of pay.
- As a dollar amount, the recommended contribution increased from \$205.0 million to \$265.6 million. Of the \$60.6 million increase, \$58.4 million can be traced to the investment experience and setting the actuarial value to market value.
- The funded ratio decreased from 63.8% in 2015 to 45.1% in 2016.



Summary of 2016 Actuarial Valuation Results

- If all assumptions are met, and no changes are made to the System's benefit provisions nor to member or City contribution rates, **the Combined Pension Plan is projected to run out of assets in 15 years (during 2030).**
 - The projected insolvency will be accelerated if DROP balances are drawn down more quickly than assumed or if net investment returns over the period are below 7.25%.
 - DROP account balances total \$1.5 billion, or 56% of the Plan's assets, as of December 31, 2015.

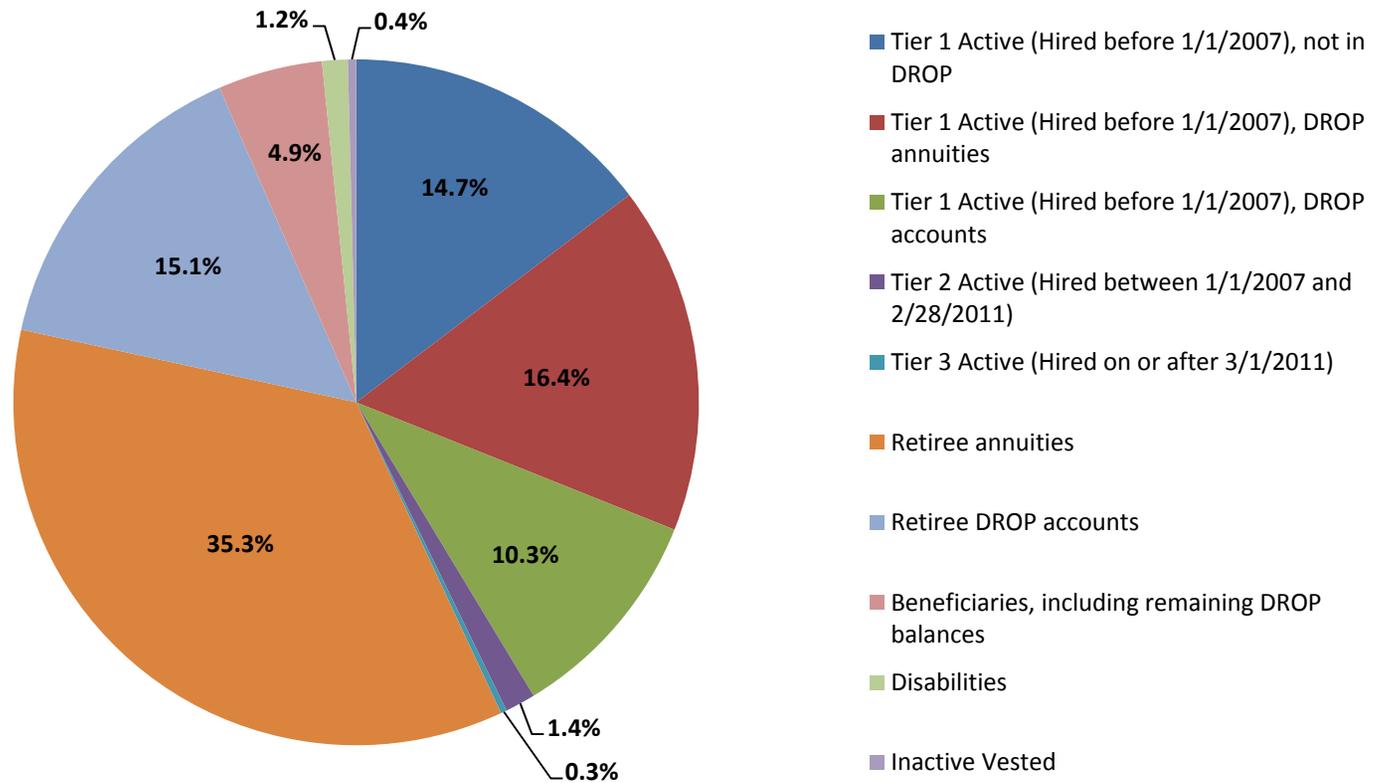


Summary of 2016 Actuarial Valuation Results

COMBINED PENSION PLAN	As of 1/1/2015	As of 1/1/2016, Prior to Assumption Changes	As of 1/1/2016, with Assumption Changes, No Resetting of Actuarial Value	As of 1/1/2016, with Assumption Changes and Resetting Actuarial Value
Total Normal Cost, adjusted for timing	\$98,087,921	\$100,673,540	\$92,446,291	\$92,446,291
Normal Cost as a % of Pay	25.61%	26.79%	25.31%	25.31%
Actuarial Accrued Liability	\$5,792,216,025	\$5,962,837,103	\$5,947,173,998	\$5,947,173,998
Actuarial Value of Assets	\$3,695,273,876	\$3,216,149,163	\$3,216,149,163	\$2,680,124,303
Unfunded Liability	\$2,096,942,149	\$2,746,687,940	\$2,731,024,835	\$3,267,049,695
Funded Ratio	63.8%	53.9%	54.1%	45.1%
Effective Period to Amortize Unfunded Liability	Infinite	Infinite	Infinite	Infinite
Projected Computation Payroll	\$383,006,330	\$375,722,369	\$365,210,426	\$365,210,426
Contribution Using a Level % of Pay Amortization (30 years in 2015 and 40 years in 2016)	53.53%	59.20%	64.94%	72.72%
Projected Average Plan Contribution Rate	37.42%	37.63%	37.61%	37.61%
Contribution Deficit	16.11%	21.57%	27.33%	35.11%

Summary of 2016 Actuarial Valuation Results

VALUATION LIABILITIES FOR THE COMBINED PENSION PLAN
AS OF JANUARY 1, 2016



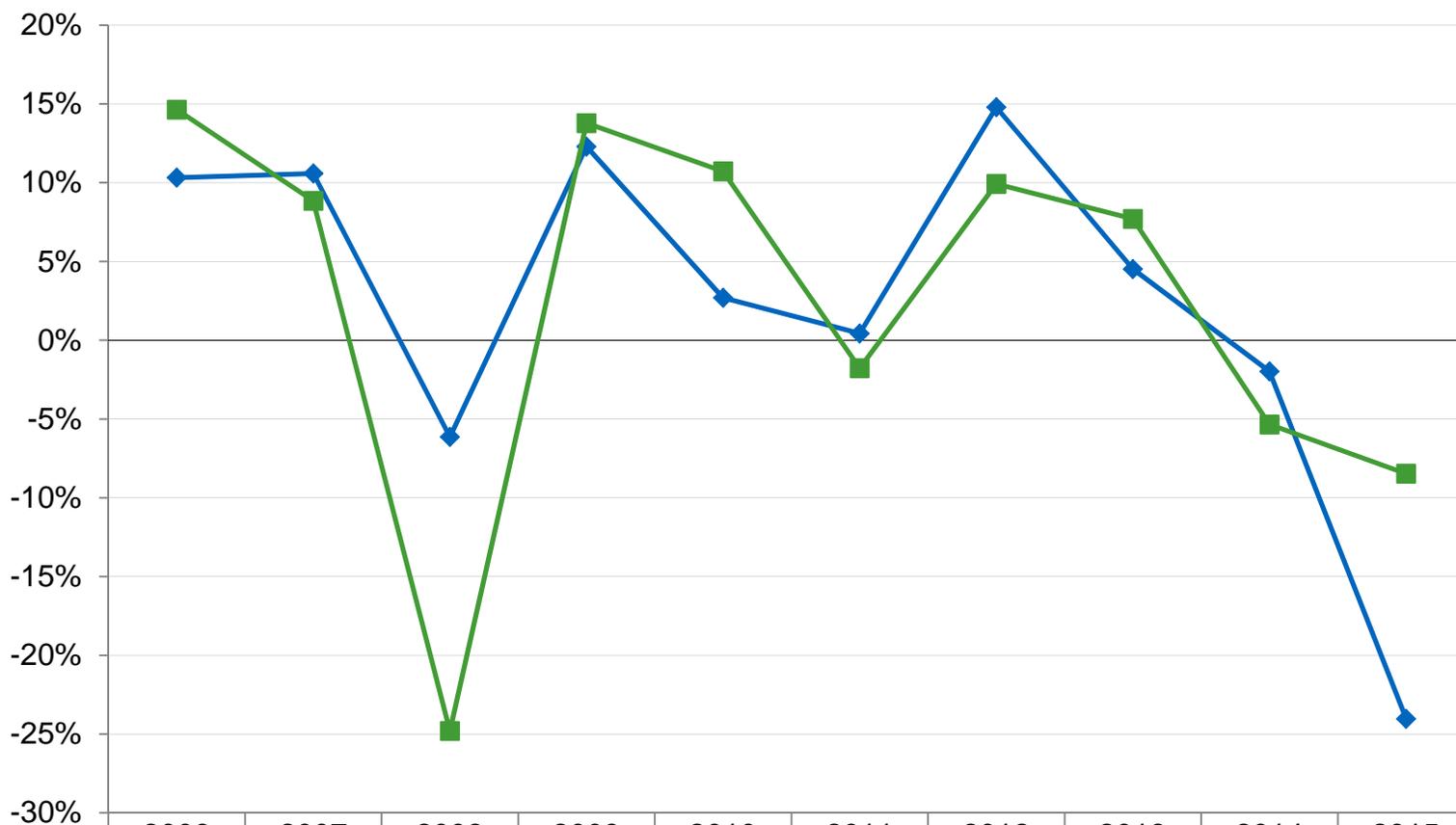
Summary of Data

	2015	2016	Change
Active Members			
Number	5,487	5,415	-72 members
Average Age	41.2	41.4	+0.2 years
Average Service	14.2	14.3	+0.1 years
Average Computation Pay	\$69,803	\$67,444	-3.4%
Number in DROP	1,380	1,338	-42 members
Total DROP Accounts	\$458.4M	\$474.3M	+\$15.9M
Retirees and Beneficiaries			
Number*	4,069	4,230	+161 members
Average Monthly Payment	\$3,804	\$3,931	+3.3%
Total DROP Accounts	\$955.8M	\$1,030.5M	+\$74.7M
Terminated Vested Members			
Number	157	200	+43 members

*The beneficiary count in 2016 includes 48 estates with a DROP account only.

Historical Results

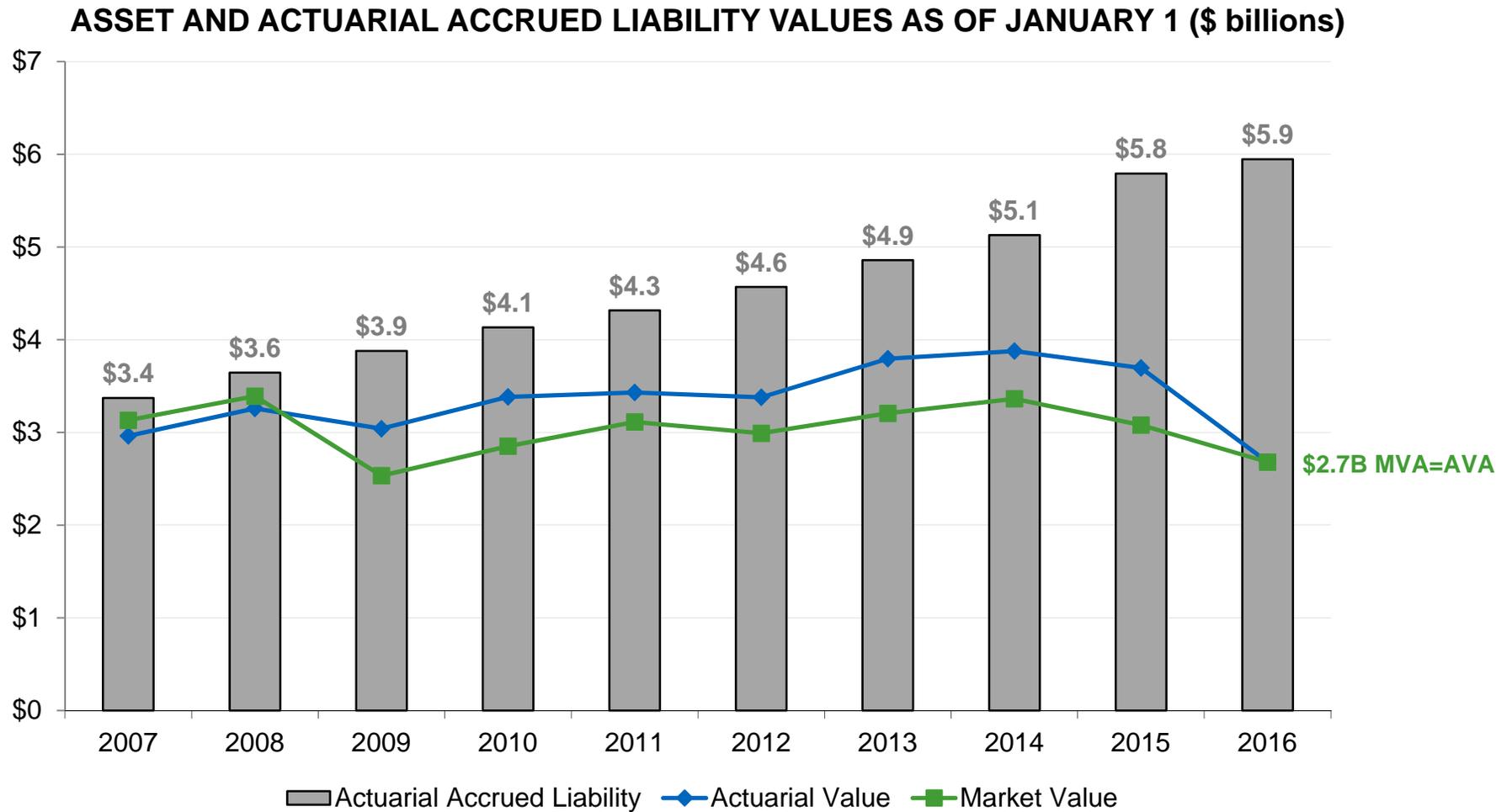
ASSET RETURNS



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarial Value	10.32%	10.58%	-6.14%	12.29%	2.69%	0.43%	14.79%	4.52%	-1.98%	-24.03%
Market Value	14.64%	8.85%	-24.80%	13.78%	10.72%	-1.78%	9.92%	7.70%	-5.35%	-8.47%

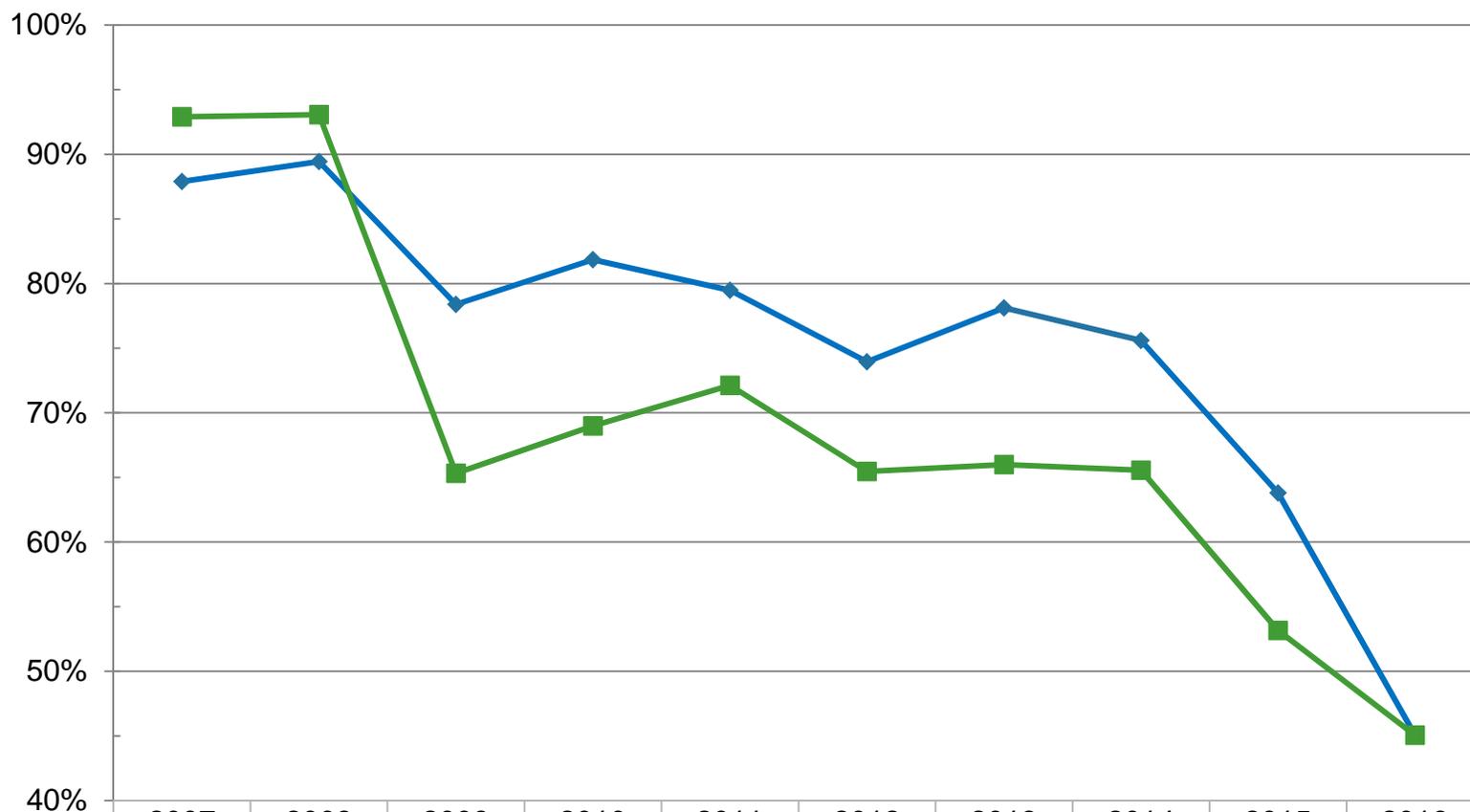
Note: The actuarial returns for 2012 and 2015 include the effects of changes in asset method.

Historical Results



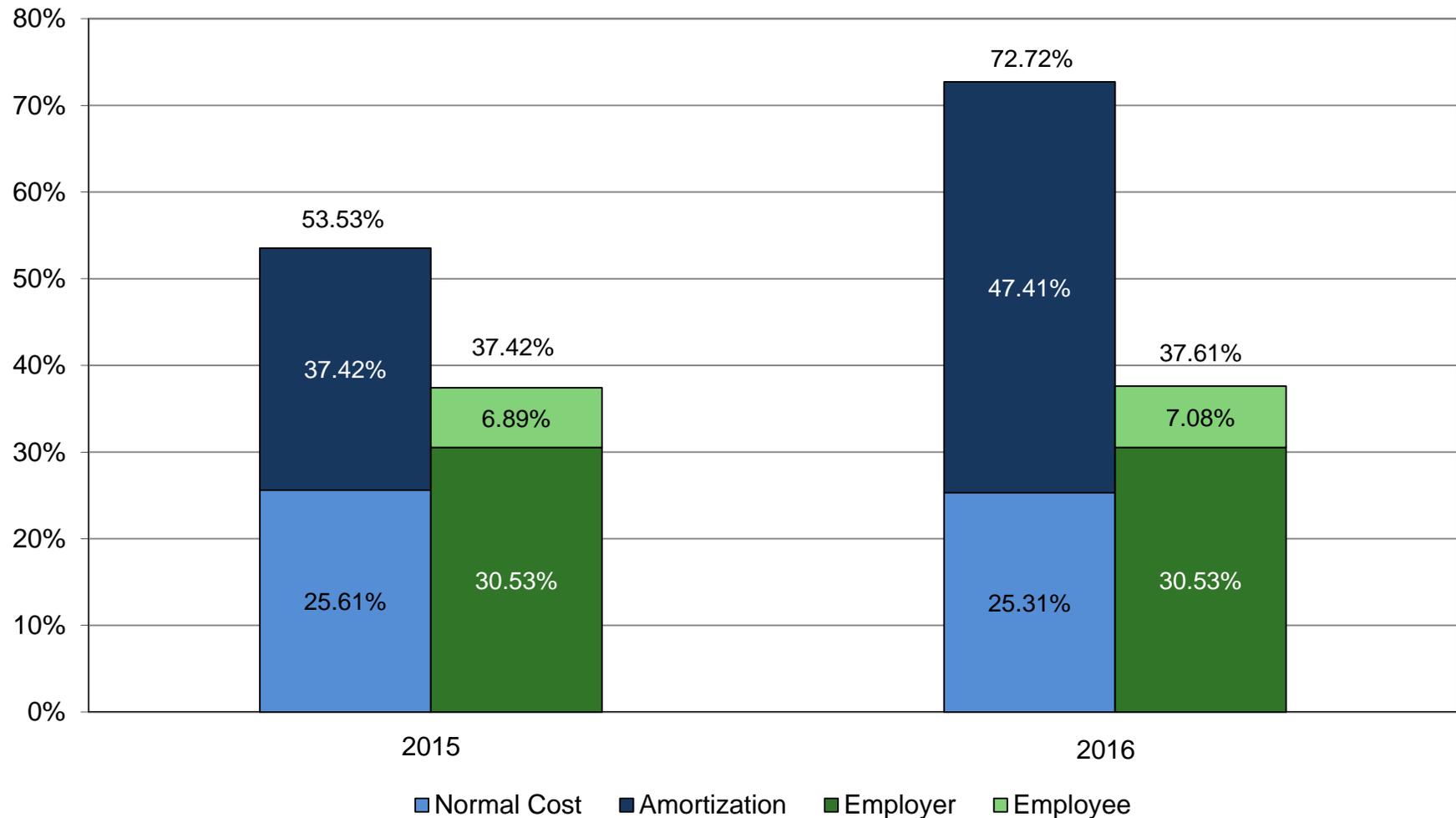
Historical Results

FUNDED PERCENTAGE AS OF JANUARY 1



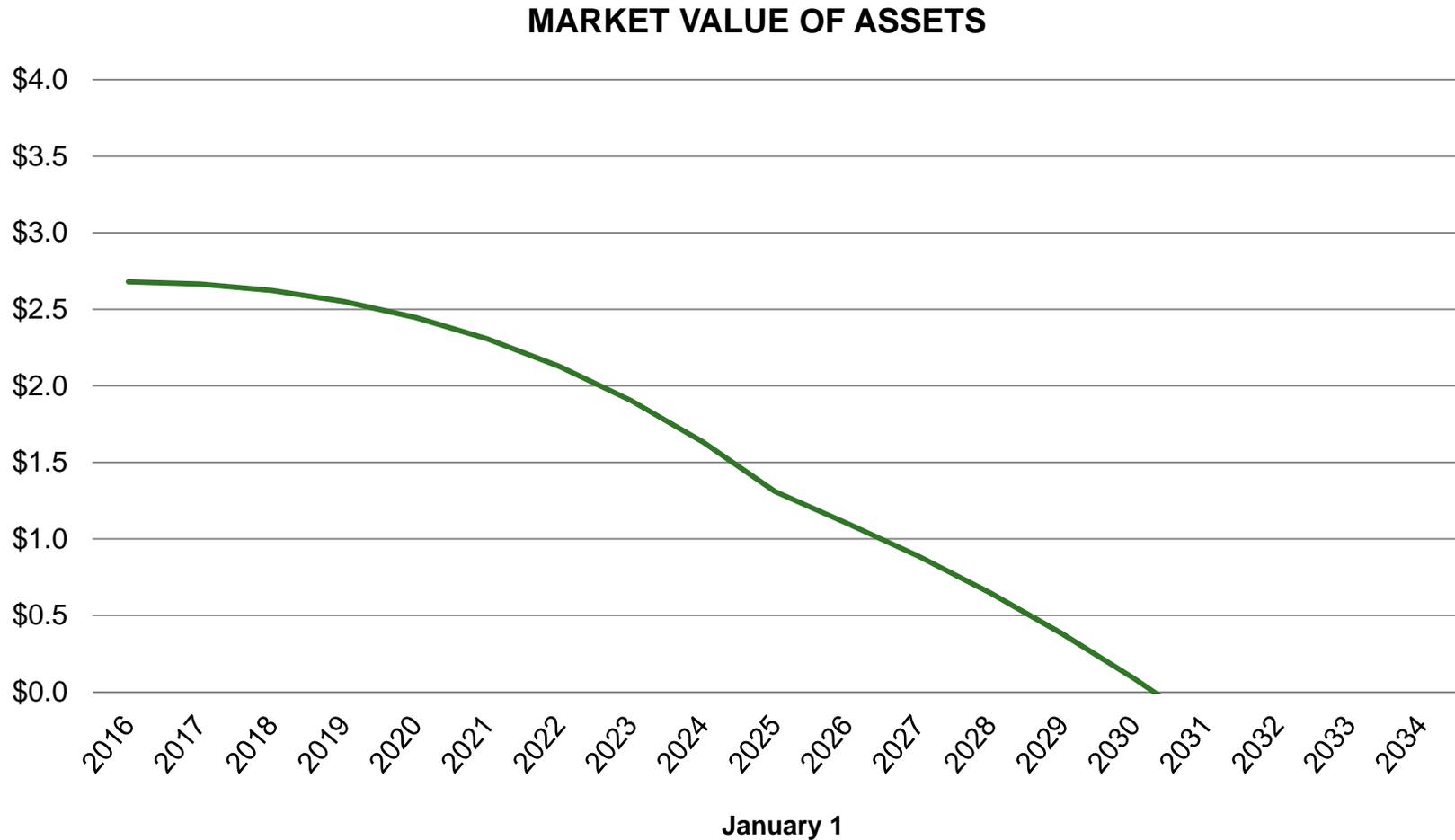
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
—◆— Actuarial Value	87.9%	89.4%	78.4%	81.8%	79.5%	73.9%	78.1%	75.6%	63.8%	45.1%
—■— Market Value	92.9%	93.1%	65.3%	69.0%	72.1%	65.5%	66.0%	65.6%	53.2%	45.1%

Plan Funding Needs Compared to Contribution Income



City contributions are 27.50% of total compensation, including overtime and other non-computation pay. For comparison purposes the rates shown above are as a percentage of computation pay. Employee contributions are 8.50% of pensionable earnings if not in DROP, and 4.00% if in DROP.

Solvency Projection



The projection above anticipates that all actuarial assumptions are met in the future, including 7.25% net investment returns and 10-year payouts of DROP balances. Insolvency is expected between January 1, 2030 and January 1, 2031.

GASB 67 Accounting Disclosures – Net Pension Liability

- The Pension System is required to provide disclosures under GASB Statement 67. The components of the net pension liability are as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2015
Total Pension Liability	\$8.05 billion	\$9.54 billion
Plan Fiduciary Net Position	\$3.08 billion	\$2.68 billion
City's Net Pension Liability	\$4.97 billion	\$6.86 billion
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	38.2%	28.1%

- In the event that a pension plan has a projected insolvency date, GASB requires that the unfunded benefits be discounted using a 20-year, tax-exempt general obligation bonds rate rather than the Plan's funding rate.
- Since current contribution levels are not projected to keep the System solvent, the GASB liabilities are determined using a blended discount rate of 3.95% (4.54% for the 2014 calculation).

Supplemental Plan Results

- The City of Dallas contributes to the Supplemental Plan each year based on the normal cost (net of member contributions) and a ten-year amortization of the unfunded actuarial accrued liability.
- The same assumption changes implemented for the Combined Pension Plan apply to the Supplemental Plan.
- The recommended contribution for the Supplemental Plan increased from \$2.4 million in 2015 to \$3.1 million in 2016.
- Supplemental Plan net assets decreased from \$21.4 million to \$19.5 million.
- The funded ratio decreased from 51.2% to 45.8%.
- The number of active members in the Supplemental Plan increased from 39 to 45.
- The GASB net pension liability (NPL) for this plan is determined using a blended discount rate of 7.19%. The NPL has grown from \$21.3 million to \$23.9 million since last year.

The Small Print

- This presentation is intended for the use of the Board of Trustees for the Dallas Police and Fire Pension System, and is a supplement to Segal Consulting's full valuation reports for the System as of January 1, 2016.
- Please refer to the full valuation reports for a description of assumptions and plan provisions reflected in the results shown in this presentation. The reports also include more comprehensive information regarding the System's membership, assets, and experience during the most recent plan year.
- Projections, by their nature, are not a guarantee of future results. They are intended to serve as estimates of future financial outcomes that are based on assumptions about future experience and the information available to us at the time the modeling is undertaken and completed. The projected future results included in this presentation show how the Fund would be affected if specific investment return, salary, mortality, turnover, disability and retirement assumptions are met. Actual results may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.
- The calculations included in this presentation were completed under the supervision of Leon F. (Rocky) Joyner, FCA, ASA, MAAA, EA, Deborah K. Brigham, FCA, ASA, MAAA, EA, and Jeffrey S. Williams, FCA, ASA, MAAA, EA.

Questions?

 **Segal Consulting**

2018 Powers Ferry Road, Suite 850
Atlanta, GA 30339-7200
T 678.306.3112

Deborah K. Brigham, FCA, ASA, MAAA, EA
dbrigham@segalco.com





DISCUSSION SHEET

ITEM #C2

Topic: Amendment of Bank of America Loan

Discussion: Staff will brief the Board on the status of the amendment to the Bank of America loan.



DISCUSSION SHEET

ITEM #C3

Topic: 2015 audit

Attendees: Jill Svoboda, BDO, Partner
Rachel Pierson, BDO, Manager

Discussion: Representatives from BDO, DPF's independent audit firm, will be present to discuss the results of their audit for the year ended December 31, 2015.

In addition, the Chief Financial Officer will present the draft of the 2015 audited financial statements.

DPFP is required under Sections 802.103 and 802.104 of the Texas Government Code to submit to the State Pension Review Board (PRB) an annual financial report reflecting the financial condition of DPF as of the last day of the fiscal year covered in the report. The information is to be provided within 210 days of the last day of the fiscal year (July 29, 2016).

The report is scheduled to be completed following final approval by the Executive Director, as well as BDO. Upon completion, the report will be posted to the DPF website and provided to the PRB and the City of Dallas.

The Audit Committee will report findings from their meeting with BDO held on July 7th.

Staff

Recommendation: **Approve** issuance of the 2015 audit report, subject to final review and approval by BDO and the Executive Director.



AUDIT WRAP-UP

DECEMBER 31, 2015

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the System and is not intended and shall not be used by anyone other than these specified parties.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.





July 21, 2016

Board of Trustees and Audit Committee
Dallas Police and Fire Pension System

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On April 14, 2016 we presented an overview of our plan for the audit of the financial statements of the Dallas Police and Fire Pension System (the System) as of and for the year ended December 31, 2015, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the System's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the System and to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.



Discussion Outline

Status of Our Audit	4
Results of Our Audit	5
Internal Control Over Financial Reporting	8
Other Required Communications	9
Independence Communication	11
Appendix	12





Status of Our Audit

Note: Please refer to the detailed Audit Wrap Up Communications included as an Appendix to this presentation. This presentation summarizes the items from that report.

We have substantially completed our audit of the financial statements as of and for the year ended December 31, 2015. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and adheres to the guidelines established by the Governmental Accounting Standards Board. This audit of the financial statements does not relieve System management or those charged with governance of their responsibilities.

Discussion Points

- The objective of our financial statement audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We expect to issue an unmodified opinion on the financial statements, see open items listed below:

Open Items as of July 21, 2016

- Receipt of the signed management representation letter.



Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, AND ESTIMATES

- Included and adequately described in Note 2 to the financial statements.
- Appropriate; comply with generally accepted accounting principles, industry practice and governmental accounting standards.
- Consistently applied.
- Summary of recently issued accounting pronouncements included in Note 2.
- There were no changes in significant accounting policies and practices during 2015.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Uncorrected Misstatement for 2015:

Dr. Beginning Net Position	\$12,400,000
Cr. Investment Loss	\$12,400,000

~ To reflect the error associated with the RCH 2014 restatement in the correct year.

Corrected Misstatements for 2015:

None.

QUALITY OF THE SYSTEM'S FINANCIAL REPORTING

- BDO does not note any issues with the System's accounting policies and practices



Results of Our Audit

Areas of focus and findings -

Internal Controls

- No issues noted

Actuarial Valuation Review

- Primary Areas of Focus
 - Depletion Date
 - Recommended Contribution
 - Net Pension Liability
- Primary Assumptions Reviewed
 - Discount Rate
 - Inflation
 - Payroll Growth Rate
 - DROP Withdrawal Rate
- Findings
 - Based on the review by BDO and ARM, the actuarial methods employed by the System meet the requirements under GASB and Actuarial Standards of Practice.

Eligibility

- No issues noted

Contributions

- No issues noted



Results of Our Audit

Benefit Payments

- No issues noted

Investments

- No issues noted

Other Receivables, Payables and System Expenses

- The System was in default of its line of credit as of December 31, 2015 due to the fact that the January 1, 2015 actuarial valuation report concluded that the System's fiduciary net position is not projected to be available to make all projected future payments to current system members. The System obtained a waiver and the loan agreement was amended to remove the financial covenant. We have reviewed the amendment and financial statement disclosures for appropriateness.
- No other issues were identified

Investment Income

- No issues noted

Fraud, Commitments and Contingencies and Subsequent Events

- No issues noted as a result of the 2015 audit procedures



Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the System's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Other Required Communications

Following is a summary of other required communications, along with specific discussion points as they pertain to the System.

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the System's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	The nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below: <ul style="list-style-type: none"> Utilized Actuarial Risk Management to review the assumptions presented in the actuarial report. Utilized BDO Valuation Real Estate specialists for review of the appraisal for the internally managed asset selected for testing.
Significant findings and issues arising during the audit in connection with the System's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the System's financial statements or to our auditor's report.



Other Required Communications

Requirement	Discussion Points
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
If applicable, other matters significant to the oversight of the System's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the System's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter to be provided upon issuance of the report.



Independence Communication

Our engagement letter to you dated January 6, 2016 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.





Appendix



D A L L A S
POLICE & FIRE
PENSION SYSTEM



AUDIT WRAP-UP

December 31, 2015

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Trustees and Audit Committee) and, if appropriate, management of the System and is not intended and should not be used by anyone other than these specified parties.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.





Tel: 214-969-7007
Fax: 214-953-0722
www.bdo.com

700 North Pearl, Suite 2000
Dallas, Texas 75201

July 21, 2016

Board of Trustees and Audit Committee
Dallas Police and Fire Pension System

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On April 14, 2016 we presented an overview of our plan for the audit of the financial statements of the Dallas Police and Fire Pension System (the System) as of and for the year ended December 31, 2015, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the System's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the System and to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

Discussion Outline

	Page
Status of Our Audit	3
Results of Our Audit.....	4
Internal Control Over Financial Reporting	9
Other Required Communications	10
Independence Communication	11

Status of Our Audit

We have substantially completed our audit of the financial statements, including procedures applied to the supplemental schedules, of the System as of and for the year ended December 31, 2015, with the exception of the items noted below in "open items". Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and adheres to the guidelines established by the Governmental Accounting Standards Board. This audit of the financial statements does not relieve System management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We expect to issue an unmodified opinion on the financial statements and release our report upon completion of our final audit procedures, as well as final approval of the Board and obtaining the final signed representation letters.
- Our responsibility for other information in documents containing the System's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we will read the information included by the System and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact.
- All records and information requested by BDO were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of the System personnel throughout the course of our work.

Open Items: As of July 21, 2016

- Receipt of the signed management representation letter.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, AND ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the System's accounting practices, policies, and estimates:

The System's significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate; comply with generally accepted accounting principles, industry practice and governmental accounting standards. They were consistently applied, and are adequately described within Note 2 to the financial statements.

- A summary of recently issued accounting pronouncements is included in Note 2 to the System's financial statements.
- There were no changes in significant accounting policies and practices during 2015.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The System's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note 2 of the financial statements.

- Management did not make any significant changes to the processes used to develop the significant accounting estimates in 2015. However, Management and the Board did undertake a process to update significant actuarial assumptions which affect the actuarial determination as presented in the disclosures to the financial statements in Note 4.

CORRECTED AND UNCORRECTED MISSTATEMENTS

There was one uncorrected misstatement identified during the 2015 audit in which the System recorded investment losses from 2014 in the 2015 year. This misstatement is related to the RED Consolidated Holdings ("RCH") portfolio. An error was noted by the auditors of RCH that impacted the previously issued RCH December 31, 2014 audited financials. This resulted in a restatement of the 2014 RCH audit report as the total amount of the error was material to RCH. System Management determined, and BDO concurs, that a restatement of the System 2014 financial statements is not necessary as the error is not material to the System's financial statements. The System recorded the effect of the error as an out of period adjustment in the 2015 financial statements. Although the impact is not material to the System financial statements overall, the net impact of the \$12.4M loss is above our listing scope to be reported to those charged with governance.

There were no corrected misstatements related to accounts and/or disclosures that we presented to management.

QUALITY OF THE SYSTEM'S FINANCIAL REPORTING

A discussion was held regarding the quality of the System's financial reporting, which included the following:

- Qualitative aspects of significant accounting policies and practices
 - BDO has no issues with the quality of the System's accounting policies and practices.
- Our conclusions regarding significant accounting estimates

Results of Our Audit

- BDO concurs with the System's critical accounting policies and practices with respect to significant estimates.
- Financial statement presentation
 - BDO does not note exceptions to the System's financial statements
- New accounting pronouncements
 - BDO notes that there are no new accounting pronouncements adopted by the System during the year.
- Alternative accounting treatments
 - BDO notes that there are no alternative accounting treatments adopted by the System during the year.

Below is a summary of select policies, areas and findings -

Internal Controls

Summary of procedures:

- Reviewed internal controls in place over financial reporting, distributions, payroll data, investments, system expenses, and system obligations.
- Obtained and reviewed the Service Organization Controls reports for JPMorgan, the System's Custodian, and Financial Control Systems, the System's investment accounting service provider.

Findings:

- No issues were noted during our review of internal controls which caused us to adjust planned audit procedures.

Actuarial Valuation

Summary of procedures:

- Obtained confirmation from the actuary for actuarial reports and data provided.
- Ensured the census information provided was complete, accurate, and as of benefit information date.
- Tested census information in correlation with eligibility testing.
- Reviewed the actuarial valuation reports and utilized Actuarial Risk Management to perform an independent review of the reports and assumptions used. Primary areas of focus included the depletion date, recommended contribution, and net pension liability. The primary assumptions included the discount rate, inflation, payroll growth rate and DROP withdrawal rate.
- Reviewed actuarial disclosures for completeness and accuracy during the review of the financial statements.

Findings:

- Based on the review by BDO and ARM, the actuarial methods employed by the System meet the requirements under GASB and Actuarial Standards of Practice.

Eligibility

Summary of procedures:

- Agreed demographic information to the census data used by the actuary.
- Ensured members were properly included or excluded from the System or census based on system requirements.

Results of Our Audit

Findings:

- o No issues were identified in our testing.

Contributions

Summary of procedures:

- o Obtained and reviewed a reconciliation of all contributions reported.
- o Confirmed the contributions made during 2015 directly with the City.
- o Tested a sample of participant contributions and recalculated amounts based on the System provisions.

Findings:

- o No issues were identified in our testing.

Benefit Payments

Summary of procedures:

- o Reviewed reconciliation of annuity and lump sum payments.
- o Tested a sample of participants receiving benefits and ensured the participants selected were eligible to receive payment.
- o For sample selected, traced amounts of benefit payments to the actual payments recorded per the payment register. Additionally, ensured proper tax was withheld and proper authorization of benefit payments was made.
- o For each selection, obtained the calculation of benefits and recomputed the benefit amount based upon the participant data and ensured it was in accordance with the System documents.
- o Reviewed annuity payments by month for any unusual variations.

Findings:

- o No issues were identified in our testing.

Investments

Summary of procedures:

- o Tested investments by selecting a sample using statistical sampling techniques.
- o Obtained confirmations from Investment Managers and reviewed audited financial statements for investments selected. Reviewed confirmations for unusual items and misclassifications. Additionally, performed recalculations based on the unit values in the audited financials.
- o A majority of the real estate investments have audited financials. Consideration of those internally managed real estate investments included review of appraisals by BDO Valuation Real Estate Specialists.
- o Reviewed all complex investment valuation techniques and approach.
- o Confirmed all cash balances.
- o Obtained an understanding of the supporting process for establishing fair value.
- o Reconciled unit information recorded by the System to JPMorgan and to the fund's financial statements.
- o Selected a sample of transactions for investment transaction testing and agreed the purchase/sales price to approved pricing sources.
- o Recalculated the exchange rate used for certain investments by comparing the rate to a third party source such as Oanda.com.
- o Reviewed the investment policy and reviewed for deviations from policy.

Results of Our Audit

Findings:

- No issues were identified in our testing.

Other Receivables, Payables and System Expenses

Summary of procedures:

- Confirmed and reviewed contributions receivables.
- Reviewed the reasonableness of interest and dividend receivables.
- Reviewed management's policy for securities lending and the accounting treatment of such transactions.
- Reviewed the schedule of accrued expenses. Tested fund management fees payable and accrued uncompensated balances.
- Performed a search for unrecorded liabilities to ensure all subsequent payments after year end which related to 2015 were appropriately accrued.
- Confirmed all long term debt balances.
- Reviewed investment contracts in correlation with testing system expenses.
- Sampled administrative fees and selected individual transactions to test.
- Sampled management fee expenses and agreed the expense to confirmation received from investment managers where applicable. Reviewed and recalculated the breakout of fees and agreed amounts to actual invoices and payment support.

Findings:

- The System was in default of its line of credit as of December 31, 2015 due to the fact that the January 1, 2015 actuarial valuation report concluded that the System's fiduciary net position is not projected to be available to make all projected future payments to current system members. The System obtained a waiver and the loan agreement was amended to remove the financial covenant. We have reviewed the amendment and financial statement disclosures for appropriateness.
- No other issues were identified in our testing.

Investment Income

Summary of procedures:

- Selected a sample of dividends received and verified to an independent market source.
- Tested interest earned by recalculating individual transactions and performing a reasonableness test.
- Reconciled investment value and investment income to JPMorgan.
- Recalculated realized and unrealized gains and losses for a sample of transactions.

Findings:

- No issues were identified in our testing.

Fraud, Commitments and Contingencies and Subsequent Events

Fraud procedures:

- Performed interviews with members of the Board of Trustees, Management, and other individuals and considered responses received in determining necessary audit procedures.
- The nature, timing and extent of our procedures across areas of the audit were also varied, mainly by auditing items that would be considered below our normal vouching scope.
- Performed detailed journal entry testing to review for any potential unusual or fraudulent transactions.

Results of Our Audit

Commitments and Contingencies:

- Based on the legal confirmation responses received the System's plan amendment litigation shall be disclosed in the commitments and contingencies Note 9.

Subsequent Events:

- Were updated through July 21, 2016 the date the financials were available to be issued including obtaining legal update letters and additional inquiries of management.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the System’s internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the System’s financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the System:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the System's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	The nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below: <ul style="list-style-type: none"> Utilized Actuarial Risk Management to review the assumptions presented in the actuarial report. Utilized BDO Valuation Real Estate specialists for review of the appraisal for the internally managed asset selected for testing.
Significant findings and issues arising during the audit in connection with the System's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the System's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
If applicable, other matters significant to the oversight of the System's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the System's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter to be provided upon issuance of the report.

Independence Communication

Our engagement letter to you dated January 6, 2016 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.



DISCUSSION SHEET

ITEM #C4

- Topic:** 2015 Comprehensive Annual Financial Report
- Discussion:** Staff will present a draft of the 2015 Comprehensive Annual Financial Report.
- Staff**
- Recommendation:** **Authorize** the Executive Director to issue the 2015 Comprehensive Annual Financial Report upon finalization.



DISCUSSION SHEET

ITEM #C5

Topic: Amendment of Investment Management Agreements

Discussion: DPFP has Investment Management Agreements with managers of private assets such as real estate, timber and agriculture which allow for the discretion of the manager to sell assets. These managers include L&B Realty Advisors (real estate), Bentall Kennedy (real estate), Forest Investments Associates (timber), Hancock Agricultural Investments Group (agriculture) and BTG Pactual (timber). With the adoption of the Investment Policy Statement (IPS) requiring rebalancing of asset classes, staff believes that these Investment Management Agreements should be amended to authorize, in conformity with the IPS, the Executive Director to approve any such proposed sales and if necessary, allow the Executive Director to request that the managers suggest possible sales to achieve the asset allocations called for in the IPS and approve such sales based upon such suggestions by managers.

Staff Recommendation: **Authorize** the Executive Director to amend all discretionary Investment Management Agreements involving private assets to give the Executive Director the authority (1) to approve of any manager proposed assets sales and (2) to request managers to propose suggested assets sales and approve such proposed sales, with all such Executive Director approvals to be done in conformity with the Investment Policy Statement.



DISCUSSION SHEET

ITEM #C6

Topic: Clarion Partners: 4100 Harry Hines vacant land

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

Attendees: Bohdy Hedgcock, Senior Vice President
Ian McKay, Portfolio Manager

Discussion: Clarion Partners will discuss a potential sale of the 2.6 acres of vacant land at 4100 Harry Hines. At the September 10, 2015 Board meeting, the Board engaged Clarion Partners to take over the investment management of several Dallas area real estate assets, including the 4100 Harry Hines vacant land. The property was previously managed by CDK Realty. At the March 10, 2016 Board meeting, Clarion provided a strategic review of the property and the Board approved Clarion's recommendation that DFPF list the property for sale. Clarion will discuss the marketing process to date and provide a recommended course of action.

Staff

Recommendation: **Authorize** Clarion to consummate the sale of the 4100 Harry Hines vacant land, subject to the final approval of terms by the Executive Director.



DISCUSSION SHEET

ITEM #C7

Topic: Investment reports

Discussion: Review of investment reports.



DISCUSSION SHEET

ITEM #C8

Topic: Disability recall

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

Discussion: Staff will present an On-Duty disability pension for review and consideration by the Board in accordance with Plan Section 6.15. This section provides that the Board may require that certain Pensioners receiving a disability pension (non service-connected) or a periodic disability compensation benefit (service-connected) to appear and undergo a medical examination by the Health Director or, if the Health Director approves, by any licensed medical practitioner, to determine if the Pensioner's disability continues or the Pensioner's condition has improved to the extent that the Pensioner is able to resume duties with the Department.

In accordance with Section 6.15 of the Plan and the Board Disability Recall Policy, Staff has referred the Pensioner for medical examination and review of the Pensioner's disability.

Detailed medical reports and recommendations regarding the disability recall will be available on the network Board drive for review by the Trustees.

Staff Recommendation: Available at the meeting.



DISCUSSION SHEET

ITEM #C9

Topic: Ad hoc committee reports

Discussion: A brief update on the ad hoc committees will be provided.



DISCUSSION SHEET

ITEM #C10

Topic: Board Members' reports on meetings, seminars and/or conferences attended

Conference: Society of Pension Professionals JB, GI
Dates: June 21, 2016
Location: Dallas, TX



DISCUSSION SHEET

ITEM #C11

Topic: Employee recognition – Second Quarter 2016

- a. Employee Service Award
- b. Employee of the Quarter award

Discussion:

- a. The Chairman will present an Employee Service Award for the Second Quarter, 2016, to the following:

Cynthia Thomas – 5 Years

- b. The Chairman will present a performance award for Employee of the Quarter, Second Quarter 2016.



DISCUSSION SHEET

ITEM #C12

Topic: 2016 Annual Board and Staff Workshop

Discussion: Staff will discuss the workshop plans with the Board.



DISCUSSION SHEET

ITEM #D1

Topic: Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

Discussion: This is a Board-approved open forum for active members and pensioners to address their concerns to the Board and staff.



DISCUSSION SHEET

ITEM #D2

Topic:

Executive Director's report

- a. Future Education and Business Related Travel
- b. Future Investment Related Travel
- c. Associations' newsletters
 - NCPERS PERSist (Summer 2016)
 - TEXPERS Outlook (June 2016)
 - TEXPERS Outlook (July 2016)

Discussion:

The Executive Director will brief the Board regarding the attached information.

Future Education and Business Related Travel Regular Board Meeting – July 21, 2016

- 1. Conference: Society of Pension Professionals**
Dates: July 19, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually

- 2. Conference: Wharton: International and Emerging Market Investing**
Dates: July 25-27, 2016
Location: San Francisco, CA
Est. Cost: \$6,000

Regular Board Meeting August 11, 2016

- 3. Conference: TEXPERS Basic Trustee Training Class (PRB rules for MET)**
Dates: August 14, 2016
Location: San Antonio, TX
Est. Cost: \$100

- 4. Conference: TEXPERS Summer Educational Forum**
Dates: August 14-16, 2016
Location: San Antonio, TX
Est. Cost: \$1,200

- 5. Conference: NCPERS Public Pensions Funding Forum**
Dates: August 21-23, 2016
Location: New Haven, CT
Est. Cost: \$1,950

Regular Board Meeting September 8, 2016

- 6. Conference: Society of Pension Professionals**
Dates: September 20, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually

- 7. Conference: TLFFRA Pension Conference**
Dates: October 2-4, 2016
Location: McAllen, TX
Est. Cost: TBD

Regular Board Meeting October 13, 2016

Board and Staff Workshop October 17-19, 2016

- 8. Conference: NCPERS Public Safety Conference**
Dates: October 23-26, 2016
Location: Las Vegas, NV
Est. Cost: 1,700

9. Conference: Global ARC Annual Conference

Dates: October 24-26, 2016

Location: Boston, MA

Est. Cost: \$1,775

10. Conference: TEXPERS Basic Trustee Training Class (PRB rules for MET)

Dates: October 31, 2016

Location: Irving, TX

Est. Cost: \$100

11. Conference: Opal: Emerging Managers Summit South

Dates: November 7-8, 2016

Location: Austin, TX

Est. Cost: \$1,000

Regular Board Meeting November 10, 2016

12. Conference: IFEBP: Annual Benefits Conference

Dates: November 13-16, 2016

Location: Orlando, FL

Est. Cost: \$3,200

Regular Board Meeting December 8, 2016

13. Conference: Society of Pension Professionals

Dates: December 20, 2016

Location: Dallas, TX

Est. Cost: \$250.00 Per Person Annually

14. Conference: PRB: MET Online Core Training: Benefits Administration

Dates: Anytime on line

Location: <http://www.prb.state.tx.us/>

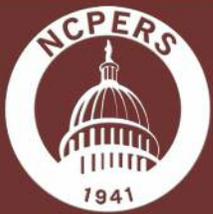
15. Conference: PRB: MET Online Core Training: Risk Management

Dates: Anytime on line

Location: <http://www.prb.state.tx.us/>

**Future Investment Related Travel
Regular Board Meeting – July 21, 2016**

NONE



PERSIST

National Conference
on Public Employee
Retirement Systems

The Voice for Public Pensions

Summer 2016 • Volume 29 • Number 3

MESSAGE FROM *the President*



Looking to the Future



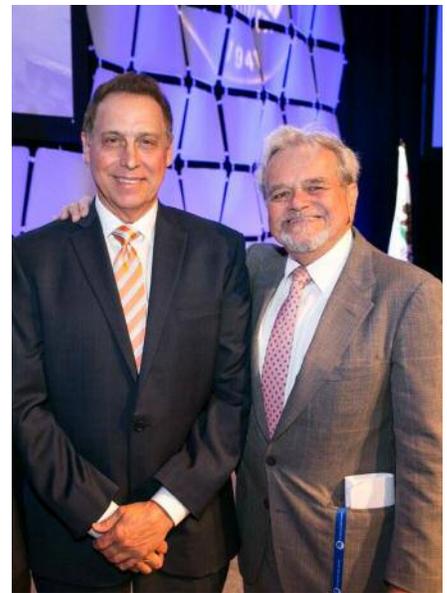
Daniel Fortuna
NCPERS President

I am honored and pleased to assume the duties of President of NCPERS, especially as this year marks a significant milestone in our history, as NCPERS celebrates its diamond anniversary. I thank everyone for their confidence in allowing me to serve this great organization. I especially want to thank Mel Aaronson for the hard work he has done over the past four years, during unrelenting attacks on public employee defined benefit (DB) pension plans.

Looking to the future, I will build on the great strides we have taken in providing retirement security for public employees and by extension all working Americans. I am committed to the

fight for retirement security and will build on the success of our 2011 Secure Choice Pension proposal, which has been wildly successful, with 12 states relying on our public-private partnership template and many more actively pursuing such initiatives. I am proud to say that my home state of Illinois is one of those places and has enacted the Illinois Secure Choice Savings Program Act.

I appreciate your efforts on behalf of the nation's public funds, trustees and the firemen, policemen, teachers, nurses, and other public servants they represent. I welcome your continued input on the direction of this great organization. ❖



NCPERS CorPERS Members Proudly Sponsor PERSist.
This issue's feature sponsor is
Arthur J. Gallagher & Co.



Arthur J. Gallagher & Co.

INSIDE THIS ISSUE (Click on Page Link)

- [2](#) News Flash- Benefits Available to Your Members!
- [3](#) Designing an Adaptive Funding Policy
- [4](#) Responsible investing – what does it mean and why does it matter?
- [5](#) Legal Report

- [6](#) Closing the Investment Gap: The Impact of the GICS Reclassification of Real Estate
- [8](#) Middle-Market Debt Proves Prime Picking For Smart Investors
- [9](#) Foreign Withholding Tax: Performance Drag — A Fiduciary Matter

- [10](#) International Securities Litigation on the Rise
- [11](#) 50 Shades of Core
- [12](#) Responsible Investing: delivering competitive performance while pursuing social good.
- [18](#) Calendar of Events 2016

For information on how to sponsor an issue please contact Amanda Rok Amanda@ncpers.org

News Flash - Benefits Available to Your Members!

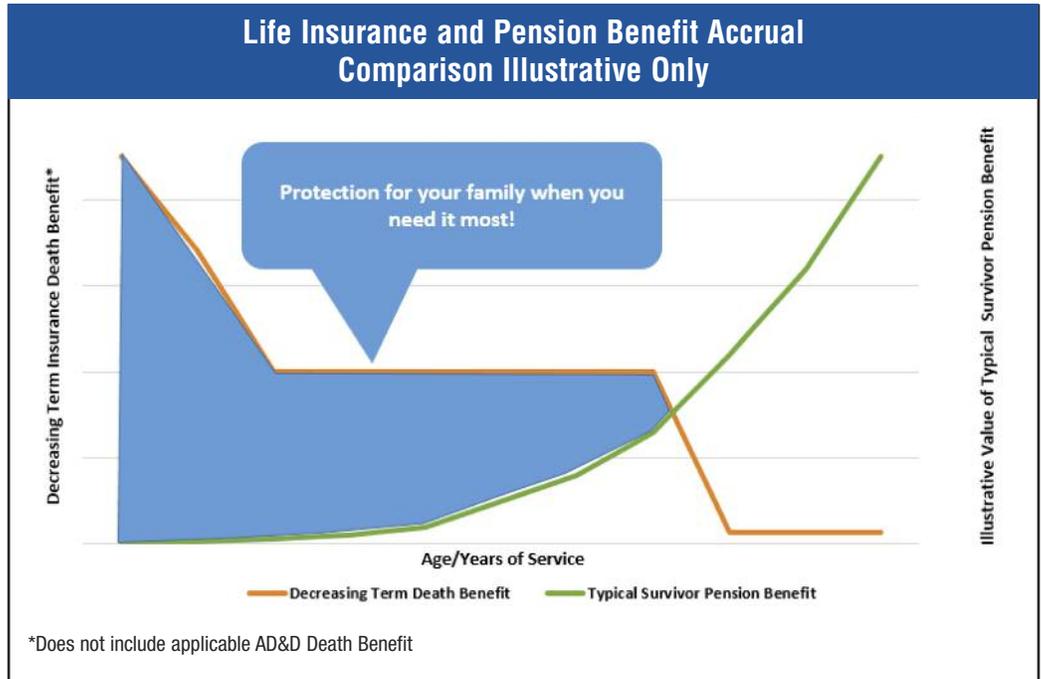
NCPERS continues to explore ways to add value for you and your members. These plans are designed to align with the mission of NCPERS, and are available exclusively through NCPERS.

DECREASING VOLUNTARY TERM LIFE INSURANCE PLAN

One of the longstanding programs that continues to be of benefit is the NCPERS decreasing voluntary term life insurance plan. The plan has been in place since 1969, and was designed to supplement NCPERS members' retirement benefits. Its unique decreasing term design affords the greatest level of financial protection to active employees, and especially for younger employees, as they begin to accrue their pension benefits.

Numerous retirement systems now offer the plan to their active and retired members, with over 100,000 employees, retirees and dependents now protected. Among the key features of the plan:

- Includes as much as a \$225,000 in basic life insurance benefit, along with \$100,000 in accidental death & dismemberment benefits
- **Guarantee issue** (no medical exams or questions) upon new hire, *and* during each open enrollment



- Available to **existing retirees at initial plan offering**
- **24/7 coverage** – no on-duty exclusions for the basic life benefit (except professional aviators)
- Spouses, domestic partners and dependent children **covered at no additional cost**, with **newborns now automatically covered at birth** (replacing prior 14-day waiting period)
- **No maximum age**, and benefits can be **continued into retirement**
- Includes **waiver of premium protection and accelerated death benefit**
- Includes **EstateGuidance** – basic **will preparation benefit** (only available through direct premium payment option)

The plan is available only to NCPERS members, and has been designed to require little effort on your part to implement and administer the program. And, an implementation allowance is available to offset any direct or indirect costs. Further, there are no minimum participation requirements.

The cost of the program, regardless of age, is \$16 per month if offered on a payroll deduction basis, or \$17 if offered on a direct pay basis. Join the increasing number of retirement systems in offering this.

For additional information about these programs, please contact Don Heilman of Arthur J. Gallagher & Co. at 303.889.2686 or don_heilman@ajg.com. ❖

Designing an Adaptive Funding Policy

By Brad L. Armstrong

GASB¹ has stepped away from its prior role of defining the “de facto” funding policy for public employee retirement systems. This prompted a number of Retirement Boards to adopt a funding policy, somewhat analogous to the investment policies that are familiar to trustees. However, many Boards have not taken action. It is recommended that those without a formal funding policy should adopt one as part of good governance. Those with a formal funding policy should continue to monitor and adapt to the ever-changing future circumstances.

WHAT IS A FUNDING POLICY?

A funding policy for a defined benefit pension plan is a systematic set of procedures used to determine the annual contributions to be made by the employer(s). Under a “typical” funding policy, the total contribution requirement equals the Normal Cost, plus amortization of the Unfunded Liability less any employee contributions.

WHAT ARE THE CORE ELEMENTS OF A FUNDING POLICY?

Generally, the core elements of a funding policy are: 1) actuarial cost method; 2) asset smoothing method; and 3) amortization method.

WHY IS A FUNDING POLICY IMPORTANT?

Funding a plan requires careful consideration of the above methods to establish appropriate funding levels and lessen contribution volatility. A funding policy:

- Defines a clear strategy for accumulating sufficient assets to pay

benefits;

- Helps with budgeting;
- Demonstrates good governance;
- Reassures bond rating agencies; and
- Shows plan members and taxpayers how the pensions will be funded.

In addition, under the new GASB pension accounting changes, employers must disclose whether the plan has a formal, written funding policy in place.² Without a funding policy, the actuary must use the average of contributions over the most recent five years to project cash flows. This may produce a “crossover point” resulting in the requirement to report higher liabilities on the financial statements.

WHAT STEPS ARE NEEDED TO DEVELOP A FUNDING POLICY?

- Review and understand relevant state and local statutes and ordinances; plan sponsor(s) and Board policies (formal and informal); collective bargaining agreements; and de facto plan funding.
- Review funding goals with the actuary.
- Prepare a written funding policy covering the core elements.
- Get all parties to “buy in” to the formal funding policy.
- Communicate the formal funding policy to all stakeholders.

WHAT EVENTS AND TIMEFRAMES SHOULD TRIGGER REVIEW OF THE EXISTING FUNDING POLICY?

After a funding policy is established, it should be reviewed at least annually as part of the presentation of the annual actuarial valuation report. An

employer falling out of compliance with the funding policy should trigger an immediate review.

WHAT RISKS SHOULD BE IDENTIFIED AND MONITORED?

Pension risks are numerous and generally related to: investment; mortality; employer contribution shortfall; legislative influence impacting funding; changes to benefit provisions; budget contractions; dramatic changes in hiring patterns; or a plan closing to new members. These risks and others (inside and outside of the plan) should be monitored on a regular basis. ♦

¹Governmental Accounting Standards Board.

²GASB Statement No. 68, paragraphs 28 and 66..

Brad L. Armstrong, ASA, EA, FCA, MAAA, is a Senior Consultant for Gabriel, Roeder, Smith & Company. He has more than 25 years of actuarial and benefits consulting experience. Brad has primary responsibility for state retirement systems in Missouri and Maryland, and several municipal and county retirement systems in Florida, Missouri and Michigan. He has also conducted actuarial audits for statewide plans in Iowa and Texas, and managed special projects for public employee retirement systems in Arizona, Kansas, Oklahoma and Wisconsin. Brad frequently speaks before public sector retirement boards, legislative bodies, public pension conferences and employee groups on issues including: the cost impact of proposed plan changes, operation of a retirement system, funding policies and accounting compliance.

Responsible Investing – What Does it Mean and Why Does it Matter?

By Sandra Carlisle

We believe responsible investment is better investment – but what does this mean? It strictly concerns the potential economic advantages; we believe that responsibly managed companies are better placed to achieve sustainable competitive advantage.

This is not just a theory. Academic research has found compelling evidence of the advantages to companies and their investors of pursuing environmental, social and governance (ESG) policies. A study¹ in 2012 by Harvard Business School of 180 U.S.-based firms found that companies that actively tried to improve their ESG credentials delivered above-market average returns some 4.8% higher than those of their less sustainability-focused counterparts.

The identification and analysis of, and engagement with, companies on ESG factors are vital for investors to understand potential opportunities and risks. What are the key issues that my team is looking at in this area today and how can investors help manage the risks associated with them?

CASE STUDY 1: ENVIRONMENTAL – STRANDED ASSETS

What are the risks? In an environment where policymakers are increasingly becoming concerned about the effects of climate change, investors are beginning to ask if fossil fuel producers are investing shareholder capital responsibly. More specifically, they want to know if their investments are at risk of

becoming “stranded” (i.e. they have suffered from unanticipated or premature write-downs or devaluations).

What can investors do? We believe active investors have the power to address the issue of stranded assets both directly in their active investment decisions and through effective policy and regulatory level engagement. For example, investors could ask companies to demonstrate how demand might be affected if carbon costs increased and prices rose, or whether potential future climate legislation is budgeted into their models.

CASE STUDY 2: SOCIAL – SUPPLY CHAIN MANAGEMENT IN BANGLADESH

What are the risks? Following a number of fatal disasters at garment factories in Bangladesh, most notably Rana Plaza in 2013, there has been increased focus on supply chain standards. Companies with complex, opaque supply chains that do not effectively manage the resulting risks are vulnerable to unanticipated increases in the living wage, intervention from unions or strike action, all of which could increase costs and decrease productivity.

What can investors do? While most companies acknowledge supply chain risk, very few offer transparency across their supply chain; therefore, company engagement is vital. For example, employing local sourcing staff can improve supply chain visibility and avoid unauthorized subcontracting to cheaper factories with weaker standards.

CASE STUDY 3: CORPORATE GOVERNANCE IN THE U.S.

What are the risks? While several countries are adopting corporate governance codes and best practice, the US remains a challenging market.

[continued on page 14](#)

Sandra Carlisle is the Head of Responsible Investment at Newton Investment Management, a BNY Mellon company.

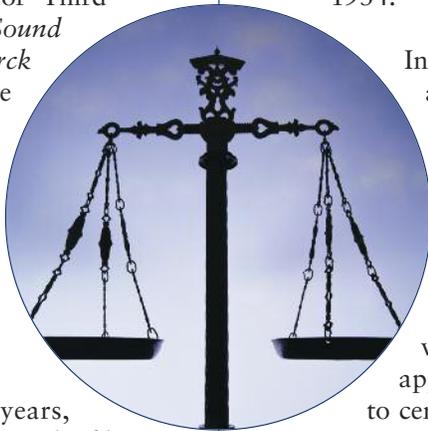
BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally. The information has been provided as a general market commentary only and does not constitute legal, tax, accounting, other professional counsel or investment advice, is not predictive of future performance, and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. The information has been provided without taking into account the investment objective, financial situation or needs of any particular person. BNY Mellon and its affiliates are not responsible for any subsequent investment advice given based on the information supplied. Information and opinions presented have been obtained or derived from sources which BNY Mellon believed to be reliable, but BNY Mellon makes no representation as to its accuracy and completeness. BNY Mellon accepts no liability for loss arising from use of this material.



NCPERS Joins Institutional Investors in Amicus Brief Impacting Timeliness of Securities Claims

By Robert D. Klausner, NCPERS General Counsel

An amicus curiae (friend of the court) was filed on May 31st by NCPERS and 55 public and private pension funds in a case pending in the U.S. Court of Appeals for Third Circuit in *North Sound Capital LLC v. Merck & Co., Inc.* The institutional investors were from throughout the United States and internationally with total assets in excess of \$1.5 trillion.



For over forty years, investors have relied on the filing of a class action case to preserve the timeliness of their claims for recovery of financial damages caused by securities fraud. The filing of those cases created a period of “tolling” or repose for claims brought under American federal securities laws for all members of the class.

Under long established Supreme Court precedent set in *American Pipe v. Utah* (1974), the filing of one federal class action had the effect of stopping the statute of limitations for all persons in the class. The idea is that the filing of a representative suit eliminated the need for thousands or even millions of class members from having to file individual suits to prevent their claims from being lost due to statutes of limitations. This principle had repeatedly been applied to the three-year statute of limitations for claims under Sections 11 and 12 of the 1933 Securities Act which provides a remedy for material misrepresentations in public offerings and the

five-year statute of limitations for fraud in connection with open market purchases under Section 10(b) of the Securities and Exchange Act of 1934.

In recent years the application of the *American Pipe* rule has been eroded by federal appeals court decisions in the Second and Sixth federal appeal circuits which declined to apply *American Pipe* to certain kinds of securities actions. This has created a 2-2 split with investor-favorable decision in the Tenth and Federal Circuits. The current case in the Third Circuit is also addressing this issue. The trial court ruled that *American Pipe* applied to toll the time for bringing claims by class members and the defendant has appealed. Preserving access to the courts and eliminating the need for thousands of pension funds to monitor thousands of claims and file individual actions in each to prevent losses due to fraud or misrepresentation is of vital interest to public pension funds who rely on market gains, free from losses due to fraud, to provide benefits to tens of millions of Americans. NCPERS joined with representatives of the institutional investor community to express its support for maintaining a logical rule that makes the courts open for redress of fraud losses without the need to flood the courts with individual actions.

For pension funds, the effect of the earlier unfavorable decisions is as follows:

- Investors will have to monitor closely the progress of class certification in each case in which they have a significant financial interest (as well as other developments that may impact their claims) because they can no longer rely on the filing of a class action to preserve their claims;
- Investors will need to retain counsel and file their own individual actions, or move to intervene in the class action, to avoid losing their right to recover for violations of the federal securities laws in the large number of cases in which class certification may not be decided until after the applicable periods for asserting new claims has run; and
- Investors would lose the ability in nearly all cases to wait until a

This article is a regular feature of PERSIST. Robert D. Klausner, a well-known lawyer specializing in public pension law throughout the United States, is General Counsel of NCPERS as well as a lecturer and law professor. While all efforts have been made to insure the accuracy of this section, the materials presented here are for the education of NCPERS members and are not intended as specific legal advice. For more information go to www.robertdklausner.com.

continued on page 14

Closing the Investment Gap: The Impact of the GICS Reclassification of Real Estate

By Michael R. Grupe

Removing REITs and other real estate companies from the Financials Sector of the Global Industry Classification Standard (GICS) and elevating them into a new Real Estate Sector is expected to have far-reaching, positive implications for listed real estate securities. The reclassification is being made by S&P Dow Jones Indices and MSCI, who jointly manage GICS, and will officially occur following the market close this August 31st. The new Real Estate Sector's equity market capitalization will be made up of approximately 97% Equity Real Estate Investment Trusts and 3% Real Estate Management & Development companies, while Mortgage REITs will continue to be listed within the Financials Sector.

For pension fund managers, the three most important effects of this reclassification may be increased capital flows into Equity REITs, reduced trading volatility, and a heightened focus on equity REITs as a source of portfolio diversification.

INCREASED VISIBILITY & CAPITAL FLOWS

An immediate result of this reclassification will be increased recognition that equity real estate securities, including REITs, are part of a distinct real estate asset class.

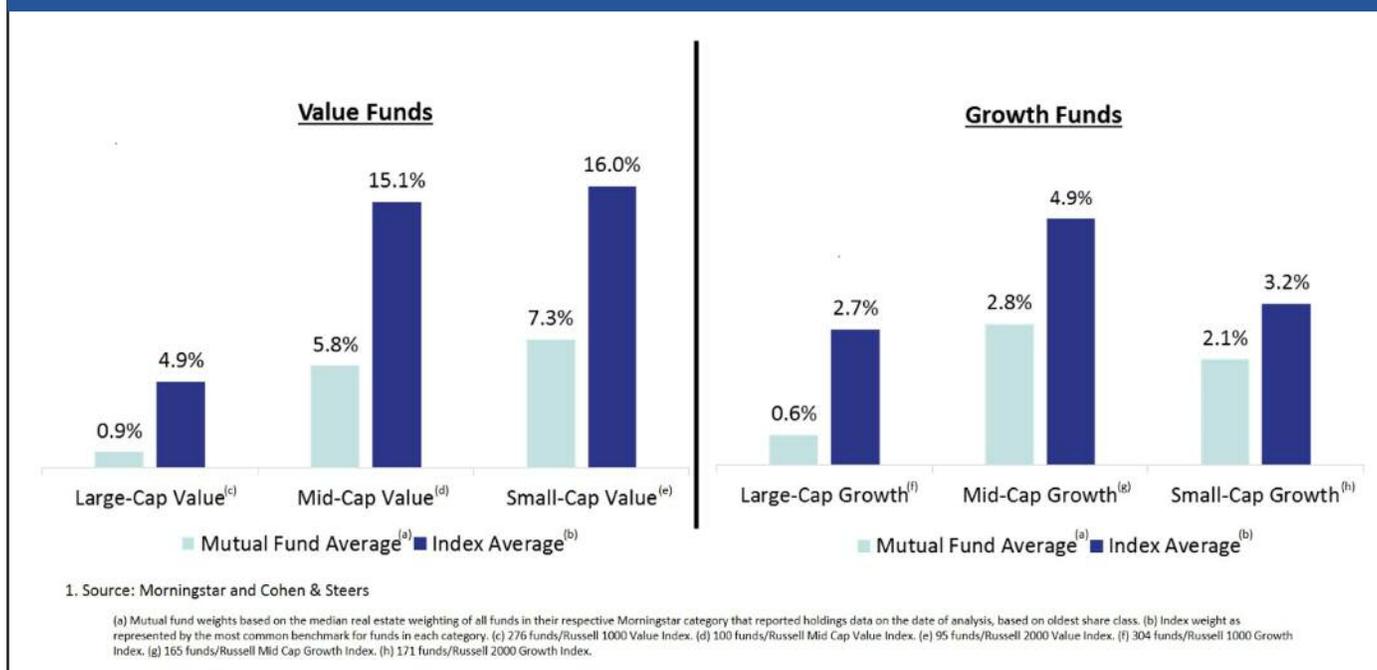
According to real estate investment advisor, Cohen & Steers, equity fund managers are currently significantly underweight real estate. Research from Morningstar and

Cohen & Steers suggests the average real estate weighting for a mid-cap value fund is 5.8% versus the index weighting of 15.1%. Discrepancies like this, of greater or lesser magnitude, exist across the entire spectrum of actively managed equity investment products. To close this gap, some analysts estimate between \$30 billion to \$100 billion of incremental buying may take place over time.

The reclassification of real estate securities also will likely lead to the creation of new investment products, providing advisors more fund options to recommend to their clients.

continued on page 14

Real Estate Weightings at December 31, 2015¹





**Your career carries unique risks.
Protect your family and your assets!**

NCPERS Group Voluntary Term Life Insurance Plan

- Established in 1969
- Insured by The Prudential Life Insurance Company
- Currently covers over 125,000 active and retired governmental employees and their dependents
- Designed as a pension supplement benefit exclusively for NCPERS members
- Decreasing term life insurance with benefits of up to \$325,000
- Includes spouse and dependent child benefits
- Guaranteed issue (no medical underwriting)
- No minimum number to participate
- First offering includes existing retirees. Active participants can continue into retirement
- No employer/retirement plan contributions required
- Minimal employer/retirement system involvement to implement and maintain
- Implementation allowance available to offset any indirect costs
- Simple online enrollment available.
- Allows retirement systems to offer valuable added benefit for actives and retirees at no direct cost.

NCPERS Fiduciary Liability Insurance

Fiduciary Liability Insurance protects the personal assets of trustees. The NCPERS program is specifically designed with the public employers and pension funds in mind. On average the program has been offering 20% savings. All levels of funding are considered.

Key Policy Highlights

- Broad definition of "Insured"
- Broad definition of "Wrongful Act"
- Coverage for Improper advice or disclosure
- Coverage for Inappropriate selection of advisors or service providers
- Imprudent investments coverage
- Breach of responsibilities, obligations or duties imposed upon fiduciaries of a plan coverage
- Coverage for Conflict of interest with regard to investments
- Lack of investment diversity coverage
- Negligence in the administration of a plan coverage
- Voluntary compliance program
- HIPAA and PPACA penalty coverage

Other Key Policy Features

- Duty to defend with choice of counsel
- Guaranteed renewal endorsement available
- Policy is non-cancellable during policy term except for non-payment of premium
- Full prior acts coverage available
- Waiver of recourse included in policy form
- Notice of circumstances of potential claims is allowed
- Coverage is determined separately for each individual (severability)
- Insured plan can elect an extended reporting period
- Spousal and domestic partner liability coverage is provided
- Ability to offer up to a \$25 million tower of insurance on a primary or excess basis

For Information Contact:
Bill Robinson
1-800-628-5691
bill_robinson@ajg.com



Arthur J. Gallagher & Co.

For Information Contact:
Brandon Cole
1-800-333-3231
brandon_c_cole@ajg.com

Middle-Market Debt Proves Prime Picking For Smart Investors

By Bill Sacher

Driven to a large degree by U.S. and European banks' diminished appetite for lending to middle-market companies, a supply/demand imbalance has developed, where investors have grown increasingly hungry for debt alternatives that provide consistent premium pricing and a lower risk of loss.

In the past, commercial banks were a primary source of capital for middle-market companies. By the end of the 1990s, banks began to substantially reduce their willingness to hold leveraged loans and commenced syndicating the unwanted exposure into the institutional loan market. However, due to the liquidity requirements of most institutional buyers, the smaller, less liquid middle-market loans (that

were not easily syndicated or traded) became de-emphasized. As a result, debt capital grew increasingly scarce, with demand outpacing supply. This growing demand was fueled, to a significant extent, by private equity sponsors who raised substantial

pools of capital and needed the debt to help finance their buyouts.

Looking forward to the present, fundraising for buyouts in North

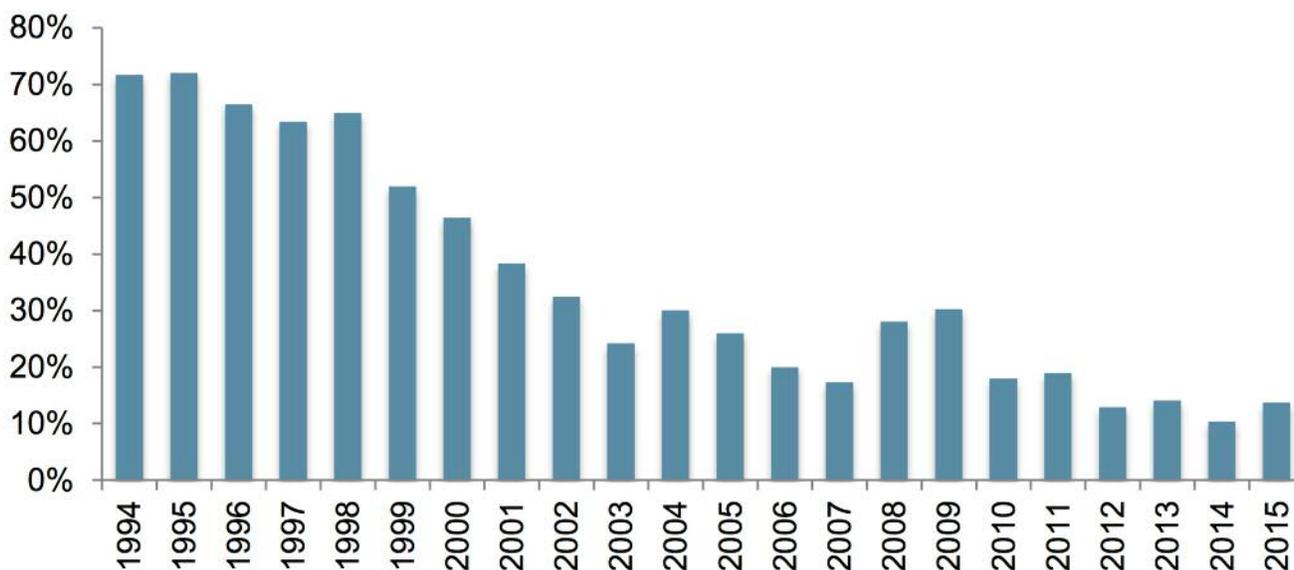
[continued on page 15](#)

Bill is a Partner and Head of Private Credit at Adams Street Partners. Bill leads the investment, portfolio construction and fundraising efforts of the Private Credit Team, and manages key relationships with general partners in North America and Europe.

Prior to joining Adams Street, Bill was the co-founder of the Mezzanine Debt Group at Oaktree Capital Management. Prior to Oaktree, Bill worked at J.P. Morgan, where he was

the co-head of both the Leveraged Finance Origination Team and the High Yield Capital Markets Group. Bill has previously worked at NationsBank as head of the high yield business where he was responsible for the High Yield Origination Team, the High Yield Capital Markets Group, Private Placements and NationsBridge (the banks bridge loan unit). Bill commenced his career at Bear Stearns in their high yields team. Bill has a BS and a MBA from New York University.

% of US Leveraged Loans Held by Banks



¹Source: S&P Capital IQ, LCD's Leveraged Lending Review –1Q16

Foreign Withholding Tax: Performance Drag — A Fiduciary Matter

HOW MUCH ARE YOU LEAVING ON THE TABLE?

This question is often misunderstood, and underestimated when asked of the public retirement system community. When investors hold international stocks in their portfolios, including American Depositary Receipts (ADRs), the dividends earned on these positions are often taxed at a high rate — varying by country but typically 20% to 35%. Depending on country of residence, an investor is likely to be eligible for a refund of some of this withholding, and pension plans may be eligible for a full refund in a number of major markets. In the current investment climate of shrunken returns, every basis point counts. A drag on performance attributed to withholding

tax is meaningful and funds modeled around major benchmarks typically can add 30 to 55 basis points of risk-free performance simply by reclaiming over-withheld tax. This is significant for the pension community since they are often working in an environment of underfunded liabilities to their beneficiaries and the fund. Further, because of their tax-exempt status, pensions are not eligible for tax-credits that would offset excessive foreign withholding, as is common for taxable investing entities and individuals.

FULL REFUND?!

Sounds great right? It is. And, as illustrated in Exhibit 1, countries acknowledging tax-exemption include a number of the most popular markets for foreign investment by U.S. pension funds. However, the burden is on

investors to submit these complex claims of residency and stock ownership directly to the foreign tax authorities, usually a difficult and time-consuming process. Certification of residency with the IRS can also be difficult and lengthy, and must be renewed annually in order to file tax reclaim applications. Investors may also encounter difficulty working with their custodian or broker, since this function is often not supported by the financial institution. While it is logical to assume that an account holder's custodian, broker, or advisor is performing these tasks, the opposite tends to be true. Most recently, however, as the definition of *fiduciary* has evolved, the Department of Labor has spotlighted this activity.

continued on page 16

Full tax refund for Pensions in these markets:

Australia		30%	Ireland		20%
Belgium		27%	Japan		15.315%
Canada		25%	Netherlands		15%
Denmark		27%	Sweden		30%
Finland		30%	Switzerland		35%
Germany		26.375%			

The above chart lists a number of popular reclaim markets for U.S. investors and the respective withholding rates on dividend payments. U.S. pensions are entitled to a full refund of withholding tax in all of these markets.

International Securities Litigation on the Rise

By Nathan Bear

In 2010, the U.S. Supreme Court held, in its landmark decision *Morrison v. National Australia Bank*, that investors who purchased shares outside the U.S. could not file securities fraud lawsuits in U.S. courts under the Securities Exchange Act of 1934. Since *Morrison* was issued, securities litigation has gone global, with a corresponding increase in interest in remedies pursued outside the U.S.

The U.S. leads the way in providing remedies for victims of securities fraud, with U.S. class actions recovering approximately \$4 billion annually. This is partly because investors typically incur no out-of-pocket expenses to litigate, and lawyers offer representation on a contingent fee basis, advancing all litigation expenses. Under the “American Rule,” each party bears its own legal fees – win or lose – and may rely on the fraud on the market theory to demonstrate reliance.

Recoveries in securities actions outside the U.S. are a fraction of U.S.-based recoveries. Canada and Australia have experienced increases in securities fraud litigation since *Morrison*. Both operate opt-out models and Canadian courts have certified world-wide classes, not requiring direct proof of reliance. However, because both adopt a “loser pays” model, litigants face the risk of cost-shifting. Australia doesn’t recognize the fraud on the market theory of reliance, and despite the opt-out model, limitations on lawyers’ fees have encouraged litigation funders to develop an opt-in model – limiting recoveries to a subset of investors.

In 2009, the Amsterdam Court of Appeals approved a settlement between Royal Dutch Shell and its European investors, utilizing the Wet Collectieve Afwikkeling Massaschade, which allows a settling defendant to negotiate a binding contract with a Dutch Stichting (*i.e.*, a foundation) formed of damaged investors. *Anyone* can create a Stichting, and they are often formed by litigation promoters – not lawyers. There are numerous failed Stichtings, abandoned without obtaining any recovery because they lacked bargaining leverage.

The U.K. doesn’t allow shareholder class actions, but permits “group” litigation, under an opt-in model. The U.K. operates a “loser pays” model and there is no cap on cost-shifting. Additionally, direct reliance must be proven. These factors increase the risks of litigation and explain why there have been few cases in the U.K.

Similarly, Germany doesn’t allow class actions, but permits “group” litigation under an opt-in model, governed by KapMuG procedures. This process is being utilized by Volkswagen investors, representing the first major shareholder litigation in Germany.

Following the 2012 Olympus scandal, investors utilized the presumptive rule for damages – a 30-day lookback – and the no-fault liability of Japan’s Financial Instruments and Exchange Act to pursue recoveries on an opt-in basis. It’s unknown whether recent allegations of securities fraud against Toshiba, Takata and Mitsubishi will lead to similar litigations in Japan.

Because of the potential confusion created by the varying laws and procedures of different jurisdictions, it’s crucial for institutional investors to work with competent and experienced counsel to evaluate potential claims in jurisdictions outside the U.S. Many institutional investors retain specialized U.S. law firms to monitor securities portfolios for financial misconduct, typically at no cost. Robust monitoring programs enable investors to promptly understand losses sustained – and available litigation options – when an investment is damaged by misconduct, no matter where the underlying transaction took place. ♦

Nathan Bear, a partner with Robbins Geller Rudman & Dowd LLP, advises institutional investors on a global basis. He counsels clients on securities fraud and corporate governance and frequently speaks at conferences worldwide. Bear has worked extensively initiating securities fraud class actions in the United States and has direct experience with potential group actions in the U.K. as well as settlements in the EU under Dutch WCAM procedures. He currently represents investors in group litigation against Volkswagen, utilizing the KapMuG procedures in Germany. Bear has played a direct role in recovering over \$1 billion for investors, including *In re Cardinal Health, Inc. Sec. Litig.* (\$600 million) and *Jones v. Pfizer* (\$400 million). Bear was named an “Outstanding Young Attorney” by the San Diego Daily Transcript in 2011 and selected by San Diego Super Lawyers Magazine as a “Rising Star” in 2015 and 2016.

50 Shades of Core

By Bart Weinstein

Private equity real estate belongs in all institutional portfolios. Whether a conservative 5% allocation, or more progressive weighting closer to 20%, private equity real estate offers higher yields as compared to Fixed Income, steady appreciation over the long term and, importantly, return characteristics generally uncorrelated to the Public Equity and Bond markets. Core real estate, considered to be the most conservative subset of institutional real estate, has for the recent five years provided a 13.3% annualized return, well above its historic 35+ year average performance of 9%. As Core capitalization-rates (“cap-rates”) continue to compress, making it more difficult to earn the now familiar (and perhaps expected) double-digit returns, Core fund managers are facing pressure to broaden their risk parameters for deals.

The National Council of Real Estate Investment Fiduciaries’

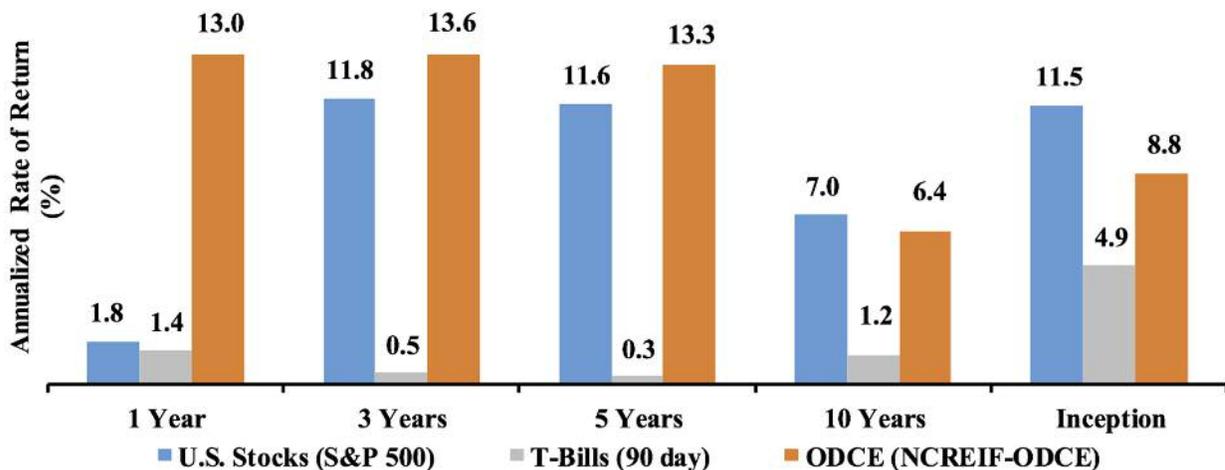
Open-End Diversified Core Equity Index (“NCREIF-ODCE”) is a capitalization and time-weighted return benchmark, comprised of data provided by 36 funds. NCREIF defines Core as “...lower risk investment strategies utilizing low leverage (as of 1Q16 the leverage in the NFI-ODCE averaged 22%)...in stable U.S. operating properties.” Many real estate investors further interpret “Core” to give importance to geographic market weightings (i.e. primary markets and CBD concentrated). Practically, the only real limiting factor in determining what is Core and what is not, has become levels of leverage. In other words, a certain fund might maintain debt levels in the low 20% range, but might also be introducing far more risk by deploying capital into operating properties or development deals – and still be considered Core by the uniformed. Somehow through the years, there have become many shades of Core.

Core funds have returned an annualized rate of 13.3% for the past 5 years, represented by the ODCE in Figure 1. Given the traditional conservatism and definitional constraints of Core investment strategies, one would think that investing in value-add development deals outside the so-called “sexy six” markets (San Francisco, Los Angeles, Dallas, Washington DC, New York, Boston), would not naturally fit the mold of traditional Core. And yet many Core fund managers are increasingly drift-

continued on page 16

Bart Weinstein is responsible for working with institutional clients and investment consultants. Mr. Weinstein performs financial analysis and research for the firm. Mr. Weinstein holds the Chartered Alternative Investment Analyst designation and is a member of the CAIA Association. His B.A. is from Cornell University.

Figure 1



Source: NCREIF

Responsible Investing: delivering competitive performance while pursuing social good.

By Lei Liao

Interest in Responsible Investing (RI) continues to expand, but questions persist about whether pursuing environmental, social and governance (ESG) goals sacrifices performance. Recent TIAA Global Asset Management research on RI indexes found *no systematic performance penalty* over the long term. Moreover, incorporating ESG criteria in security selection did not appear to increase risk.

The TIAA study examined five widely known U.S. equity ESG-based indexes with 10-year-plus track records: Calvert U.S. Large Cap Core Responsible, Dow Jones Sustainability U.S. (DJSI U.S.), FTSE4Good US, MSCI KLD 400 Social, and MSCI

USA IMI ESG. The study compared returns with two U.S. equity-based benchmarks, the Russell 3000 and S&P 500. TIAA focused on RI *indexes* to avoid the difficulty of comparing direct investments with widely different characteristics and fees.

RI RETURNS COMPARABLE TO BROAD MARKET INDEXES.

The paper found long-term RI index returns were similar to each other and the broad market. Moreover, statistical analysis *showed no significant difference* in returns versus broad market benchmarks—variations were random and not systematic.

COMPARABLE VOLATILITY MEASURES

AND RISK-ADJUSTED RETURNS

The study found volatility and risk measures were comparable versus benchmarks, suggesting incorporating ESG criteria in investment decisions did not add additional risk relative to the broad market.

Over 10 years, average annualized standard deviations for the RI indexes ranged from 15.69% to 17.13%, compared to 16.53% and 17.05% for the S&P 500 and Russell 3000, respectively. Standard deviations rose sharply during 2008–2009, but the *maximum* RI index/benchmark spread averaged only 1.78% for the time period.

continued on page 17

Exhibit 1: Responsible investing index performance and return characteristics

Responsible Investing Index performance and return characteristics

	-----10 YR Annual Average-----		
	Return (%)*	Standard Deviation (%)**	Sharpe ratio**
Calvert U.S. Large Cap Core Responsible+	7.49	17.13	0.87
DJSI US++	6.05	15.69	0.78
FTSE4Good US++	7.37	16.77	0.89
MSCI KLD 400 Social++	7.22	16.27	0.86
MSCI USA IMI ESG+	6.82	17.01	0.84
Range top/bottom performer	1.44	--	--
RI Index average	6.99	16.57	0.85
S&P 500 Index	7.31	16.53	0.88
Russell 3000 Index	7.35	17.05	0.87

*Based on daily returns for periods ending 12/31/15; **Based on weekly returns for 10-year period through 12/31/15

+ Benchmark: Russell 3000; ++ Benchmark: S&P 500.

Sources: FactSet, Morningstar, MSCI, and TIAA



2016 PUBLIC PENSION FUNDING FORUM

August 21–23, 2016

Omni New Haven Hotel at Yale University
New Haven, CT

REGISTRATION OPEN

Visit <http://www.ncpers.org/fundingforum> or
call 1-877-202-5706 for more information

Responsible continued from page 4

Many US companies still continue to award executive compensation packages with no performance conditions attached. The combination of CEO and chair roles is also a concern, as is the length of board tenure, with critics of the current system concerned about a lack of diversity of thought

and ‘seat blocking’.

What can investors do? Analysis, engagement and monitoring of such governance factors as board diversity, tenure and management incentive packages are vital to ensure companies will be able to withstand the inevitable challenges they will face in the 21st century global market place. ❖

¹⁴“The Impact of Corporate Sustainability on Organizational Processes and Performance, National Bureau of Economic Research, working paper 17950, April 2014. <http://www.nber.org/papers/w17950>

Legal Report continued from page 5

settlement is reached to decide whether or not to opt out of the class in order to seek a greater recovery of their losses, and would be forced to decide whether to opt out much earlier without any ability to assess whether the class settlement provides adequate compensation.

The split of opinions among the various federal appeal circuits is significant, making it likely that the U.S. Supreme Court will ultimately have to resolve the question. The Supreme Court was scheduled to do so in 2014, but the underlying case settled on the eve of argument.

As it has many times in the past, NCPERS has lent its support as The

Voice of Public Pensions in this and other cases of great public importance. A decision is not expected until late 2016 or early 2017. A copy of the brief may be found at :

<http://files.ctctcdn.com/fd8fd85b001/48d2f46e-7664-4cfa-b1d3-f45156dba1a3.pdf> ❖

GICS continued from page 6

REDUCED VOLATILITY

Separating real estate stocks from the Financials Sector may also help reduce share price volatility. The Financials Sector historically has been one of the market’s most volatile sectors. The inclusion of REITs in investment products based on the Financials Sector has contributed to REIT volatility. Removing REITs from these products may help reduce it. Additionally, broader ownership of real estate stocks, including REITs, over time should result in greater liquidity and further reduce volatility.

Reduced correlation with other market sectors will enhance Equity REITs’ already significant value as a portfolio diversifier.

Over time, the elevation of real estate into its own GICS Sector may significantly impact how REITs are utilized within portfolios. Increased capital inflows, along with a reduction in overall volatility and market correlation, could contribute to the growth of the Equity REIT market and long-term shareholder returns. It is important for investment managers to understand the long-term REIT investment opportunity that the GICS reclassification of real estate may present.

ital markets. At NAREIT, he directs all research and investor outreach activities related to the collection and distribution of statistics with respect to industry growth and development, analysis of real estate investment performance and the role of listed REITs in diversified investment and retirement portfolios. ❖

Michael R. Grupe is Executive Vice President for Research and Investor Outreach at The National Association of Real Estate Investment Trusts (NAREIT). NAREIT is the representative voice for real estate investment trusts (REITs) and listed property companies worldwide with an interest in U.S. real estate and capital markets. At NAREIT, he directs all research and investor outreach activities related to the collection and distribution of statistics with respect to industry growth and development, analysis of real estate investment performance and the role of listed REITs in diversified investment and retirement portfolios.

STRONGER PORTFOLIO DIVERSIFIER

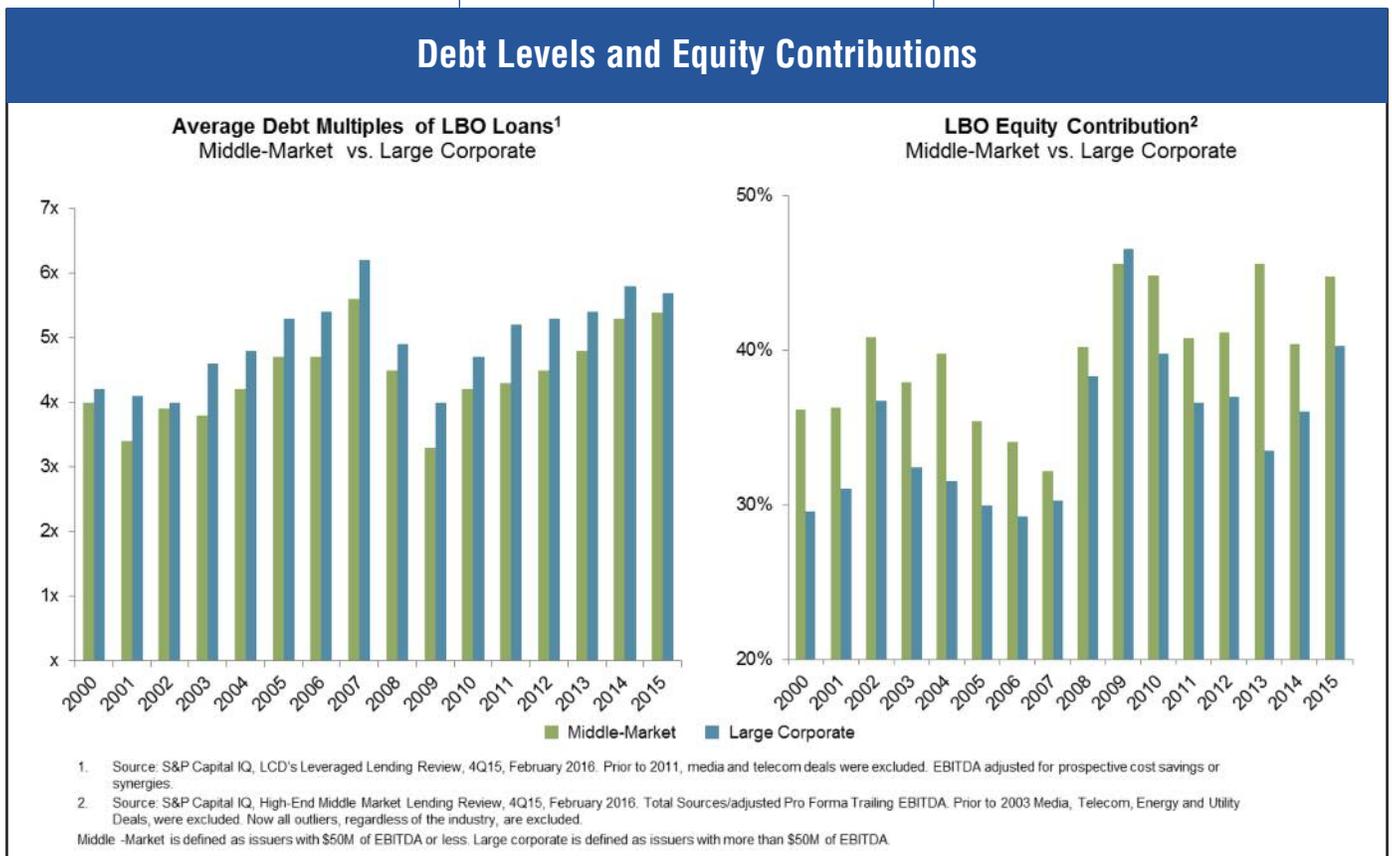
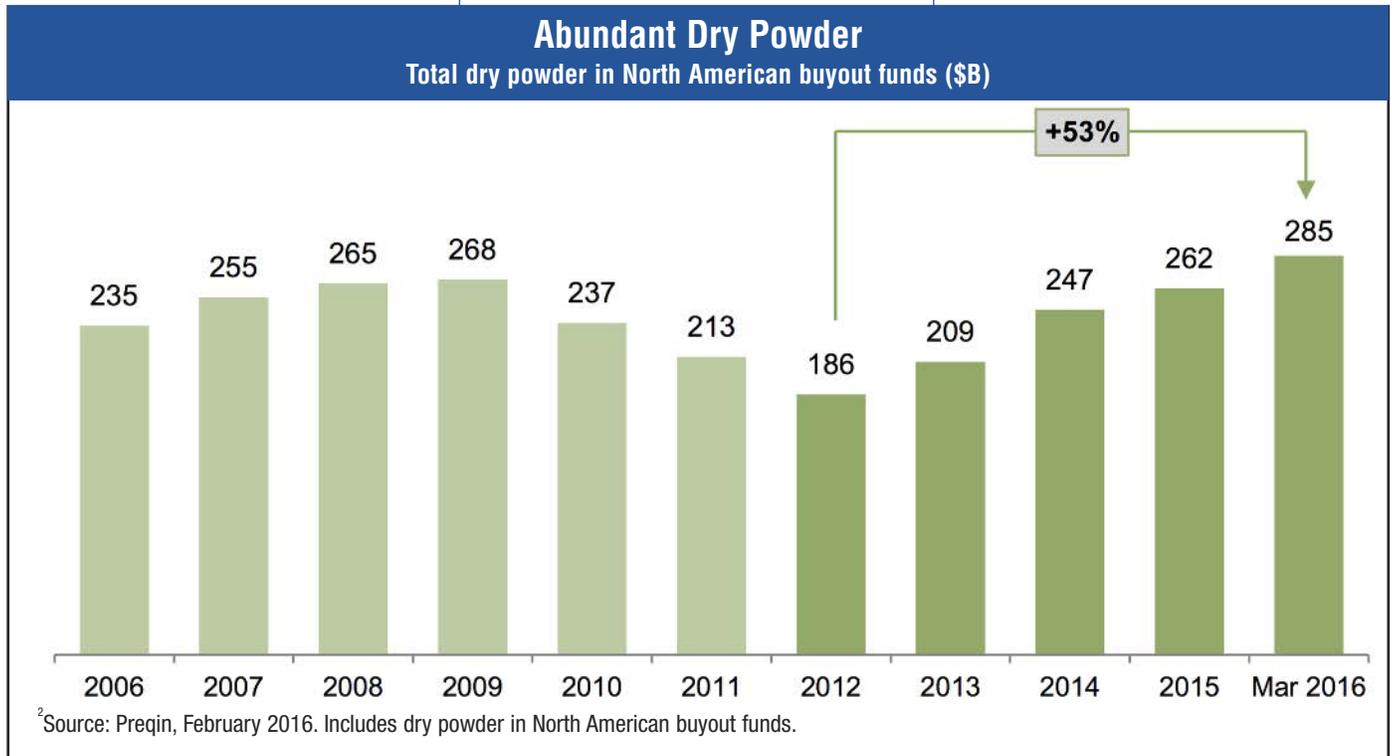
The reclassification of Equity REITs from Financials Sector stocks and their removal from investment products based on the Financials Sector should help lower the correlation of Equity REIT returns with those of Financials and other equities.

Michael R. Grupe is Executive Vice President for Research and Investor Outreach at The National Association of Real Estate Investment Trusts (NAREIT). NAREIT is the representative voice for real estate investment trusts (REITs) and listed property companies worldwide with an interest in U.S. real estate and cap-

Middle-Market continued from page 8
 America has grown considerably, and the pool of capital waiting to be

deployed is large. Since dipping to \$186 billion in 2012, the dry powder in private equity funds has grown by

more than fifty percent to \$285 billion, a ten year high. And, if one
continued on page 16



[Withholding Tax continued from page 9](#)

DO L AUDITS?

Fiduciary responsibility. During a breakout session at the 2016 NCPERS conference held in San Diego, GlobeTax Executive Director Brian Sapadin spoke on the issue of withholding tax related to employee retirement plans. “From our experience, the DoL’s stance is that if an entitlement exists to recapture withheld taxes, plans should seek to avail themselves to the double-taxation treaties.” For public pension funds not subject to ERISA, there remains a clear fiduciary duty to engage in best practice and make every reason-

able effort to recover treaty entitlements. If no action is taken, ultimately the Statute of Limitations will pass and the funds will be forfeited to the foreign tax authority. Mr. Sapadin noted that GlobeTax has seen a surge in new business from pension clients as a result of the broadening of fiduciary responsibilities, and has worked with several of these clients to assist them in providing the DoL with backup documentation to fulfill audit requirements.

WHAT SHOULD YOU DO?

If no action is taken by investors,

these entitlements will eventually expire, and will ultimately serve as donations to foreign governments. To ensure that proper measures are being taken to maximize your entitlement recovery, speak with your tax advisor, custodian(s), and fund manager(s) to confirm tax reclaims are being successfully completed. While some level of recovery work may be taking place, it is likely there are entitlements being left on the table that can be reclaimed, and further action should be taken to remain in accordance with industry best practice and help maximize performance of your fund. ❖

[50 Shades continued from page 11](#)

ing into these non-Core strategies. The recent theme of investing in development deals as a means to generate alpha is better known as “Build-to-Core.” By no measure would such strategies – development deals – have fallen under the Core umbrella when the ODCE was first launched in 1978.

As cap rates continue to trend downward, some fund managers will be faced with the perverse incentive of investing in deals further out on the risk-return spectrum if they want to maintain double digit performance. Some real estate managers possess this expertise, and some, naturally, do not. Plan Sponsors should work carefully with their investment consultants to

determine if existing and prospective Investment Managers have the competency to invest in deals outside their typical Core wheelhouse. If we know one thing for sure, it is that “Risk” must always be considered in any conversation around “Return.” This is especially true today as the siren call for returns higher than those typically generated by Core strategies will get louder. ❖

[Middle-Market continued from page 15](#)

assumes that this pool of private equity represents 40% of a typical buyout capital structure, the amount of debt required to finance those buyouts would be in excess of \$400 billion. This demand/supply imbalance has helped private middle-market loans maintain a pricing advantage over larger-cap broadly syndicated loans. Importantly, that premium tends to expand when conditions in the credit markets become more competitive for providers of capital, and when attractive yields are harder to find.

Although the pricing for middle-market LBO loans is higher compared to their larger-cap counterparts, buyouts

in the middle-market are typically structured more conservatively. In terms of leverage, over the last 15 years, debt multiples in middle-market buyouts have been consistently lower than in larger buyouts. Middle-market buyouts are also generally better capitalized. For the last fifteen years (with the exception of post-crisis 2009) equity contributions to middle-market capital structures were consistently and materially higher. Also notable is that in the post-crisis period, the ratio of equity contributions to purchase price in middle-market buyouts remained unusually high by historic standards. Aided by the more conservative underlying capital struc-

tures, middle-market loans have also experienced both lower defaults and higher recoveries.

Adams Street believes the combination of premium pricing and more conservatively structured balance sheets makes private debt a compelling investment proposition. In our opinion, the factors that helped create these favorable conditions in the market for private debt are both structural and secular in nature and therefore likely to be long lasting. For investors not requiring liquidity, private credit can provide both attractive relative and absolute returns compared to most other credit-related investments in the market today. ❖

Investing continued from page 12

Sharpe Ratios also tracked fairly closely. For the 10-year period, RI index average annual Sharpe Ratios ranged between 0.78 and 0.89, versus 0.87 and 0.88 for the Russell 3000 and S&P 500, respectively.

RI INVESTING PROCESS CAN CAUSE TRACKING ERROR.

RI index results showed tracking error versus benchmarks and statistically significant differences across the various indexes—suggesting some indexes more closely matched the broad market than others. The study’s analysis showed average tracking error for the MSCI USA IMI ESG Index was meaningfully lower than for Calvert U.S. Large Cap Core Responsible. Also, tracking error for the MSCI KLD 400 Social was lower than DJSI U.S. and FTSE4Good US by a statistically significant margin. There appeared to be no statistical difference between error rates for DJSI U.S. and FTSE4Good US.

Using ESG criteria in stock selection introduces portfolio biases and deviation versus benchmark performance. Decisions about how stocks are rated, selected and managed differentiate RI indexes from each other and the broad market.

RISKS AND REWARDS OF RESPONSIBLE INVESTING

RI has generated long term performance comparable to the broad market without additional risk. Using ESG criteria in index construction did not sacrifice performance, despite limiting the number of eligible securities. However, it did produce tracking error that varied based on particular index characteristics. As a result, investors seeking

Tracking error variations were significant across RI indexes

Tracking error rates since index inception through 12/31/15 (%)

RI Index	Min	Max	AVG	ST DEV	Benchmark
MSCI USA	0.79	3.96	1.76	0.61	Russell 3000
IMI ESG					S&P 500
MSCI KLD 400 Social	1.23	5.51	2.59	1.00	
Calvert U.S. Large Cap Core Responsible Index	1.24	5.46	2.71	1.07	Russell 3000
FTSE4Good US	1.68	6.02	2.89	0.98	S&P 500
DJSI U.S.	2.00	7.28	3.43	1.37	S&P 500

Weekly index total returns through 12/31/15. Beginning dates: MSCI KLD 400 Social, 11/11/1994; DJSI U.S., 1/8/1999; Calvert U.S. Large Cap Core Responsible Index, 5/5/2000; MSCI USA IMI ESG, 4/1/2001; and FTSE4Good US, 1/10/2003. MSCI indexes include aggregated, multisource histories prior to acquisition on 9/1/2010. Dates reflect first availability of weekly returns after index inception date. Sources: FactSet, Morningstar, MSCI, and TIAA

exposure should carefully consider the RI portfolio construction process, ESG evaluation criteria, and the appropriate underlying market benchmark. v

[Download TIAA white paper](#)

DISCLOSURES

Responsible Investing strategies are subject to the risk that because social criteria excludes securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don’t use these criteria. The material is for informational purposes only and should not be regarded as a recommendation or an offer to buy or sell any product or service to which this information may relate. Certain products and services may not be available to all entities or persons. Past performance does not guarantee future results. TIAA Global Asset Management provides investment advice and portfolio

management services through TIAA and over a dozen affiliated registered investment advisers.

©2016 Teachers Insurance and Annuity Association of America (TIAA), 730 Third Avenue, New York, NY 10017 ♦

Lei Liao is a managing director and equity index portfolio manager for TIAA Global Asset Management. Liao has portfolio co-management responsibilities for all equity index strategies and Social Choice equity portfolios. He joined the TIAA organization in 2012 after several years’ industry experience at Northern Trust Corp. as a senior equity portfolio manager.

Liao earned an M.B.A. from the Ross Business School at the University of Michigan and holds the Chartered Financial Analyst (CFA) designation.

Don't Miss NCPERS' Social Media



The Voice for Public Pensions



The Voice for Public Pensions

PERsIST

National Conference
on Public Employee
Retirement Systems

Calendar of Events 2016

Public Pension Funding Forum

August 21 – 23, 2016
Omni New Haven Hotel
New Haven, CT

National Accredited Fiduciary (NAF) Program

October 22- 23, 2016
Planet Hollywood
Las Vegas, NV

Public Safety Employees Pension & Benefits Conference

October 23 – 26, 2016
Planet Hollywood
Las Vegas, NV



National Conference on Public Employee Retirement Systems

444 North Capitol St., NW Suite 630
Washington, D.C. 20001

...The Voice for Public Pensions

2016-2017 OFFICERS

Daniel Fortuna
President

Kathy Harrell
First Vice President

Dale Chase
Second Vice President

Tina Fazendine
Secretary

Richard Wachsman
Treasurer

Mel Aaronson
Immediate Past President

NCPERS OFFICE

444 North Capitol St., NW
Suite 630
Washington, D.C. 20001
ph: 1-877-202-5706
fax: 202-624-1439
www.NCPERS.org
info@NCPERS.org

EXECUTIVE BOARD MEMBERS

State Employees Classification

Stacy Birdwell
Kelly L. Fox
Bill Lundy

County Employees Classification

Will Pryor
Sherry Mose

Local Employees Classification

Carol G. Stukes- Baylor
Robert McCarthy

Police Classification

Kenneth A. Hauser

Aaron Hanson
Fire Classification
Dan Givens
John Neimiec

Educational Classification

Patricia Reilly
Sharon Hendricks

Protective Classification

Peter Carozza, Jr.

Emmit Kane

Canadian Classification

Rick Miller

TEXPERS

SCHOOL'S
OUT FOR
SUMMER
OUTLOOK

June 2016

ISSUES IMPACTING PUBLIC PENSION FUNDS

1225 North Loop West, Ste. 909
Houston, Texas 77008
Phone: (713) 622-8018
texpers@texpers.org
www.texpers.org

BOARD OF DIRECTORS

President
PAUL R. BROWN
Big Spring Firemen's Relief
& Retirement Fund

First Vice President
SHERRY MOSE
Houston Municipal Employees
Pension System

Second Vice President
TYLER C. GROSSMAN
El Paso Fire & Police
Pension Fund

Secretary
JOHN D. JENKINS
Dallas Employees'
Retirement Fund

Treasurer
EYNA CANALES-ZARATE
City of Austin Employees'
Retirement System

Board Member
JOSE CAVAZOS
Dallas Area Rapid Transit
Retirement Plan and Trust

Board Member
DENISE CRANDON
Dallas Area Rapid Transit
Retirement Plan and Trust

Board Member
LARRY A. REED
San Antonio Fire & Police
Pension Fund

Board Member
BILLY SAMUEL
Fort Worth Employees' Retirement
Fund

Board Member
JIM SMITH
San Antonio Fire & Police
Pension Fund

Board Member
DAVID STACY
Midland Firemen's Relief and
Retirement Fund

ASSOCIATE ADVISORS

LEON RICHARDSON
AB

NICHOLAS STANOJEV
BNY Mellon

DELIA M. ROGES
Invesco

MICHAEL SMITH
JP Morgan Asset Management

ED GRANT
MFS Institutional Advisors

JASON WIDENER
OFI Institutional Asset Management

DAVID SETTLES
State Street Global Advisors

KEVIN FETZER
William Blair & Company

STAFF

Executive Director
MAX PATTERSON
Contributing Editor
MATT AUKOER

Decline of Traditional Pensions Blamed for Decrease in U.S. Economy

The U.S. economy is now paying the price for the reduction in pensions over the past 40 years with lowered productivity, Michael Molinski wrote in a special report for USA Today.

Quoting a study by the University of Paris-Sorbonne, Molinski wrote that retirement has taken a back seat to corporate profitability. As a result, older workers are being forced to work longer hours and stay in the workforce longer, and "that means they're squeezing out some of the most productive workers of all, known as core workers."

The study compared workers in three different age groups: younger workers (ages 15-24), core workers (ages 25-54) and older workers (ages 55-64). The percentage of those in the older group who are currently working widened to 61% in 2014, up from 60% in 2004, while the percentage of those in the core group currently working has shrunk to 77% in 2014 from 79% in 2004, according to the Organization for Economic Cooperation and Development.

On one hand, the U.S. economy has become more productive by pushing older workers into the labor force, along with women and migrants who have also increased their participation in the labor force, Molinski wrote. However, by doing so the U.S. has also decreased its productivity per worker, the Sorbonne study showed.

On the Web at: <http://www.usatoday.com/story/money/2016/04/23/pensions-economy-workers/83292892/>.

More Proof that 401(k)-Style Plans Are Less Effective than DB

A report released on May 5 by the U.S. Government Accountability Office (GAO) offers more evidence that the shift away from traditional defined benefit (DB) pension plans to 401(k)-like defined contribution (DC) plans contributes to inequality.

These DC plans "have become the dominant form of retirement plan for U.S. workers," the report notes, but 60% of all U.S. households in 2013 had no retirement

*Continued on p. 2***In this issue:**

- Decline of Traditional Pensions Blamed for Decrease in U.S. Economy ... p. 1
- More Proof that 401(k)-Style Plans Are Less Effective than Traditional Defined Benefit Pensions ... p. 1-2
- Advice Offered on Keeping DB Plans Active and Strong ... p. 2
- Guidance Offered on Governmental Plan Normal Retirement Age, IRS Determination Letters ... p. 3
- Political Meddling in Composition of Public Pension Boards Criticized ... p. 3
- Survey Reveals Many Retirees Are Living on the Edge ... p. 4
- Counties Also Provide Public-Employee Pensions but Often Go Unnoticed in Studies ... p. 5
- Pension 'Reforms' Can Negatively Impact Employee Retention, Study Finds ... p. 6
- Agencies Propose Rule to Prohibit Inappropriate Risk-Taking in Financial Institutions ... p. 6
- Nunes' Public Pension Reporting Legislation Based on Flawed Research ... p. 7
- While Some Public Pension Funds Snub Hedge Funds, Most Are Sticking with Them ... p. 7
- Treasury Department Rules against Plans to Cut Central States Teamsters Pension ... p. 8
- Mayor of Illinois Town Settles Muni Bond Fraud Charges ... p. 8
- Florida Town Reverts to DB Pension after Hybrid Plan Tryout Triggers Employee Exodus ... p. 9
- SEC Seeks Audit Trail to Track All Trading in the U.S. Equities and Options Markets ... p. 9
- Alabama and Arizona Firefighters Take Stand against Pension 'Reforms' ... p. 10

More Proof continued from p. 1

savings in one. Further noting the wealth divide, GAO found:

- While 81% of working, high-income households had savings in a DC plan, only about 25% of working, low-income households had any savings in one.
- From 2007 to 2013, the average balance in such accounts held by white working households didn't significantly change, but for black working households, the average balance in plans dropped significantly – from \$31,100 in 2007 to \$16,400 in 2013.

According to GAO's projections, households in the lowest earning group accumulated DC savings that generated lifetime income in retirement, as measured by an annuity equivalent, of about \$560 per month on average (in 2015 dollars). Yet, 35% of this group had no DC savings at retirement.

In contrast, households in the highest earning group saved enough to receive about 11 times more per month in retirement and only 8% had no DC savings.

A 2013 paper from the Economic Policy Institute showed how this shift away from traditional pensions to 401(k) retirement plans has been a "disaster," fueling inequality and creating more insecure retirements.

In December, economist Dean Baker also noted that "retirement prospects are bleaker than ever," attributing it to "the disappearance of traditional defined benefit pensions and the failure of 401(k)-type plans to fill the gap."

A report released last year by the Center for Effective Government and the Institute for Policy Studies, "A Tale of Two Retirements," showed that 100 Fortune 500 CEOs' retirement assets together totaled \$4.9 billion, the same amount as that held by 50 million families – 41% of American families – combined.

"The 401(k) revolution has been a disaster, yet some policymakers are calling for cuts to Social Security, which will be the only significant source of retirement income for most Americans – if they are able to retire in the first place," said Monique Morrissey, a co-author of "A Tale of Two Retirements."

Bloomberg in May reported that the U.S. retirement landscape is starting to look like a Charles Dickens novel. Since 401(k) plans have largely replaced traditional pensions, it has become the best of times for many highly paid workers and the worst of times for almost everyone else, especially the 42% of workers who don't have access to a work-sponsored plan.

On the Web at: <http://www.gao.gov/products/GAO-16-408>, <http://www.epi.org/publication/retirement-inequality-chartbook/>, <http://cepr.net/publications/op-eds-columns/your-retirement-prospects-are-bleaker-than-ever>, <http://www.foreffectivegov.org/two-retirements/> and <http://www.bloomberg.com/news/articles/2016-05-06/the-rich-have-you-beat-in-retirement-too>.

Meanwhile, another report in MarketWatch reached a similar conclusion, finding that "the do-it-yourself pension system is a disaster."

"The lack of savings in 401(k) and individual retirement accounts wouldn't be such a big deal if retirees could rely on other sources of income, such as a traditional defined-benefit pension or Social Security," the report stated. "But those other income sources are declining."

On the Web at: <http://www.marketwatch.com/story/the-typical-american-couple-has-only-5000-saved-for-retirement-2016-04-28#:scG6XRSLUB5-XA>. 

Advice Offered on Keeping DB Plans Active and Strong

Plan sponsors who want to keep and strengthen their defined benefit (DB) plans should address their plans' administration, benefits, funding and investments, according to Mark Ohnsted, principal and defined benefit administration practice leader for Findley Davies in Chicago, as reported by plansponsor.com.

Ohnsted suggested that plan sponsors should: make plan administration more coordinated and comprehensive by getting a solid grasp on all data; keep benefits as affordable as possible; make funding more robust by making or seeking out all required contributions; and diversify investing globally and hedge against interest rate risk.

Ohnsted noted that, because investors are in a period of low interest rates, pension costs are high, but at some point that will change.

The article, which is on the Web at www.plansponsor.com/db-plan-design/?p=2, is part of a larger series on DB and DC plan design, which can be found at: www.plansponsor.com/db-plan-design.



Basic Trustee Training Moved to

Sunday, August 14

Registration Now Open!

Login at www.texpers.org to register

Survey Reveals Many Retirees Are Living on the Edge

A recent survey of more than 2,000 American retirees provides in-depth perspectives about retirees, including their attitudes about life in retirement, time commitments, living arrangements and personal finances.

Many retirees are still recovering from the Great Recession while managing their households with modest retirement incomes, according to “The Current State of Retirement: A Compendium of Findings about American Retirees,” published by the Transamerica Center for Retirement Studies.

Most retirees report that they are enjoying life, but admit to being ill-equipped to deal with a financial shock such as the possible need for long-term health care.

Among the survey’s other findings:

- Social Security is the cornerstone of retirement income.
- Retirees’ confidence about maintaining their lifestyles exceeds the size of their nest eggs.
- Sixty percent of retirees retired sooner than planned. The reasons for retiring sooner than planned ranged from employment-related reasons to health issues.
- Retirees expect a long retirement and most say they are in good health.
- Today’s retirees are facing formidable challenges in ensuring that they have adequate income to last their lifetimes.
- Few retirees have a written financial plan for their retirement.
- And more.

On the Web at: https://www.transamericacenter.org/docs/default-source/retirees-survey/tcrs2016_sr_retiree_compendium.pdf. 

2016 TEXPERS Summer Educational Forum

August 14 - 16

Grand Hyatt

San Antonio, TX

Registration Now Open

Top Golf on Sunday evening!

Effective Legislative Communications Workshop:

Joe Gagen, Legislative Grassroots Trainer

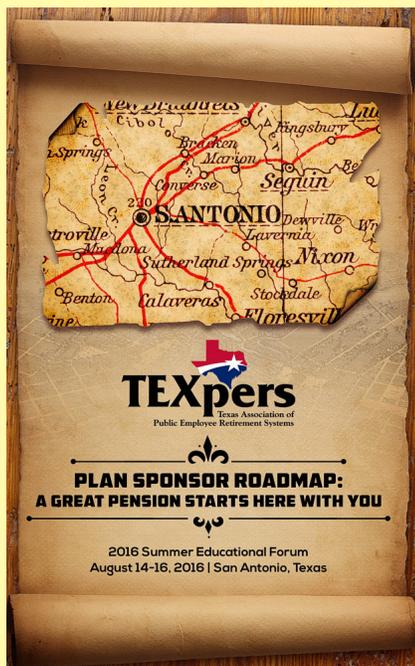
Attend the popular Roundtable discussions:

share ideas and what keeps you up at night
with your peers at other pension funds

Don’t miss: HillCo Legislative Update,

PRB Staff update, 401h VEBA, Alternatives,

REITs, Risk Mitigation and more!



*Basic Trustee Training -
Sunday, August 14*

Counties Also Provide Public-Employee Pensions but Often Go Unnoticed in Studies

Most analyses of public pensions focus on states and cities. But less is known about the role of counties, which are significant public service providers in some states. A new study by Alicia Munnell and Jean-Pierre Aubry from the Center for Retirement Research at Boston College aims to shed light on the role of counties in pension provision.

The authors document the costs, funded status and unfunded liabilities to determine whether counties should regularly be included in analyses of state and local pensions.

There are 3,007 entities designated as counties in the United States. In addition, there are county equivalents such as Alaskan boroughs, Louisiana parishes, the District of Columbia, and 42 independent cities, bringing the total number of counties or county-like equivalents to 3,141.

The extent of county involvement in the pension system varies widely by geographic location, the authors found. Across New England, counties employ very few people and thus have little desire to construct their own pension plans. In contrast, across the mid-Atlantic region, counties actively provide an array of infrastructure and services. To accomplish these tasks, they raise considerable revenue and employ many workers.

As a result, some counties in these states choose to sponsor their own plans while others participate in state-administered plans, the study found. In addition, California has some very large county-run plans, while Pennsylvania and Michigan have a multitude of counties sponsoring many small plans. Because many counties use the state pension system for county employees, the financial health of a county government must take the county's share of these plans' unfunded liabilities into account.

Three states – Kentucky, Missouri and Texas – have state-administered plans that exclusively cover county employees. In Texas, that plan is the Texas County and District Retirement System.

The study also found that:

- While the majority of county employees participate in state pension plans, counties in 22 states sponsor their own plans.
- Pension fiscal realities vary significantly from place to place, but in the aggregate, county pension contributions are a healthy 4.8% of county revenues and their funded ratio is 75%.
- Another factor that affects unfunded pension liabilities in counties is whether or not the county government is responsible for teacher pensions. For example, counties hold more than 40% of the unfunded pension liabilities in Virginia because the county government, rather than the state government or a separate school district, is responsible for funding teacher pensions.
- Overall, counties hold 12% of unfunded public pension liabilities, indicating that – with a few exceptions – they play a modest role in the pension world.

On the Web at: <http://slge.org/wp-content/uploads/2016/05/May-2016-Are-Counties-Major-Players-in-Public-Pension-Plans.pdf> 



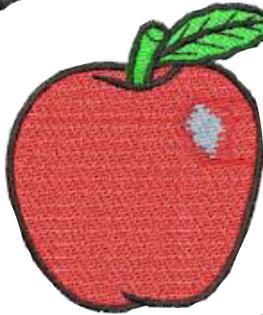
Did you download your copy of the 2016 Asset Allocation Study?

Go to www.texpers.org, click on Publications,
then Studies and Research.

Pension 'Reforms' Can Negatively Impact Employee Retention, Study Finds

In a new study of teacher retention in Chicago, the Rand Corp.

RETIREMENT



developed a model to simulate the effects of teacher pension reforms, finding a direct correlation with lower teacher retention rates.

State governments across the country have legislated reductions in teachers' retirement benefits for new and future employees as a means of addressing the unfunded liabilities of their pension plans.

However, it is difficult to predict how these unprecedented pension reforms – and, more broadly, changes to teacher compensation – will affect teacher turnover, which, in turn, could affect the cost and efficacy of public education, the Rand authors wrote.

The authors developed a model to analyze the relationship between compensation, including retirement benefits, and retention over the careers of Chicago public school teachers.

The authors concluded that the “largest changes to the retention profiles occur when current salaries are reduced and when the full retirement age is increased.”

More specifically, their simulations suggested that a permanent 3% reduction in salary resulted in significantly lower retention for early-career teachers in years one to five. An increase in the full retirement age led to lower retention of mid-career teachers, but the retention of teachers who continued teaching beyond the full retirement age was higher, given that teachers with a “lower preference for employment” tended to have left by the new full retirement age.

The authors tested several hypothetical reforms to current and deferred compensation for Chicago teachers. The simulations suggested that although non-monetary benefits from teaching affected retention decisions, current and deferred compensation were important levers for shaping the size and composition of the teaching workforce.

Of the compensation changes the authors considered, teacher retention was most negatively affected by the 3% salary reduction and the decrease in the pension multiplier. Both changes caused a decrease in the financial return to working each year

and lower lifetime earnings for teaching relative to outside employment options.

As a result, early-career attrition increased. However, a \$10,000 continuation bonus after five years of service did not have a large effect on early-career retention, the authors noted. This was an important finding, as retention bonuses have been used effectively in the military, and this type of compensation is more amenable to targeted retention than across-the-board changes to salary or retirement benefits.

On the Web at: http://www.rand.org/pubs/research_reports/RR1448.html. 

Agencies Propose Rule to Prohibit Inappropriate Risk-Taking in Financial Institutions

Six federal agencies are inviting public comment on a proposed rule to prohibit incentive-based compensation arrangements that encourage inappropriate risks at the nation's regulated financial institutions. The deadline for comments on the proposed rule, which was submitted for publication in the Federal Register, is July 22, 2016.

There is evidence that flawed incentive-based compensation packages in the financial industry were one of the contributing factors in the financial crisis that began in 2007.

The proposed rules would apply to covered financial institutions with total assets of \$1 billion or more. The requirements are tailored based on assets, and covered institutions would be divided into three categories:

- Level 1: institutions with assets of \$250 billion and above;
- Level 2: institutions with assets of \$50 billion to \$250 billion; and
- Level 3: institutions with assets of \$1 billion to \$50 billion.

Much of the proposed rules would address requirements for senior executive officers and employees who are significant risk-takers at Level 1 and Level 2 institutions. All institutions that would be covered by the proposed rules would be required to annually document the structure of incentive-based compensation arrangements and retain those records for seven years.

Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act required the agencies to jointly prescribe these regulations or guidelines.

On the Web at: <https://www.sec.gov/rules/proposed/2016/34-77776.pdf>. 

Nunes' Public Pension Reporting Legislation Based on Flawed Research

Gary Findlay, the retired executive director of the Missouri State Employees' Retirement System, has written to Pensions & Investments alleging that U.S. Rep. Devin Nunes (R-Calif.) has relied on flawed research to support the Public Employee Pension Transparency Act (PEPTA) (H.R. 4822), which Nunes introduced for the fourth time in March. Nunes has introduced identical legislation in each of the previous three sessions of Congress, and each time it failed to pass.

Public pension funds have long opposed these bills because they would require costly pension reporting requirements for state and local governments and would provide an unfair accounting of the overall health of public funds. They worry that this unfair characterization could be used against public funds by opponents seeking to diminish or eliminate them.

Starting in 2011, Nunes distributed to the press and posted on his website a brochure listing the year that each state would exhaust its pension assets. On it, Findlay wrote, Nunes commented that, "These insolvency dates are based on generous assumptions concerning the performance of pension plans and are likely the best-case scenario." As should have been expected, these claims received a fair amount of public attention.

But in fact, in 2012, the Government Accountability Office (GAO), the investigative arm of Congress, released a report, "State and Local Government Pension Plans," that found the "projected exhaustion dates are not realistic estimates of when the funds might actually run out of money."

The GAO never concluded that the funds would run out of money in the foreseeable future. Moreover, the states that the flawed research paper projected to be the first to become insolvent (Oklahoma and Louisiana, in 2017) are nowhere near insolvency, Findlay wrote.

"Yet the bill's sponsor is renewing claims of public fund insolvency, as well as efforts to pass [PEPTA]," he wrote.

"Making false claims about the probable exhaustion of public pension resources, like yelling 'fire' in a crowded theater when there is none, is indefensible," Findlay wrote.

On the Web at: <http://www.pionline.com/article/20160502/PRINT/305029998/faulty-claims-underlie-legislative-call-for-federal-mandates> and <https://www.congress.gov/bill/114th-congress/house-bill/4822>. 

While Some Public Pension Funds Snub Hedge Funds, Most Are Sticking with Them

Public pension funds, for the most part, are sticking with hedge funds, despite the high fees and questionable performance, Reuters reported.

Recent moves by a few large institutional investors were seen as the possible beginning of a mass exodus away from hedge funds. In 2014, the \$300 billion California Public Employees' Retirement System said it was getting out of most hedge funds. Then this past February, the \$15 billion Illinois State Board of Investment said it would reduce its target allocation from 10% to just 3%. And in April, the \$51 billion New York City Employees Retirement System decided to exit hedge funds entirely.

Data, however, suggest that most U.S. public pensions are staying put. The number of public pensions that use hedge funds has increased to 282 in 2016 from 234 in 2010. The average percentage of pension portfolios in hedge funds has also rose to nearly 10%, Reuters reported.

On the Web at: <http://www.reuters.com/article/us-usa-hedgefunds-pensionfunds-idUSKCN0Y12I0>, <http://nymag.com/daily/intelligencer/2016/04/activists-declare-war-on-hedge-funds.html> and <http://www.bloomberg.com/news/articles/2016-04-14/nyc-pension-votes-to-liquidate-1-5-billion-hedge-fund-portfolio>.

Meanwhile, the chief investment officer of the \$185 billion New York State Common Retirement Fund railed against the hedge fund industry's "2 and 20" fee model, calling it "unfair."

Traditionally, hedge funds pocket a 2% annual management fee and take an additional 20% of performance gains. Vicki Fuller, who oversees the fund, said, "We're looking at alternative structures."

On the Web at: <http://nypost.com/2016/05/04/new-york-state-pension-leader-calls-hedge-fund-fees-unfair/> 

Are you going off your pension fund Board but would like to continue to receive TEXPERS publications and updates?

Email us at texpers@texpers.org and we'll be sure you stay in the know!

Treasury Department Rules against Plans to Cut Central States Teamsters Pension

The Treasury Department on May 6 denied the application of the \$17.8 billion Teamsters Central States, Southeast & Southwest Areas Pension Fund, Rosemont, Ill., to cut retiree benefits in a bid to stave off insolvency.

The International Brotherhood of Teamsters and its supporters were quick to applaud the decision. An approval of the application would have meant pension cuts for roughly 270,000 Teamsters members, beginning as early as this July. By contrast, trustees of the Central States Teamsters pension fund were left reeling, and officials from other troubled multiemployer pension fund were left uncertain about their options.

While the ruling does not directly affect public pension funds, sponsors of those plans were watching the ruling closely to gauge how the Treasury Department would react to insolvency claims at a time when many public pension plans are under attack across the country for being too costly to taxpayers.

The potential cuts were made possible under the Kline-Miller Multiemployer Pension Reform Act (MPRA), passed by Congress in 2014. The law for the first time allowed financially distressed multi-employer plans to reduce benefits for retirees if such a move would improve the solvency of the funds. The 2014 law weakened federal protections that for more than 40 years shielded one of the last remaining pillars that workers could rely on for financial security in retirement.

The Treasury Department cited three unmet criteria of the Multiemployer Pension Reform Act of 2014 in its denial of the application. Treasury officials found that the Teamsters' plan would not have distributed benefit cuts equitably and would not provide participants with easily understood notices. But above all, it would not avoid insolvency, the agency ruled.

As Central States trustees regroup to decide whether to appeal the decision or prepare a new application, the only certainty for plan participants at this point is that the money for benefits is expected to run out by 2026, at the latest.

Treasury's denial of the Central States application "does make clear that they are going to scrutinize the assumptions. That might change the ability for plans to make the case," said Jean-Pierre Aubry, associate director of state and local research with the Center for Retirement Research at Boston College, which identified 100 plans that could be

eligible to apply for MPRA reductions, based on 2013 plan data.

Senate Finance Committee Ranking Member Ron Wyden (D-Ore.), a critic of the MPRA, said in a statement supporting the decision by the Treasury that "there are no easy answers here and Congress needs to work harder on a bipartisan basis to develop other solutions."

But sweeping changes are not expected in an election year, particularly one that could change the balance of power in Congress.

"It's not a rosy picture at all," Aubry said, noting that the funding deficits in multiemployer plans are collectively smaller than for public-sector plans, which are short by an estimated \$1 trillion, and in the private sector.

On the Web at: <http://www.pionline.com/article/20160516/PRINT/305169978/its-back-to-the-drawing-board-for-multiemployer-pension-reform>, <http://www.finance.senate.gov/ranking-members-news/wyden-relieved-by-rejection-of-proposed-pension-cuts-by-treasury-department>, <https://theintercept.com/2016/04/20/bill-that-obama-extolled-is-leading-to-pension-cuts-for-retirees/> and <http://www.benefitspro.com/2016/05/19/central-states-pension-decision-pyrrhic-victory-fo>. 

Mayor of Illinois Town Settles Muni Bond Fraud Charges

The mayor of Harvey, Ill., has agreed to pay \$10,000 to settle municipal bond fraud charges brought by the Securities and Exchange Commission (SEC) and never to participate in a municipal bond offering again.

The SEC alleged that Mayor Eric J. Kellogg was connected to a series of fraudulent bond offerings by the city. Investors were told that their money would be used to develop and construct a Holiday Inn hotel in Harvey, but instead city officials diverted at least \$1.7 million in bond proceeds to fund the city's payroll and other operational costs unrelated to the hotel project.

Kellogg exercised control over Harvey's operations and signed important offering documents the city used to offer and sell the bonds, according to the SEC's complaint filed in the U.S. District Court for the Northern District of Illinois. Based on his control of the city, Kellogg is liable for fraud as a control person under Section 20(a) of the Securities Exchange Act, the SEC alleged.

Kellogg agreed to settle the charges without admitting or denying the SEC's allegations. On the Web at: <https://www.sec.gov/litigation/complaints/2016/comp-pr2016-93.pdf> and <https://www.sec.gov/News/PressRelease/Detail/PressRelease/1370542163027>. 

Florida Town Reverts to DB Pension after Hybrid Plan Tryout Triggers Employee Exodus

The Palm Beach (Fla.) Town Council voted in May to boost pension benefits for public safety employees in order to try to improve recruitment and retention in the fire-rescue and police departments, where deep pension cuts enacted in 2012 triggered an exodus of workers, the Palm Beach Daily News reported.

The council voted 4-1 to abandon an unpopular hybrid pension plan. The town had continued to offer a sharply reduced traditional defined benefit (DB) plan while trying to introduce a new defined contribution (DC) plan in which the town and its employees would pay into individual retirement accounts, the paper reported.

Public Safety Director Kirk Blouin told the Daily News that the employees didn't care about the individual retirement accounts so they were not effective recruitment or retention tools.

The new DB plan, which is intended to be competitive with other public safety departments in South Florida, will take effect after the end of the current budget year on Sept. 30.

Currently, about one-third of the police department's employees have only one to three years of experience, Councilwoman Margaret Zeidman told the paper. It was common for officers to obtain training in Palm Beach and then leave for other law enforcement agencies in South Florida with better pension benefits than Palm Beach.

The new plan raises to 2.75, instead of 1.25, a multiplier used to determine benefit levels; reduces to 56, instead of 65, the eligibility age to draw benefits; and increases public safety employee contributions into the system to a range of 8% to 12%, depending on the annual market performance of invested funds.

Currently, the police officers and non-union supervisors in the Fire-Rescue Department contribute 6.47% of their pay into the hybrid.

The new pension benefits do not apply to rank-and-file firefighters, because they are represented by a union, and changes to their benefits are subject to labor negotiations.

On the Web at: <http://www.palmbeachdailynews.com/news/news/local-govt-politics/palm-beach-officials-adopt-new-pension-plan-for-po/nrKtm/>, <http://www.palmbeachdailynews.com/news/news/town-council-gives-final-reading-to-pension-cuts/nN3y8/> and <http://www.palmbeachdailynews.com/news/news/local-govt-politics/council-to-revisit-options-for-improving-public-sa/nrD6G/>. 

SEC Seeks Audit Trail to Track All Trading in the U.S. Equities and Options Markets

The Securities and Exchange Commission (SEC) is seeking public comments a proposed national market system (NMS) plan to create a single, comprehensive database that would enable regulators to efficiently track all trading activity in the U.S. equity and options markets.

The plan for the database, known as the consolidated audit trail (CAT), was submitted jointly by the self-regulatory organizations (SROs).

The proposed NMS plan details the methods by which SROs and broker-dealers would record and report information, including the identity of the customer, resulting in a range of data elements that would provide the complete lifecycle of all orders and transactions in the U.S. equity and options markets. The proposed NMS plan also sets forth how the data in the CAT would be maintained to ensure its accuracy, integrity and security.

In seeking public comment on the NMS plan, the SEC also prepared a detailed preliminary economic analysis of the proposal, which includes a discussion of the economic effects, including costs of the creation, implementation and maintenance of the CAT as proposed by the SROs.

Public comments on the proposal should be received by the commission within 60 days of its publication in the Federal Register.

On the Web at: <https://www.sec.gov/rules/sro/nms/2016/34-77724.pdf>. 

TEXPERS Blog
Join the Conversation

www.texpers.org
for the latest posts



Alabama and Arizona Firefighters Take Stand against Pension ‘Reforms’

Alabama state employees could face a 35% to 55% reduction in retirement benefits if a plan approved by the Alabama Joint Legislative Pension Reform Committee becomes law, according to a study conducted by the International Association of Firefighters.

Alabama firefighters are railing against “the Tier Two plan,” in which a firefighter would have to work 36.5 years (and be a minimum age 56) to reach the same benefit as a Tier One firefighter receives after serving 25 years.

The cash balance plan proposed by state Rep. Lynn Greer and approved by the Joint Pension Reform Legislative Committee would drastically reduce the retirement benefit to levels that will not let workers afford retirement until reaching the age of Social Security and/or Medicare.

“Under this plan there will be firefighters riding on firetrucks until they are 65 or 70 years old,” Geoff Statum, a career firefighter in Huntsville with 25 years of service, wrote to al.com.

“No one, including Representative Greer, knows how this plan and its structural changes will impact the current system that we are depending on now and into the future,” he added.

Meanwhile, in Arizona, voters will decide in a May 17 special election whether to change the state’s pension system for police officers and firefighters.

Proposition 124 would change the Public Safety Personnel Retirement System by adding a new cost-of-living-adjustment formula for employees and retirees to reduce the system’s costs. The measure is part of a pension-reform package the Legislature passed this session.

A “yes” vote would cap annual cost-of-living adjustments for retirees and employees in the retirement system at 2%. It would also tie pension cost-of-living adjustments to the consumer price index for metropolitan Phoenix.

The measure got unanimous approval in the state Senate, but 10 House Republicans voted against it. Some police officers have said lower pension benefits could reduce the quality of new hires.

On the Web at: http://www.al.com/opinion/index.ssf/2016/05/alabama_firefighters_take_stan.html and http://tucson.com/news/local/prop-would-change-police-fire-pensions/article_9e36bee4-0022-575f-b7e5-ddaef8474712.html. 

Have you logged in lately?

<http://www.texpers.org/login.asp>



Members Only Can Access:

An online, searchable Membership Directory: From Your Profile >>> Left menu >>> Under Bookmarks

You can also: update your contact information, register for events, add individuals from your organization to your membership, view, print and pay invoices and more!

Can't Remember Your Login? No problem! Click “Forgot Password” and Use the Email address on file with TEXPERS to receive temporary login credentials

TEXPERS



OUTLOOK

July 2016

ISSUES IMPACTING PUBLIC PENSION FUNDS

1225 North Loop West, Ste. 909
Houston, Texas 77008
Phone: (713) 622-8018
texpers@texpers.org
www.texpers.org

BOARD OF DIRECTORS

President
PAUL R. BROWN
Big Spring Firemen's Relief
& Retirement Fund

First Vice President
SHERRY MOSE
Houston Municipal Employees
Pension System

Second Vice President
TYLER C. GROSSMAN
El Paso Fire & Police
Pension Fund

Secretary
JOHN D. JENKINS
Dallas Employees'
Retirement Fund

Treasurer
EYNA CANALES-ZARATE
City of Austin Employees'
Retirement System

Board Member
JOSE CAVAZOS
Dallas Area Rapid Transit
Retirement Plan and Trust

Board Member
DENISE CRANDON
Dallas Area Rapid Transit
Retirement Plan and Trust

Board Member
LARRY A. REED
San Antonio Fire & Police
Pension Fund

Board Member
BILLY SAMUEL
Fort Worth Employees' Retirement
Fund

Board Member
JIM SMITH
San Antonio Fire & Police
Pension Fund

Board Member
DAVID STACY
Midland Firemen's Relief and
Retirement Fund

ASSOCIATE ADVISORS

LEON RICHARDSON
AB

NICHOLAS STANOJEV
BNY Mellon

DELIA M. ROGES
Invesco

MICHAEL SMITH
JP Morgan Asset Management

ED GRANT
MFS Institutional Advisors

JASON WIDENER
OFI Institutional Asset Management

DAVID SETTLES
State Street Global Advisors

KEVIN FETZER
William Blair & Company

STAFF

Executive Director
MAX PATTERSON
Contributing Editor
MATT AUOFER

Federal Reserve Finds Retirement Confidence Low; Nearly One-Third Have No Retirement Savings

In a new study, the Federal Reserve found that nearly half of Americans who were working toward saving for retirement were less than confident they were making good investment choices. The findings were based on a survey focused on U.S. household economic well-being.

According to the Fed, 49% of adults with self-directed retirement accounts – who had either a defined contribution (DC) plan or a self-directed retirement plan – were either “not confident” or just “slightly confident” in their ability to make the right investment decisions in these accounts.

The share of people enrolled in a DC or self-directed plan was nearly twice the 25 percent of non-retirees who participated in a traditional defined benefit (DB) pension plan through an employer.

DC plans include standard 401(k) plans that workers manage alone or similar accounts in which employers match a certain amount of what employees set aside but promises no future benefit.

Pensions, in contrast, are DB plans, meaning workers' contributions promise certain benefits down the road.

Just over one-quarter of adults with self-directed retirement accounts did not seek out any financial advice when investing these funds. Fifty-two percent of those who did not seek out advice said they either could not afford assistance or would like help but did not know where to get it.

Thirty-one percent of non-retired respondents reported that they had no retirement savings or pension at all, including 27 percent of non-retired respondents age 60 or older.

In addition to collecting information on whether respondents had any retirement savings, the Fed asked those who had savings to indicate all the ways they were saving for

Continued on p. 2

In this issue:

- Federal Reserve Finds Retirement Confidence Low; Nearly One-Third Have No Retirement Savings ... p. 1-2
- Pension Funds Seek Legal Ruling that Would Protect Class Action Lawsuits ... p. 2
- NASRA Outlines Public Pension Reforms Since 2008 Market Crash ... p. 3
- One-Quarter of U.S. Workers Expect to Work Beyond Age 70 ... p. 3
- Public Pension Contributions Were Up in 2015 but Earnings Were Down ... p. 4
- Public Pension Plan Funding Practices Can Lead to a Host of Problems, Study Finds ... p. 4
- Texas Among States with Lowest Access to Private Pension Funds ... p. 5
- Investment Management Fees Come under the Microscope in Maryland ... p. 5
- Legislation to Repeal or Amend GPO/WEP Languishes in Congress ... p. 6-7
- Union Workers Lose Appeal to Protect their Pensions, Benefits at Trump Taj Mahal Casino ... p. 7
- Study Analyzes Growth in Government Contributions to N.Y. Public Pensions ... p. 7
- Data Shows Pension Reforms in California Net Cost Savings ... p. 8
- Morgan Stanley to Pay \$1 Million for Failing to Safeguard Customer Data ... p. 8
- Muni Advisors Settle Charges They Acted Deceptively With California School Districts ... p. 8
- Placement Fee Scandal Lands Former CalPERS CEO in Jail for 4½ Years ... p. 9

Federal Reserve continued from p. 1

retirement. The most commonly reported form of retirement savings was a DC plan, such as a 401(k) or 403(b) plan, which 48 percent of non-retirees possess. This was nearly twice the number of non-retirees who participated in a traditional DB plan through an employer.

Traditional DB pension plans were less common as an expected source of retirement funding among younger respondents. Thirty-six percent of those age 60 and older were counting on income from a DB pension, while 23 percent of those ages 18 to 29 planned on receiving income from a DB pension.

When it came to sources of funds in retirement, 90 percent of those in retirement were drawing Social Security benefits. Sixty-five percent were drawing a traditional DB pension, 53 percent were drawing on savings outside a retirement account, 43 percent used savings from an IRA, and 36 percent drew on a DC plan.

These results were comparable to those observed in the previous year's survey based on 2014 data. When compared to the expected sources of income in retirement for non-retirees, individuals in retirement were more likely to report having income from a traditional DB pension, even when compared to older working-age adults, and were less likely to report having income from a DC pension plan.

On the Web at: <http://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf>. 

Pension Funds Seek Legal Ruling that Would Protect Class Action Lawsuits

A large group of public pension funds and institutional investors has filed a friend-of-the-court brief in a federal lawsuit to describe the severe adverse consequences to institutional investors of overturning the established class action "tolling" doctrine.

It is an admittedly arcane issue, but for more than 40 years, investors have relied on the filing of class action cases to preserve the timeliness of their claims for recovery of securities fraud damages.

The friend-of-the-court brief, also known as an amicus brief, expresses the strong support of the pension fund community for continued application of the class action tolling rule to both the "limitations" and "repose" periods for claims brought under the U.S. federal securities laws.

The case, North Sound Capital LLC et al. vs. Merck & Co. Inc. et al., could impact the

time frame for investors to sue for damages under federal securities laws, and whether such claims are preserved in class actions.

The amicus brief, filed May 31, supports North Sound's position that individual shareholders have the right to pursue opt-out cases because a parallel securities class action against Merck tolled the statute of repose. It also emphasizes the importance of private securities class actions to the interests of long-term institutional investors, and the importance of the class action tolling rule to the court system as a whole.

The legal doctrine of tolling, which allows the time period set by a statute of limitations to be paused in such actions, has been addressed differently in several court circuits, and a case accepted by the Supreme Court that was expected to resolve it was settled early. That put the action back in individual circuits.

If the 3rd U.S. Circuit Court of Appeals in Philadelphia, which is hearing the North Sound Capital case, holds that filing a securities class action does not allow the deadlines to be paused – contrary to a 1974 Supreme Court decision in *American Pipe & Construction Co. vs. Utah* that addressed the impracticalities of filing individual actions related to a statute of limitations for the claims of unnamed class members – it could force institutional investors to protect their interests by filing individual claims, if class certification is denied or decertified.

Fifty-five public pension funds and other institutional investors representing \$1.5 trillion of assets, plus the National Conference on Public Employee Retirement Systems (NCPERS) representing 500 pension funds with \$2 trillion in assets, signed the amicus brief.

On the Web at: <http://www.pionline.com/article/20160602/ONLINE/160609949/pension-funds-file-amicus-brief-to-protect-class-actions>, <http://blogs.reuters.com/alison-frankel/2016/05/26/shareholder-firm-wants-to-organize-pension-funds-to-battle-biz-amici/>, http://www.cfrs-ca.org/Events/Documents/Joint/16June8_Joint/J-F1_AmicusBrief.pdf, <http://files.ctctcdn.com/fd8fd85b001/48d2f46e-7664-4cfa-b1d3-f45156dba1a3.pdf> and <http://www.sifma.org/workarea/downloadasset.aspx?id=8589959825>. 

Basic Trustee Training

Sunday, August 14 *Registration Now Open!*

Login at www.texpers.org to register

October 31st class scheduled for Irving

More Information Coming Soon

NASRA Outlines Public Pension Reforms Since 2008 Market Crash

Since 2009, nearly every state has passed significant reforms to one or more of its pension plans, according to new research by Keith Brainard and Alex Brown of the National Association of State Retirement Administrators (NASRA).

The global market crash and recession in 2008 affected all public plans, despite their differences in plan designs, budgets and legal frameworks.

The market crash played a major role in prompting changes to public pension plans and financing that were unprecedented in number, scope and magnitude, the authors found. No single solution was employed to help the plans recover; instead, each state met its challenges with tailored changes specific to its unique circumstances.

Public employee retirement plans were altered in many ways during the reform wave. The report provides a state-by-state descriptions of changes affecting contributions, benefits or eligibility for retirement plans that were affected by pension reform legislation. The details reflect the pension reforms as passed by the legislature in each state.

For example, the report outlines the changes made to the Employees Retirement System of Texas and the Teacher Retirement System of Texas to increase employee contributions and increase age/service requirements, among other changes.

On the Web at: <http://www.nasra.org/files/Spotlight/Significant%20Reforms.pdf>. 

One-Quarter of U.S. Workers Expect to Work Beyond Age 70

Twenty-three percent of U.S. employees surveyed by Willis Towers Watson say they will have to work past age 70 to live comfortably in retirement. Nearly one-third (32%) anticipate retiring later than previously planned, and another 5% do not think they will ever be able to retire.

While the average U.S. employee expects to retire at age 65, they

admit there is a 50% chance of working to age 70. Nearly eight in 10 workers indicate they will rely on their employer-sponsored retirement plan as the primary vehicle they use to save for retirement, the survey found.

In addition, more than six in 10 (62%) respondents would be willing to pay more out of their paychecks for more generous retirement benefits; 63% would be willing to pay more for a certain benefit at the point of retirement.

“Employers should take this opportunity to personalize their real-time decision-making support and recalibrate default enrollment to close the gaps in employee understanding about the savings amount required and costs in retirement,” said Shane Bartling, senior retirement consultant at Willis Towers Watson.

Many employees who expect to work longer may not be able to due to stress or health issues. Forty percent of employees expecting to retire after age 70 have high or above average stress levels, compared with 30% of those expecting to retire at 65.

For those planning to retire after age 70, less than half (47%) say they are in very good health, while nearly two-thirds (63%) of those retiring at age 65 state they are in very good health. The survey also found 40% of employees planning to work past 70 feel they are stuck in their jobs, compared with just one-quarter of those who expect to retire at 65 (28%) or before 65 (27%).

On the Web at: <https://www.willistowerswatson.com/en/press/2016/06/one-in-four-us-employees-expect-to-work-beyond-age-70>. 

2016 TEXPERS Summer Educational Forum

August 14 - 16

Grand Hyatt

San Antonio, TX

Registration Now Open

Hotel Room Block filling up fast

Top Golf on Sunday evening!

Attend the popular Roundtable discussions:

share ideas and what keeps you up at night

with your peers at other pension funds

Don't miss: HillCo Legislative Update, Robert Klausner, PRB Staff update, 401h VEBA, REITs, Brexit impact and more!



Public Pension Contributions Were Up in 2015 but Earnings Were Down

The U.S. Census Bureau on June 14 released its 2015 Annual Survey of Public Pensions, which provides a comprehensive look at the financial activity of the nation's state and locally administered defined benefit (DB) pension systems. The data includes cash and investment holdings, receipts, payments, pension obligations and membership information. Statistics are available at the national level and for individual states.



Total contributions were \$180.2 billion in 2015, increasing 7.9 percent from \$167 billion in 2014. Government contributions accounted for the bulk of them (\$131.7 billion in 2015, increasing 8.3 percent from \$121.5 billion in 2014), with employee contributions at \$48.5 billion in 2015, climbing 6.5 percent from \$45.5 billion in 2014.

The other component of total revenue – earnings on investments – declined 68.4 percent, from \$534.4 billion in 2014 to \$168.7 billion in 2015. Earnings on investments include both realized and unrealized gains, and therefore reflect market fluctuations.

The total number of beneficiaries increased 4.3 percent to 10 million people in 2015 (from 9.56 million people in 2014 to 9,971,726 in 2015). The payments they received rose 5.1 percent from \$272.5 billion in 2014 to \$286.5 billion in 2015.

Meanwhile, total assets increased 3 percent, from \$3.7 trillion in 2014 to \$3.8 trillion in 2015.

On the Web at: <http://www.census.gov/govs/retire/>. 

Public Pension Plan Funding Practices Can Lead to a Host of Problems, Study Finds

A new study by the Nelson A. Rockefeller Institute of Government at the State University of New York utilizes a model to evaluate public pension plan risks under different funding policies and investment return scenarios.

The authors found that while the most common funding policies and practices reduce contribution volatility, they increase the likelihood of significant underfunding.

These funding policies are unlikely to bring underfunded plans to full funding within 30 years, even if investment-return assumptions are met every single year and employers make full actuarially determined contributions.

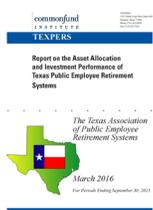
When investment returns are variable, plans and their sponsors face substantial risk of potential crises: The same plan would face a one in six chance of falling below 40 percent funding within 30 years if its investment return assumption is correct on average but has a 12 percent standard deviation, the study found.

If sponsors do not pay full actuarial contributions, or if reasonable expected returns are less than 7.5 percent, the risk of severe underfunding would be greater.

“This raises important questions about the impact that pension contributions will have on state and local government taxes and spending, and questions about the security of pension benefits,” the authors wrote.

“There is no easy way out. Pension plans can de-risk, reducing the volatility of their investment returns and reducing the volatility of contributions. However, reducing risk almost certainly will require lowering earnings assumptions, which will drive up contribution demands from governments and crowd out services or require tax increases.”

On the Web at: http://www.rockinst.org/pdf/government_finance/2016-06-02-Pension_Funding_Practices.pdf. 



**Did you download your copy of the
2016 Asset Allocation Study?**

Go to www.texpers.org, click on Publications, then Studies

Texas Among States with Lowest Access to Private Pension Funds

There are wide differences among the states in terms of access to and participation in private-sector, employer-based retirement plans, such as 401(k)s or pensions, according to a report by The Pew Charitable Trusts.

Large metropolitan areas with relatively low access to private retirement plans are prevalent in Texas, Florida and California, according to the report, "Who's In, Who's Out: A Look at Access to Employer-Based Retirement Plans and Participation in the States."

Almost three-quarters of the metros in the study's bottom 25 percent were in one of those three states.

The report examined the rates of access to and participation in plans in all 50 states and assessed the challenges facing workers and employers in ensuring that Americans have sufficient resources to pay for their retirements.

The report broke down the results by variations by employer size and industry type as well as by workers' income, age, education, race and ethnicity.

For example, Dallas-Fort Worth was rated as having the best access to retirement plans among private-sector workers (the study excluded government employees, like public school teachers) in Texas, outranking Austin, San Antonio and Houston – though D-FW still fell in the bottom quarter of metro areas.

In D-FW, 54 percent of private sector workers had access to a retirement plan through their employers.

At the bottom was McAllen, where only 23 percent of full-time, full-year private-sector workers had access to an employer-based retirement plan. El Paso and San Antonio also ranked in the bottom 10.

That's in contrast with the Grand Rapids, Mich., area, where 71 percent of full-time workers had access to an employer retirement plan.

"Access to workplace retirement plans varies widely across the states," said John Scott, director of Pew's retirement savings project. "Recognizing the savings challenge faced by so many Americans, half of the states are looking at their own solutions."

The report noted that the numerous efforts have been taking place at the state and federal levels to increase retirement savings. Illinois, for instance, adopted the Secure Choice Savings Program in 2015, which will start enrolling certain private-sector workers in new payroll-deduction retirement accounts run by public pensions by 2017.

In another example, the state of Washington created a marketplace in which small employers and the self-employed can shop for retirement plans. In addition, the federal government has rolled out the "myRA," a new national savings program that is geared toward low-income savers.

On the Web at: www.pewtrusts.org/retirementaccess, <http://www.pewtrusts.org/en/research-and-analysis/reports/2016/01/a-look-at-access-to-employer-based-retirement-plans-and-participation-in-the-states> and <http://bizbeatblog.dallasnews.com/2016/05/want-to-retain-comfortably-heres-why-that-may-be-tougher-in-texas.html/>. 

Investment Management Fees Come under the Microscope in Maryland

The state of Maryland spent more than \$320 million to manage its public pension funds during the current fiscal year, The Washington Post reported, but its pension portfolio was on track to fall below the program's modest goal of a 0.51 percent return on investments for fiscal 2016.

As of April 30, the plan had earned a mere 0.12 percent.

"If the fund continues to underperform through June, it could bolster an argument ... that several other states have recently adopted: Public pension systems should bid farewell to high-cost financial wizards and shift more money into passively managed index funds such as those that mimic the Standard & Poor's 500-stock index."

On the Web at: https://www.washingtonpost.com/local/md-politics/maryland-pays-more-than-320-million-in-fees-to-manage-pension-funds-whats-it-get-in-return/2016/06/12/add4319a-2c39-11e6-9de3-6e6e7a14000c_story.html. 

Connect with TEXPERS Online *Be a part of the conversation!*



<http://texpers.blogspot.com/>

Legislation to Repeal or Amend GPO/WEP Languishes in Congress

Texas is among 12 states in which state and local public employees do not contribute to Social Security and who, therefore, do not receive benefits from it in retirement. In addition to the 12 states, some local governments in three other states also do not participate in Social Security.

For these workers, Social Security will not be a factor in their retirement plans. Their defined benefit (DB) pension and their personal savings will be their only sources of retirement income.

As the nation recently celebrated Social Security's 80th anniversary, firefighters, librarians and other public employees in some of these states faced threats to their DB pensions. Cuts to their pensions would be particularly harmful since these workers do not have Social Security to fall back on.



When Social Security was created, these state and local governments chose not to enroll their employees in the program because they believed the DB pension benefits they offered were better than what the employees would receive in Social Security.

Yet now some politicians are actively pursuing cutting pensions for firefighters, teachers and other public servants.

State or local government employees who work in non-Social Security covered employment receive a government pension that does not include a Social Security retirement or disability benefit; payment from an optional savings plan such as a 403(b) or 457 plan; early incentive retirement payment; or survivor annuity from a spouse's government pension.

State or local government employees who work in non-Social Security covered employment are subject to the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP).

The GPO reduces a Social Security survivor benefit. A survivor benefit is paid to the spouse and minor children of a Social Security-eligible worker who has died.

The WEP reduces the Social Security benefit

for retired and disabled workers receiving pensions from non-SS-covered employment.

When it enacted the GPO, Congress seemed to forget that the original purpose of the dependent/survivor benefit was to provide additional income to help a financially dependent husband or wife once the breadwinner retires, is disabled or dies.

By reducing the dependent/survivor benefit, the GPO harms the financially dependent spouse. Those most likely affected by the GPO are women who spend most of their lives raising their families and who work outside the home for only a short

period of time. The GPO undermines the original purpose of the Social Security dependent/survivor benefit.

The WEP causes public employees outside the Social Security system, such as educators, to lose a significant share of their Social Security benefit. It fails to account for the

severe effect of the WEP on low-wage state or local government employees.

There have been many efforts in Congress over the years to repeal the GPO and WEP, but none have been successful. In the current Congress, two bills have been introduced to repeal or amend either or both the GPO and WEP, and again the odds do not appear to be in their favor:

- The SWEPT Act of 2016 (H.R.4728), introduced in the House on March 10, 2016, by Rep. Adam Smith (D-Wash.), proposes to amend Title II of the Social Security Act (Old Age, Survivors and Disability Insurance) with respect to the exception to the WEP under which an individual's Social Security benefits may be reduced for work for an employer that does not withhold Social Security taxes. The bill would revise the formula for computation of an individual's primary insurance benefit amount to: 1) lower from 30 to 25 the number of years of coverage required for exception to the WEP; 2) alter the determination of partial exemptions for those who have more than 20 but less than 25 years of coverage; and 3) reduce the dollar amount of annual earnings subject to Social Security taxes required to constitute an applicable year of Social Security coverage. The bill had no cosponsors as of press time and had been referred to the Subcommittee on Social Security. Govtrack gave the bill a 1% chance of passing.

Legislation Continued from p. 6

• The Equal Treatment of Public Servants Act of 2015 (H.R. 711), introduced by Rep. Brady, Kevin (R-Texas), on February 4, 2015, has been languishing in the House Ways and Means Subcommittee on Social Security since it was introduced. The bill, which had 110 cosponsors at press time, would amend Title II of the Social Security Act (OASDI) to replace the current WEP for individuals who: 1) become eligible for old-age insurance benefits after 2016 or would attain age 62 after 2016 and become eligible for disability insurance benefits after 2016, 2) subsequently become entitled to such benefits, and 3) have earnings derived from non-covered service performed after 1977. The bill also would establish a new formula for the treatment of non-covered earnings in determining Social Security benefits; prescribe a second formula to modify the WEP for current beneficiaries; and direct the Commissioner of Social Security to recover overpayments from certain individuals. Govtrack gave the bill a 10% chance of passing.

On the Web at: <http://www.brookings.edu/~media/research/files/papers/2015/08/gjh/download-the-paper.pdf>, http://www.huffingtonpost.com/bailey-childers/retirement-a-party-we-all_b_7985242.html, <https://www.govtrack.us/congress/bills/114/hr4728>, <https://www.govtrack.us/congress/bills/114/hr711> and <https://www.congress.gov/search?q=%7B%22congress%22%3A%22114%22%2C%22source%22%3A%22legislation%22%2C%22search%22%3A%22gpo%20wep%22%7D>. 🇺🇸

Union Workers Lose Appeal to Protect their Pensions, Benefits at Trump Taj Mahal Casino

The U.S. Supreme Court on May 31 rejected a union appeal seeking to restore health and pension benefits for workers at the Trump Taj Mahal casino in Atlantic City, N.J.

The justices let stand lower court rulings in favor of the former Trump Entertainment Resorts, once run by presumptive Republican presidential nominee Donald Trump.

The Supreme Court turned down the petition of Unite Here Local 54 (Unite), a labor union representing more than 1,000 workers at the Trump Taj Mahal, which had scaled back its worker benefits as part of its bankruptcy reorganization.

The company filed for bankruptcy protection in 2014 and a federal bankruptcy judge imposed cost savings sought by the company. They included terminating health insurance and pension benefits for unionized workers.

Without giving any comment, the Supreme Court left in place a January decision by the

Philadelphia-based Third U.S. Circuit Court of Appeals that cleared the way for the casino to exit Chapter 11 bankruptcy and cancelled the health insurance and pension contributions called for in the union's contract.

On the Web at: <http://www.csmonitor.com/USA/USA-Update/2016/0601/Supreme-Court-lets-bankrupt-former-Trump-casino-cut-pensions-benefits> and <http://www.bloomberg.com/politics/articles/2016-05-31/trump-taj-mahal-union-appeal-rejected-by-u-s-supreme-court> 🇺🇸

Study Analyzes Growth in Government Contributions to N.Y. Public Pensions

A new study examines the reasons for the recent rise in government contributions to the New York State Public Pension Plans for general state and local government employees, which are among the best-funded public pension plans in the nation.

The retirement benefits for state and local government employees have become increasingly costly for New York State's taxpayers over the past decade, according to the study by the Urban Institute.

Nationally, contributions by state and local governments to public employee retirement plans increased 133 percent in inflation-adjusted dollars between 2002 and 2014. But in New York State, total government contributions increased 609 percent over the same period, the second-largest increase in the nation.

The increases were driven primarily by plan investment losses and the plan's practice of adjusting government contributions to offset unexpectedly high or low investment returns, according to the study.

"The sharp rise in state and local government contribution rates to the ERS plan between 2002 and 2014 followed dramatic declines in the equities market in the wake of the 2000 collapse of the dot-com bubble and the 2008 financial crisis," the report stated.

"The plan benefit structure did not cause required government contributions to surge over the past decade. Although current retirees from New York's state and local governments receive more generous pensions than government employees in most states, recent cutbacks have significantly reduced pensions for new hires."

On the Web at: <http://www.urban.org/research/publication/understanding-growth-government-contributions-new-york-states-public-pension-plans>. 🇺🇸

Data Shows Pension Reforms in California Net Cost Savings

Employers in California are saving up to 5 percent of payroll for members covered by the Public Employees' Pension Reform Act of 2013 (PEPRA), according to data released by California Public Employees' Retirement System (CalPERS) Pension & Health Benefits Committee.

The Committee also reported that employers will see additional cost savings now that nearly 200,000 members are classified under the PEPRA and are accruing lower benefits.

Cost savings for the state range from 1.2 percent of payroll for miscellaneous plans and up to 5.1 percent of payroll for safety plans, while plans in the schools pool saw an approximately 1.7 percent cost savings as of the June 30, 2015, actuarial valuations.

Savings for local public agencies will vary depending on the benefit provisions they elected to provide to their employees and the demographics of their work forces.

The pension reform is expected to save employers approximately \$29 to \$38 billion over the next 30 years.

Under PEPRA, new member pension benefits are required to be based on a three-year final compensation, members must contribute at least half of the normal pension cost, and they are subject to a lower earnings cap that counts toward their pension.

On the Web at: <https://www.calpers.ca.gov/page/newsroom/calpers-news/2016/pension-reform-savings-employers> and <https://www.calpers.ca.gov/page/employers/policies-and-procedures/pension-reform-impacts>. 

Morgan Stanley to Pay \$1 Million for Failing to Safeguard Customer Data

Morgan Stanley Smith Barney LLC has agreed to pay a \$1 million penalty to settle charges brought by the Securities and Exchange Commission (SEC) related to its failures to protect customer information, some of which was hacked and offered for sale online.

The SEC issued an order finding that Morgan Stanley failed to adopt written policies and procedures reasonably designed to protect customer data. As a result of these failures, a then-employee over three years impermissibly accessed and transferred the data regarding approximately 730,000 accounts to his personal server, which was ultimately hacked by suspected third parties.

Federal securities laws require registered broker-dealers and investment advisers to adopt written policies and procedures reasonably designed to protect customer records and information. Morgan Stanley's policies and procedures were not reasonable for two internal web applications or "portals" that allowed its employees to access customers' confidential account information, the SEC alleged.

For these portals, Morgan Stanley did not have effective security for more than 10 years to restrict employees' access to customer data based on each employee's legitimate business need.

Consequently, then-employee Galen J. Marsh downloaded and transferred confidential data to his personal server at home between 2011 and 2014. A likely third-party hack of Marsh's personal server resulted in portions of the confidential data being posted on the Internet.

On the Web at: <http://www.sec.gov/litigation/admin/2016/34-78021.pdf> and <http://www.sec.gov/litigation/admin/2016/34-78020.pdf>. 

Muni Advisors Settle Charges They Acted Deceptively With California School Districts

Two California-based municipal advisory firms and their executives have agreed to settle Securities and Exchange Commission (SEC) charges that they used deceptive practices when soliciting the business of five California school districts.

An SEC investigation uncovered an unauthorized exchange of confidential client information. It found that while School Business Consulting Inc. was advising the school districts about their hiring process for financial professionals, it was simultaneously retained by Keygent LLC, which was seeking the municipal advisory business of the same school districts.

Without permission, School Business Consulting shared confidential information with Keygent, including questions to be asked in Keygent's interviews with the school districts and details of competitors' proposals including their fees.

The school districts were unaware that Keygent had the benefit of these confidential details throughout the hiring process. Keygent ultimately won the municipal advisory contracts.

This is the SEC's first enforcement action under the municipal advisor antifraud provisions of the Dodd-Frank Act.

On the Web at: <http://www.sec.gov/litigation/admin/2016/34-78053.pdf> and <http://www.sec.gov/litigation/admin/2016/34-78054.pdf>. 

Placement Fee Scandal Lands Former CalPERS CEO in Jail for 4½ Years

A former chief executive officer of the California Public Employees' Retirement System (CalPERS), the country's biggest public pension fund, was sentenced on May 31 to 4½ years in prison for steering \$14 million in placement fees to an ex-board member in exchange for cash bribes and gifts.

Senior U.S. District Court Judge Charles Breyer called the case against Federico Buenrostro, 66, "seriously troubling" and his crime "a dagger in the heart of public trust."

It reflected a "spectacular breach of trust for the most venal of purposes, which is self-enrichment," Breyer said.

In addition to the prison time, the judge ordered Buenrostro to pay a \$250,000 fine.

Buenrostro, who headed CalPERS from 2002 to 2008, admitted two years ago to conspiring to commit bribery and defrauding the U.S. and the state of California for his efforts on behalf of Alfred Villalobos, an ex-board member who brokered a \$3 billion investment by CalPERS in funds managed by Apollo Global Management LLC. Villalobos, who also was charged in the case, committed suicide last year, a month before he was scheduled to go to trial.

Before imposing the prison term, Breyer told Buenrostro that while he had a chance over a lengthy period to "turn back from this conduct," Buenrostro instead "simply doubled down" on a "course of illegal conduct."

Buenrostro gave Villalobos access to confidential information on CalPERS investments and advised the board to make financial decisions that would benefit Villalobos and his clients. Buenrostro said he took \$200,000 in cash bribes from Villalobos, as well as gifts, domestic and international travel, meals and entertainment.

Buenrostro's guilty plea came out of a years-long investigation into the role of money-management firm middlemen, called placement agents, in helping clients win investment business from the pension fund. The fund has about \$290 billion in assets.

On the Web at: <http://www.houstonchronicle.com/business/economy/article/California-pension-fund-CEO-sentenced-for-bribery-7955889.php> and <http://www.latimes.com/business/la-fi-calpers-buenrostro-20160531-snap-story.html>. 🇺🇸

3rd Annual TSR Symposium



October 26, 2016

Dimensional Fund
Advisors

6300 Bee Cave Rd., Austin, Texas

Save the Date!
Registration Opening Soon

Preliminary agenda includes:

*Hon. Dan Flynn, political climate for pensions,
DB in the private sector, sustainable pension plans,
The Ideal Retirement System*