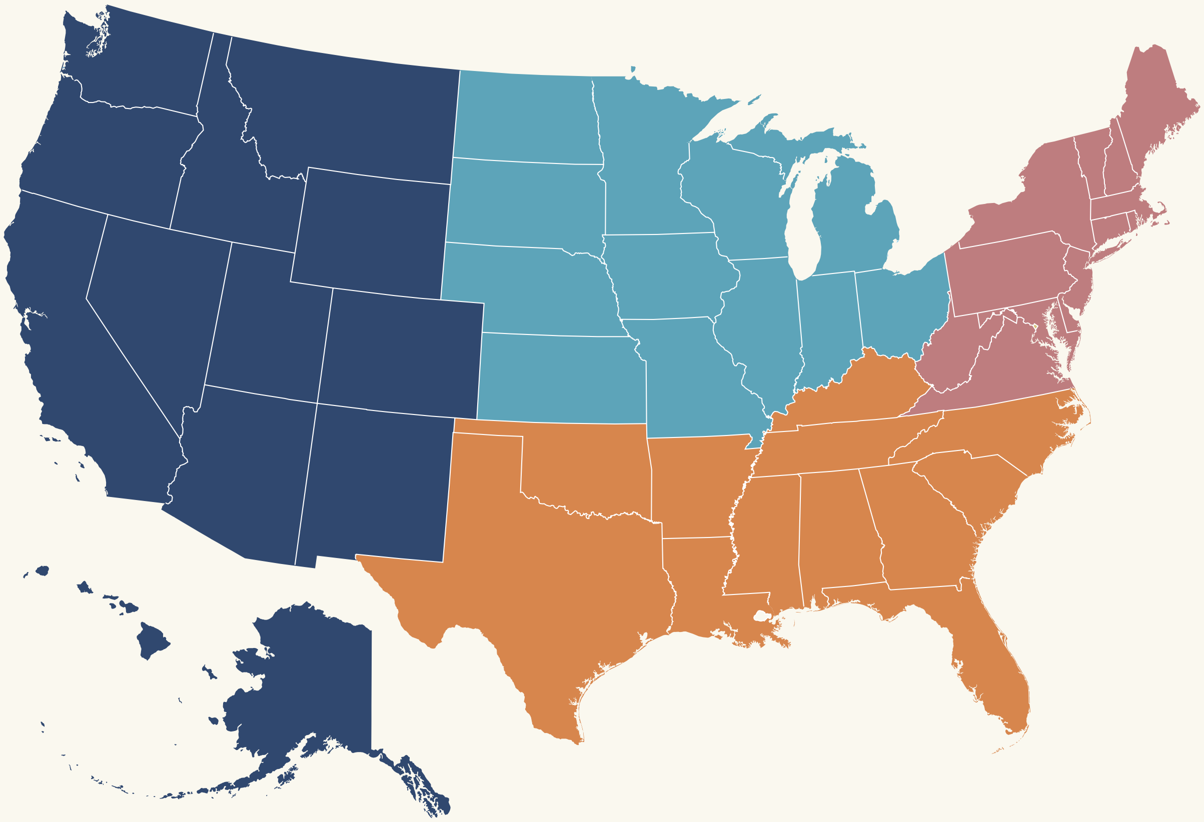
NCPERS Around the Regions

This month, we will highlight Pennsylvania, Missouri, Texas and California.



NORTHEAST: Pennsylvania

With an op-ed published in the *Philadelphia Inquirer* on August 30, NCPERS sought to bring balance to the newspaper's one-sided investigative coverage of Pennsylvania's Public School Employees' Retirement System.

Writing for NCPERS, Executive Director and Counsel Hank Kim urged Pennsylvanians to look beyond the Inquirer's headlines when reading about PSERS' investment strategy and performance. While the newspaper continues to insist on comparing the fund's performance to index funds, Kim pointed out that this approach is a flawed way of thinking about any pension fund.

He drew an analogy to two runners on a track, both running a one-mile time trial. "Runner A records a time of 7 minutes on a flat track. Runner B does their trial on a grass hill with a 15-pound knapsack on their back and records a time of 7 minutes, 20 seconds. Who is faster?" Kim explained that the answer is not so simple. If you took away the incline and the additional weight, Runner B—analogous to PSERS—might prove to be the winner.

PSERS, which manages a $70 billion investment fund that provides retirement security for more than 500,000 active and retired educators in Pennsylvania, has found itself in the spotlight lately for underperforming its targets, Kim noted. Yet on Aug. 4, PSERS announced one of its biggest investment returns in the last 50 years, a 25% return that generated $12 billion. It is the highest in the last 26 years.

When examining a situation like this time trial or something more esoteric, like pension fund performance, it's important to understand that many pension funds have been impacted by

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historically low funding levels, Kim wrote. In addition, like many pension funds, PSERS has a conservative, lower-risk portfolio that isn't intended to mirror the stock market's performance.

The great performance of many pension funds in 2021 is a reminder that "pension funds are long-term investment institutions," Kim wrote. "No single year, good or bad, should ever be a measure of performance. And even long-term measures of performance require context and history."

MIDWEST: Missouri

The Missouri State Employees' Retirement System returned a net 26.4% for fiscal year 2021, which ended June 30, according to a report on the pension fund's website.

The return exceeded the $9 billion fund's policy benchmark rate of 25.2%, which reflects what the returns would have been if the MOSERS portfolio had been invested passively according to its asset allocation. This is up from a net 5.2% return in the 2020 fiscal year.

MOSERS also exceeded its policy benchmark rate for the three, five, 10, and 20 years ended June 30. It returned annualized net returns of 11.5%, 9.1%, 7.3%, and 7.2% for those periods, versus policy benchmark returns of 9.4%, 6.9%, 6.6%, and 6.2%. The five-year returns were reported by *Pensions & Investments*; the others were posted on the MOSERS website.

As of June 30, MOSERS had a target asset allocation of 21% to global equities; 18% each to Treasury inflation-protected securities and long Treasuries; 11% global private equity; 7% each to core bonds and alternative beta; 4% each to private credit, hedge funds and public real assets; and 3% each to private real assets and commodities. Actual asset allocation at the end of the fiscal year was within two percentage points for all asset classes.

SOUTH: Texas

A new law that took effect in Texas on September 1 that revises provisions for developing the public retirement system's funding policy. HR 3898 was signed into law by Governor Greg Abbott, a Republican on June 18.

The new law expands requirements for mandatory plan funding policies, adjusts the conditions under which a system would have to establish or revise a funding soundness restoration plan, and intensifies periodic independent reviews of plan investment practices. The bill similarly revises provisions relating to unitary retirement systems for certain municipalities.

The Texas legislature made the changes to improve the financial viability of the numerous state and local plans in the state. In all, 25 out of 93 public retirement plans had amortization periods greater than 40 years, an increase of over 200% since 2000, and only one plan had an amortization period of zero.

Under the new law, plans must work jointly with their sponsoring entity to develop and adopt a written funding policy, and must offer a detailed plan for attaining a funded ratio of at least 100%.

The law also changed the rules for funding soundness restoration plans. Effective September 1, 2025, a plan requirement will be triggered if the plan's expected funded ration exceeds 40 years or exceeds 30 years and the funded ratio of the plan is less than 65%.

The law imposes new ethical requirements related to independent reviews of investment practices. The independent firm is required to summarize its expertise, state that its experience meets state requirements, disclose any existing relationships between the independent firm and the plan, confirm that neither the independent firm nor its affiliates are involved in managing investments of the plan, list the types of compensation it receives from sources other than the plan for services to the plan, and identify any potential conflicts of interest or appearances of conflicts that could impact independent analysis.

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WEST: California

Two union-backed candidates, David Miller and Jose Luis Pacheco, were elected to the two Member-at-Large seats on the CalPERS Board of Administration, CalPERS announced October 1. Their four-year terms begin on January 16, 2022.

The results are unofficial, pending formal certification by the California Secretary of State in November.

Miller, an environmental scientist, was re-elected, receiving 73% of the vote in his race, versus 27% for challenger Tiffany Emon-Moran, a retired police officer. Pacheco, a community college IT administrator, defeated the incumbent, receiving 62% of the votes in his race, versus 38% for Margaret Brown, a retired school administrator.

The 13-member CalPERS Board sets policy for retirement and health benefits on behalf of California public employers, and their active and retired employees. The board also oversees asset allocation of the pension fund's investments.

Five California state employee unions, SEIU California, the California School Employees Association, the California Teachers Association and other unions supported the winning candidates.

"We worked hard to elect David Miller and Jose Luis Pacheco because we know we can trust their experienced, pro-worker leadership," Riko Mendez, chief elected officer of SEIU Local 521 and an SEIU California board member, said in a prepared statement. ◆