AGENDA

Date: March 5, 2021

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, March 11, 2021, via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom** meeting for visual **https://us02web.zoom.us/j/82764814779?pwd=TlIyMjd1WnVjcGZwYXVuY2g3YXdUZz09** **Passcode: 872809.** Items of the following agenda will be presented to the Board:

A. MOMENT OF SILENCE

B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of February 11, 2021

2. Approval of Refunds of Contributions for the Month of February 2021

3. **Approval of Activity in the Deferred Retirement Option Plan (DROP) for March 2021**

4. **Approval of Estate Settlements**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Peer Compensation Review**

   Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

2. **Audit Committee Recommendation for Audit Firm**

3. **Report on Professional Services Provider Meetings**

4. **Legislative Update**

5. **Monthly Contribution Report**

6. **Board approval of Trustee education and travel**

   a. Future Education and Business-related Travel
   b. Future Investment-related Travel

7. **Portfolio Update**

8. **Report on Investment Advisory Committee**

9. **Investment Policy Statement**

10. **Asset Allocation Review**

11. **Fourth Quarter 2020 Investment Performance Analysis and Third Quarter 2020 Private Markets & Real Assets Review**

    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.

12. **Natural Resources Portfolio Review - Forest Investment Associates & BTG Pactual**

    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.

13. Lone Star Investment Advisors Update

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

14. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to DPFP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.

D. BRIEFING ITEMS

1. Public Comment

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (March 2021)
- NCPERS PERSist (Winter 2021)

b. Open Records

c. Education Update

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.

DALLAS POLICE & FIRE PENSION SYSTEM

ITEM A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Gerald L. Harrell	Retired	Police	Feb. 10, 2021
Mitchell A. Penton	Active	Police	Feb. 13, 2021
V. P. Bruzzese	Retired	Fire	Feb. 16, 2021
Billy W. Taylor	Retired	Fire	Feb. 17, 2021
Hugh B. Wesson	Retired	Fire	Feb. 17, 2021
Harry D. Morris	Retired	Fire	Feb. 18, 2021
Ray F. Reed	Retired	Fire	Feb. 21, 2021
Jimmy L. Flanagan	Retired	Fire	Feb. 22, 2021
Bobby G. Hamilton	Retired	Fire	Feb. 23, 2021
Brian K. Allen	Retired	Fire	Feb. 23, 2021

Regular Board Meeting – Thursday, March 11, 2021

Dallas Police and Fire Pension System
Thursday, February 11, 2021
8:30 a.m.
Via telephone conference

Regular meeting, William F. Quinn, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:31 a.m.	William F. Quinn, Nicholas A. Merrick, Armando Garza, Michael Brown, Kenneth Haben, Tina Hernandez Patterson, Steve Idoux, Mark Malveaux, Allen R. Vaught
Present at 8:45 a.m.	Gilbert A. Garcia
Present at 10:16 a.m.	Robert B. French
Absent:	None
Staff	Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero
Others	Dick Mullinax, Iva Giddiens, James Martinez, Bohdy Hedgcock, Kevin McCabe, Leandro Festino, Sidney Kawanguzi

* * * * * * * *

The meeting was called to order at 8:31 a.m.

* * * * * * * *

A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officer Ronald D. Watts, Sidney Q. Grosvenor, Mark A. Taylor, W. E. Perry, Jr., Zachariah N. Garfield, James L. Lewis, Joseph A. Desonier, Lee A. Bush, George L. Purnell, and retired firefighters John W. Hudson, L. M. Loggins, Edwin L. Bateman, John C. Lamb, Glenn L. Moore, Robert Hernandez, Clayton M. Miller.

No motion was made.

* * * * * * * *

Regular Board Meeting
Thursday, February 11, 2021

B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of January 14, 2021

2. Approval of Refunds of Contributions for the Month of January 2021

3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for February 2021

4. Approval of Estate Settlements

5. Approval of Survivor Benefits

6. Approval of Service Retirements

7. Spouse Wed After Retirement (SWAR)

After discussion, Mr. Merrick made a motion to approve the minutes of the meeting of January 14, 2021. Mr. Haben seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Quinn made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Garza seconded the motion, which was unanimously approved by the Board.

* * * * * * * *

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Communication Plan

During the November 2020 Board meeting the Board directed the Executive Director to develop a communication plan related to funding issues. Dick Mullinax of FleishmanHillard presented a proposed communication plan to the Board.

After discussion, Mr. Malveaux made a motion to authorize staff to engage FleishmanHilliard to do preliminary communications work as outlined for the Board for an amount not to exceed $20,000. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

Mr. French was not present for the vote.

* * * * * * * *

Regular Board Meeting
Thursday, February 11, 2021

2. Risk Insurance

Iva Giddiens, Area Managing Director and James Martinez, Fiduciary Liability Program Specialist, representatives of DPFP's insurance broker, Arthur J. Gallagher & Co. discussed the insurance market and the risk insurance renewal quotes. Staff reviewed the limits and costs of the various coverage level options for Cyber, Crime and Fiduciary. The Board concurred with staff's recommendation to consider reducing some of the excess layers of the Crime, increasing the Cyber and maintaining the Fiduciary insurance coverage levels.

No motion was made.

* * * * * * * *

3. Chairman's Discussion Items

Funding Committee Update

The Chairman briefed the Board with an update on the Funding Committee.

No motion was made

* * * * * * * *

4. Quarterly Financial Statements

The Chief Financial Officer presented the preliminary fourth quarter 2020 financial statements.

No motion was made.

* * * * * * * *

5. Peer Compensation Review Status

The Executive Director provided an update on the Peer Compensation Review.

After discussion, Ms. Hernandez Patterson made a motion to direct staff to work with its legislative consultants to pursue legislation which would enable the Board to elect to have System employees become members of the Texas Municipal Retirement System. Mr. Vaught seconded the motion, which was unanimously approved by the Board.

Mr. French was not present for the vote.

Regular Board Meeting
Thursday, February 11, 2021

* * * * * * * *

6. Monthly Contribution Report

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

* * * * * * * *

7. Board Members' reports on meetings, seminars and/or conferences attended

a. Future Education and Business-related Travel
b. Future Investment-related Travel

The Board and staff discussed future Trustee education. There was no future Trustee business-related travel or investment-related travel scheduled.

No motion was made.

* * * * * * * *

8. Portfolio Update

Investment staff briefed the Board on recent events and current developments with respect to the investment portfolio.

No motion was made.

* * * * * * * *

9. Investment Policy Statement Review

The Board provided feedback and guidance regarding the revisions to the Investment Policy Statement proposed by staff and Meketa.

No motion was made.

* * * * * * * *

Regular Board Meeting
Thursday, February 11, 2021

10. Real Estate Overview – Clarion Partners Portfolio

Bohdy Hedgcock, and Kevin McCabe representatives of Clarion Partners updated the Board on the status and plans for DPFP's investment in CCH Lamar.

The Board went into closed executive session at 10:49 a.m.

The meeting was reopened at 11:34 a.m.

No motion was made.

* * * * * * * *

11. Lone Star Investment Advisors Update

Investment Staff updated the Board on recent performance, operational, and administrative developments with respect to DPFP investments in funds managed by Lone Star Investment Advisors.

The Board went into closed executive session at 10:49 a.m.

The meeting was reopened at 11:34 a.m.

No motion was made.

* * * * * * * *

12. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to DPFP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.

The Board went into closed executive session at 10:49 a.m.

The meeting was reopened at 11:34 a.m.

No motion was made.

* * * * * * * *

Regular Board Meeting
Thursday, February 11, 2021

D. BRIEFING ITEMS

1. Public Comments

Prior to commencing items for Board discussion and deliberation, the Chairman extended an opportunity for public comment. No one requested to speak to the Board.

* * * * * * * *

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (February 2021)
- TEXPERS Pension Observer http://online.anyflip.com/mxfu/yhmm/mobile/index.html

b. Open Records
c. Staffing Update

The Executive Director's report was presented.

* * * * * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garza and a second by Mr. Vaught, the meeting was adjourned at 11:34 a.m.

____
William F. Quinn
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C1

Topic: **Peer Compensation Review**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

Discussion: In December 2019, the Board directed the Executive Director to conduct a Peer Organizational and Expense review.

The Board will be briefed on the results of this review.

Regular Board Meeting – Thursday, March 11, 2021

DISCUSSION SHEET

ITEM #C2

Topic: **Audit Committee Recommendation for Audit Firm**

Discussion: In 2015, the Board gave direction to conduct a competitive selection process for specific service providers, including DPFP's audit firm, every five years unless the Board explicitly waives or extends the requirement. In November 2019, the Board extended, for one year, the requirement to conduct a selection process for auditing services to allow BDO to perform the 2019 audit. In order to comply with the Board's direction, staff conducted a Request for Proposal (RFP) for audit services to begin with the 2020 audit.

Bill Quinn, Chairman of the Audit Committee, will brief the Board on the recent Audit Committee meeting and the results of the RFP process for audit firm services.

Staff Recommendation: **Approve** the Audit Committee's recommendation for the firm to provide audit services.

DISCUSSION SHEET

ITEM #C3

Topic: **Report on Professional Services Provider Meetings**

Discussion: According to the Committee Policy and Procedure, the Professional Services Committee is responsible for meeting privately with the external service providers, without DPFP staff present, at minimum on an annual basis. The purpose of such a meeting is to provide a forum for the service provider to provide candid comments to the Professional Services Committee.

The Professional Services Committee met March 1, 2021with the investment consultant, Meketa.

Staff Recommendation: The Professional Services Committee shall **report** to the Board any material comments and **recommend** to the Board any appropriate actions needed as a result of the meeting with Meketa.

DISCUSSION SHEET

ITEM #C4

Topic: **Legislative Update**

Discussion: Staff will brief the Board on pension bills that have been filed which may bear on DPFP.

Regular Board Meeting – Thursday, March 11, 2021

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

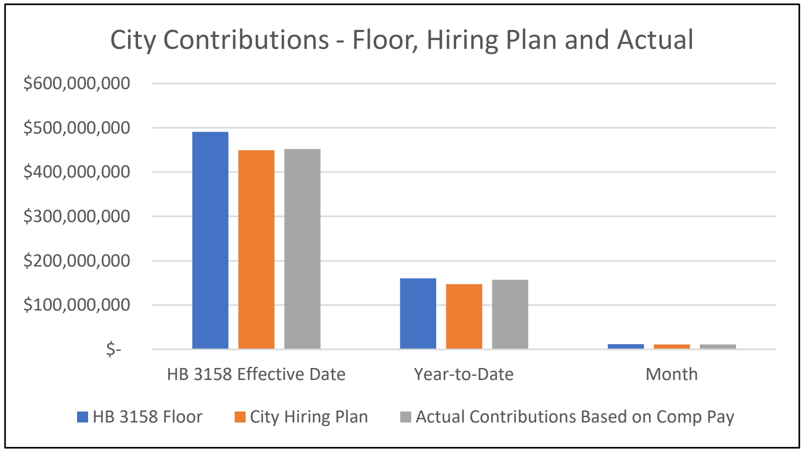
ITEM #C5

Topic: **Monthly Contribution**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, March 11, 2021

Contribution Tracking Summary - March 2021 (January 2021 Data)



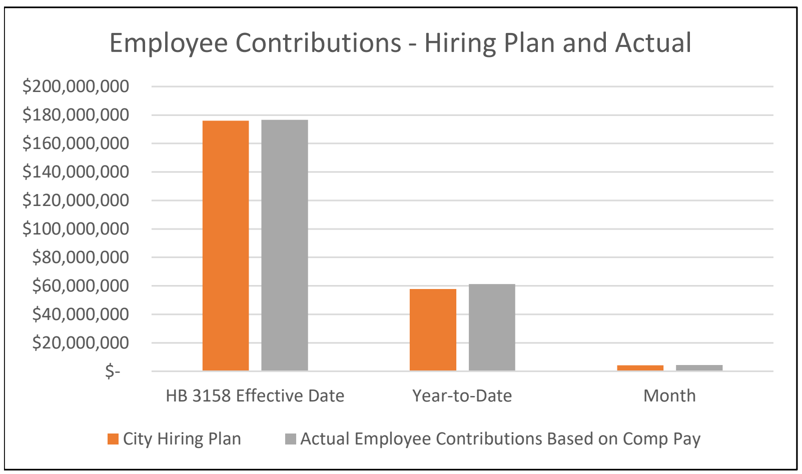
Actual Comp Pay was 100% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 105% of the Hiring Plan estimate and 97% of the Floor amount.

The Hiring Plan Comp Pay estimate increased by 3.03% in 2021. The Floor increased by 2.76%.

Through 2024 the HB 3158 Floor is in place so there is no City Contribution shortfall.

The Hiring Plan estimate increased from 5,063 to 5,088 for 2021, the increase is soley on the Police side.   The combined actual employees was 128 less than the Hiring Plan for the pay period ending February 2, 2021.   Fire was over the estimate by 37 fire fighters and Police under by 165 officers.



Employee contributions exceeded the Hiring Plan estimate for the month and the year.

There is no Floor on employee contributions.

Contribution Summary Data

City Contributions

Jan-21	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Month	2	$ 11,764,000	$ 10,827,692	$ 11,410,700	$ 353,300	97%	105%
Year-to-Date		$ 160,588,000	$ 147,447,692	$ 156,838,548	$ 3,823,159	98%	106%
HB 3158 Effective Date		$ 490,935,000	$ 449,588,077	$ 451,895,756	$ 39,112,951	92%	101%

Due to the Floor through 2024, there is no cumulative shortfall in City Contributions
Does not include the flat $13 million annual City Contribution payable through 2024.
Does not include Supplemental Plan Contributions.

Employee Contributions

Jan-21	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Shortfall Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Month	2	$ 4,236,923	$ 4,457,578	$ 220,655	$ 4,236,924	105%	105%
Year-to-Date		$ 57,696,923	$ 61,221,479	$ 3,524,556	$ 57,696,928	106%	106%
HB 3158 Effective Date		$ 175,925,769	$ 176,690,560	$ 764,791	$ 170,816,566	100%	103%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return $ (582,716)

Does not include Supplemental Plan Contributions.

Reference Information

City Contributions: HB 3158 Bi-weekly Floor and the City Hiring Plan Converted to Bi-weekly Contributions

	HB 3158 Bi-weekly Floor	City Hiring Plan- Bi-weekly	HB 3158 Floor Compared to the Hiring Plan	Hiring Plan as a % of the Floor	% Increase/ (decrease) in the Floor	% Increase/ (decrease) in the Hiring Plan
2017	$ 5,173,000	$ 4,936,154	$ 236,846	95%		
2018	$ 5,344,000	$ 4,830,000	$ 514,000	90%	3.31%	-2.15%
2019	$ 5,571,000	$ 5,082,115	$ 488,885	91%	4.25%	5.22%
2020	$ 5,724,000	$ 5,254,615	$ 469,385	92%	2.75%	3.39%
2021	$ 5,882,000	$ 5,413,846	$ 468,154	92%	2.76%	3.03%
2022	$ 6,043,000	$ 5,599,615	$ 443,385	93%	2.74%	3.43%
2023	$ 5,812,000	$ 5,811,923	$ 77	100%	-3.82%	3.79%
2024	$ 6,024,000	$ 6,024,231	$ (231)	100%	3.65%	3.65%

The HB 3158 Bi-weekly Floor ends after 2024

Employee Contributions: City Hiring Plan and Actuarial Val. Converted to Bi-weekly Contributions

		City Hiring Plan Converted to Bi-weekly Employee Contributions	Actuarial Valuation Assumption Converted to Bi-weekly Employee contributions	Actuarial Valuation as a % of Hiring Plan
2017		$ 1,931,538	$ 1,931,538	100%
2018		$ 1,890,000	$ 1,796,729	95%
2019		$ 1,988,654	$ 1,885,417	95%
2020		$ 2,056,154	$ 2,056,154	100%
2021		$ 2,118,462	**$ 2,118,462**	100%
2022		$ 2,191,154	**$ 2,191,154**	100%
2023		$ 2,274,231	**$ 2,274,231**	100%
2024		$ 2,357,308	**$ 2,357,308**	100%

The information on this page is for reference. The only numbers on this page that may change before 2025 are the Actuarial Valuation Employee Contributions Assumptions for the years 2020-2024 and the associated percentage.

Reference Information - Actuarial Valuation and GASB 67/68 Contribution Assumptions

Actuarial Assumptions Used in the Most Recent Actuarial Valuation - These assumptions will be reevaluated annually & may change.

City Contributions are based on the Floor through 2024, the Hiring Plan from 2025 to 2037, after 2037 an annual growth rate of 2.75% is assumed

Employee Contributions for 2018 are based on the 2017 actual employee contributions inflated by the growth rate of 2.75% and the Hiring Plan for subsequent years until 2038, when the 2037 Hiring Plan is increased by the 2.75 growth rate for the next 10 years

Actuarial/GASB Contribution Assumption Changes Since the Passage of HB 3158

	Actuarial Valuation	GASB 67/68
YE 2017 (1/1/2018 Valuation)		
2018 Employee Contributions Assumption - based on 2017 actual plus growth rate not the Hiring Plan Payroll	$ (2,425,047)	*
2019 Estimate (1/1/2019 Valuation)		
2019 Employee Contribution Assumption	$ 9,278	*

**90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17, 12-31-18 and 12-31-2019 this did not impact the pension liability or the funded percentage.*

The information on this page is for reference. It is intended to document contribution related assumptions used to prepare the Actuarial Valuation and changes to those assumptions over time, including the dollar impact of the changes. Contribution changes impacting the GASB 67/68 liability will also be included.

City Hiring Plan - Annual Computation Pay and Numbers of Employees						
	Computation Pay			**Number of Employees**		
Year	**Hiring Plan**	**Actual**	**Difference**	**Hiring Plan**	**Actual EOY**	**Difference**
2017	$ 372,000,000	Not Available	Not Available	5,240	4,935	(305)
2018	$ 364,000,000	$ 349,885,528	$ (14,114,472)	4,988	4,983	(5)
2019	$ 383,000,000	$ 386,017,378	$ 3,017,378	5,038	5,104	66
2020	$ 396,000,000	$ 421,529,994	$ 25,529,994	5,063	4,988	(75)
2021	$ 408,000,000			5,088		
2022	$ 422,000,000			5,113		
2023	$ 438,000,000			5,163		
2024	$ 454,000,000			5,213		
2025	$ 471,000,000			5,263		
2026	$ 488,000,000			5,313		
2027	$ 507,000,000			5,363		
2028	$ 525,000,000			5,413		
2029	$ 545,000,000			5,463		
2030	$ 565,000,000			5,513		
2031	$ 581,000,000			5,523		
2032	$ 597,000,000			5,523		
2033	$ 614,000,000			5,523		
2034	$ 631,000,000			5,523		
2035	$ 648,000,000			5,523		
2036	$ 666,000,000			5,523		
2037	$ 684,000,000			5,523		

Comp Pay by Month - 2021	**Annual Divided by 26 Pay Periods**	**Actual**	**Difference**	**2020 Cumulative Difference**	**Number of Employees - EOM**	**Difference**
January	$ 30,461,538	$ 31,291,360	$ 829,821	$ 829,821	4960	(128)
February				$ 829,821		
March				$ 829,821		
April				$ 829,821		
May				$ 829,821		
June				$ 829,821		
July				$ 829,821		
August				$ 829,821		
September				$ 829,821		
October				$ 829,821		
November				$ 829,821		
December				$ 829,821		

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C6

Topic: **Board approval of Trustee education and travel**

a. Future Education and Business-related Travel
b. Future Investment-related Travel

Discussion:

a. Per the Education and Travel Policy and Procedure, planned Trustee education and business-related travel and education which does not involve travel requires Board approval prior to attendance.

Attached is a listing of requested future education and travel noting approval status.

b. Per the Investment Policy Statement, planned Trustee travel related to investment monitoring, and in exceptional cases due diligence, requires Board approval prior to attendance.

There is no future investment-related travel for Trustees at this time.

Future Education and Business Related Travel & Webinars
Regular Board Meeting – March 11, 2021

			ATTENDING	APPROVED
1.	**Conference:**	**NCPERS Accredited Fiduciary Program (NAF) Modules 1 and 2**		
	Dates:	March 2-5, 2021		
	Location:	Virtual		
	Cost:	$400		
2.	**Conference:**	**NCPERS Accredited Fiduciary Program (NAF) Modules 3 and 4**		
	Dates:	March 9-12, 2021		
	Location:	Virtual		
	Cost:	$400		
3.	**Conference:**	**TEXPERS 2021 Legislative Workshop**	**KH**	
	Dates:	March 30-31, 2021		
	Location:	Austin, TX		
	Est. Cost:	$500		
4.	**Conference:**	**NCPERS 2021 Legislative Conference Webcast**		
	Dates:	April 20, 2021		
	Location:	Virtual		
	Est. Cost:	Complimentary		

Future Education and Business Related Travel & Webinars
Regular Board Meeting – March 11, 2021 (Continue)

5.	**Conference:**	**TEXPERS Annual Conference**	KH	12/10/2020
	Dates:	May 21-26, 2021		
	Location:	Austin, TX		
	Cost:	TBD		
6.	**Conference:**	**TEXPERS Summer Conference**		
	Dates:	August 29-31, 2021		
	Location:	San Antonio, TX		
	Cost:	TBD		

DISCUSSION SHEET

ITEM #C7

Topic: **Portfolio Update**

Discussion: Investment Staff will brief the Board on recent events and current developments with respect to the investment portfolio.

Regular Board Meeting – Thursday, March 11, 2021

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C8

Topic: **Report on Investment Advisory Committee**

Discussion: The Investment Advisory Committee met on March 2, 2021. The Committee Chair and Investment Staff will comment on Committee observations and advice.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C9

Topic: **Investment Policy Statement**

Discussion: Staff reviewed proposed revisions to the Investment Policy Statement at the February 11, 2021 Board meeting and at the March 2, 2021 meeting of the Investment Advisory Committee (IAC). The IAC recommended keeping the goal relating to exceeding the actuarial return assumption and deleting the objective relating to ranking in the public fund universe (Section 2). Staff and Meketa concur. An updated mark-up version is attached for reference.

Staff Recommendation: **Approve** the proposed Investment Policy Statement revisions.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

Topic: **Asset Allocation Review**

Attendees: Leandro Festino, Managing Principal - Meketa Investment Group
Aaron Lally, Principal - Meketa Investment Group

Discussion: Section 6.A.2 of the Investment Policy Statement provides that a formal asset allocation study will be conducted as directed by the Board, but at least every three years. The last formal asset allocation study was conducted in 2018. Staff and Meketa have begun a new asset allocation. Meketa will review the 2018 process and key inputs for 2021. The Board may provide perspective and guidance regarding parameters for the 2021 asset allocation study.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C11

Topic: **Fourth Quarter 2020 Investment Performance Analysis and Third Quarter 2020 Private Markets & Real Assets Review**

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: Leandro Festino, Managing Principal - Meketa Investment Group
Aaron Lally, Principal - Meketa Investment Group

Discussion: Meketa and Investment Staff will review investment performance.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C12

Topic: **Natural Resources Portfolio Review - Forest Investment Associates & BTG Pactual**

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.

Discussion: Staff will provide an overview of the Natural Resources portfolio and the strategy for DPFP’s timber holdings managed by Forest Investment Associates and BTG Pactual.

Regular Board Meeting – Thursday, March 11, 2021

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C13

Topic: **Lone Star Investment Advisors Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

Discussion: Investment Staff will update the Board on recent performance, operational, and administrative developments with respect to DPFP investments in funds managed by Lone Star Investment Advisors.

DISCUSSION SHEET

ITEM #C14

Topic: **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to DPFP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

Discussion: Counsel will brief the Board on these issues.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

Discussion: Comments from the public will be received by the Board.

Regular Board Meeting – Thursday, March 11, 2021

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's report**

a. Associations' newsletters
- NCPERS Monitor (March 2021)
- NCPERS PERSist (Winter 2021)

b. Open Records

c. Education Update

Discussion: The Executive Director will brief the Board regarding the above information.

Regular Board Meeting – Thursday, March 11, 2021

THE NCPERS
MONITOR
The Latest in Legislative News
March 2021

In This Issue

2 The Second Reconciliation Bill and Beyond

Photo Illustration © 2021, adobestock.com

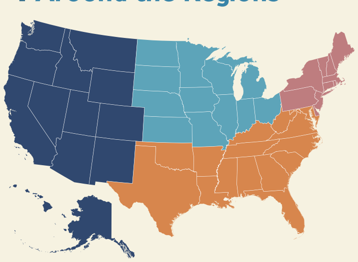
Congress appears to be on a glide path toward approving President Biden's $1.9 billion, Covid-19 relief package and presenting it to him for signature by mid-March.

3 Executive Directors Corner

Photo Illustration © 2021, istock.com

Education, it is said, is like rowing upstream. If you don't advance, you drop back. We work in a field where rapid currents and shifts in direction were part of our daily lives even before a global pandemic made crisis the norm.

4 Around the Regions



This month, we will highlight Virginia, Illinois, Arkansas and California.

As Biden Administration Settles In, Priorities Emerge Slowly

Photo Illustration © 2020, adobestock.com

The sweeping aspirations of a new administration are apparent early; the details, however, take time. And the outgoing administration's delay in permitting a presidential transition means that it could take longer than usual for the Biden Administration's priorities to emerge in sharp focus.

We've known for many months that the Biden Administration would pursue policies that foster a dignified retirement for older Americans, strengthen Social Security, and equalize savings incentives that currently favor higher-income households. Those are the headlines, if you will—the words "writ large" that tell us the direction the administration wants to go.

The details are more elusive. One signal came from the Biden Administration on February 5, when the Department of Labor withdrew its support of the plaintiffs in the CalSavers lawsuit currently pending before the U.S. Court of Appeals for the 9th Circuit. The Biden Administration said it would not participate as a friend of the court in the effort to invalidate the CalSavers program on grounds that it violates ERISA. The withdrawal of opposition at the highest levels of government is a win for NCPERS members, who have championed the idea of auto-IRAs since NCPERS outlined the Secure Choice model in an influential 2011 report.

In another small sign of progress, a key Presidential appointment is advancing. The Senate Committee on Health, Education, Labor, and Pensions vote February 11 to approve President

CONTINUED ON PAGE 6

The Second Reconciliation Bill and Beyond

By Tony Roda

Photo illustration © 2021, adobestock.com

Congress appears to be on a glide path toward approving President Biden's $1.9 billion, Covid-19 relief package and presenting it to him for signature by mid-March. This first major piece of legislation has been a galvanizing force for Congressional Democrats. While consideration by the Senate is still ahead, in my view, Democrats have too much at stake to fall into squabbles. The success of the Biden Administration, the Democratic-controlled Congress, and most importantly the nation, are at stake.

The bill is being considered under the rules of budget reconciliation, which allows expedited consideration in the Senate and requires only a simple majority vote for passage. Given the slim majorities the Democrats hold in each chamber, party discipline is paramount.

Once this bill is enacted, the Biden Administration and the Democratic Congress are expected to pivot quickly to a second reconciliation bill, which will be less Covid-19 relief and more economic stimulus and job growth. This bill, unlike the Covid-19 relief package, will present many cross pressures for Democrats.

A threshold issue will be whether to offset the spending in the bill. Will it be completely offset, a portion of it, or none of it? And, if revenue raisers are needed, what will they be? President Trump's 2017 tax cut legislation is the logical place to start. Rolling back tax cuts on corporations could be the very first item in play, but there will be others, such as the tax rates on capital gains and dividends.

Progressives in the Democratic Party will want to undo broad sections of the 2017 bill, which they view as a give-away to corporations and wealthy individuals. At the same time, more moderate Democrats, centrists, and Blue Dogs from swing districts will want to show that they are being fiscally prudent. These two interests combine to create the likelihood that some, or all, of the second reconciliation package will be offset with revenue raisers.

A new annual cap of $10,000 on deductions for state and local taxes and a reduced cap of $750,000 (loan amount) on mortgage interest deductions were also imposed by the 2017 bill. These provisions have been criticized as attacks on high-tax, Blue States. I expect that they will be revisited, but any changes to them will be scored as losing revenue and may be difficult to achieve in the second Reconciliation Bill.

For purposes of the public pension community, we will watch closely for any attempts to impose the Unrelated Business Income Tax (UBIT), mandate after-tax, Roth-only contributions to defined contribution plans, such as 457(b) and 403(b) plans, or create a new Financial Transactions Tax.

A central focus of the second reconciliation bill is expected to be infrastructure. In the past, House Budget Committee Chairman John Yarmuth (D-KY) has floated legislation that would create a National Infrastructure Development Bank, which would be financed through the sale of $75 billion worth of Rebuild America Bonds on the credit of the U.S. Treasury. Importantly for the public pension plan community, the bonds may be purchased only by pension plans – both plans governed by ERISA and governmental plans as defined by ERISA, which includes state and local governmental pension plans. The bonds will bear an interest rate of 200 basis points above the 30-year Treasury bond.

Also, some proponents of greater participation by public plans in infrastructure investing argue that it would be a benefit to plans to have full or partial ownership of the actual infrastructure asset and the revenue stream produced by that asset. They have identified a barrier in federal tax law to such acquisitions, namely whether public pension plans would meet the criteria for an instrumentality of one or more states or political subdivisions. Legislation may be considered on this technical tax matter.

CONTINUED ON PAGE 7

NCPERS Executive Directors Corner

Pushing Ahead with a Dynamic Education Agenda in 2021

Photo illustration © 2021, adobestock.com

Education, it is said, is like rowing upstream. If you don't advance, you drop back. We work in a field where rapid currents and shifts in direction were part of our daily lives even before a global pandemic made crisis the norm. Our recognition that public pensions constantly have to deal with the winds of change is why education has always been a cornerstone of the services NCPERS provides to its members.

Education, it is said, is like rowing upstream. If you don't advance, you drop back.

Virtual programming has, of course, become essential. We are all learning as we go about what works and what doesn't, and we at NCPERS are tailoring our programs to meet member needs.

We've just concluded our first virtual FALL Conference—the Financial, Actuarial, Legislative and Legal Conference. This program brought multiple streams of knowledge together in a single, efficient format. We thank everyone who participated. And please remember: You can still register and receive access to all FALL presentations until Friday, March 12. With FALL on Demand, you get full access to all 20 educational sessions, which you can view at your leisure from anywhere in the country.

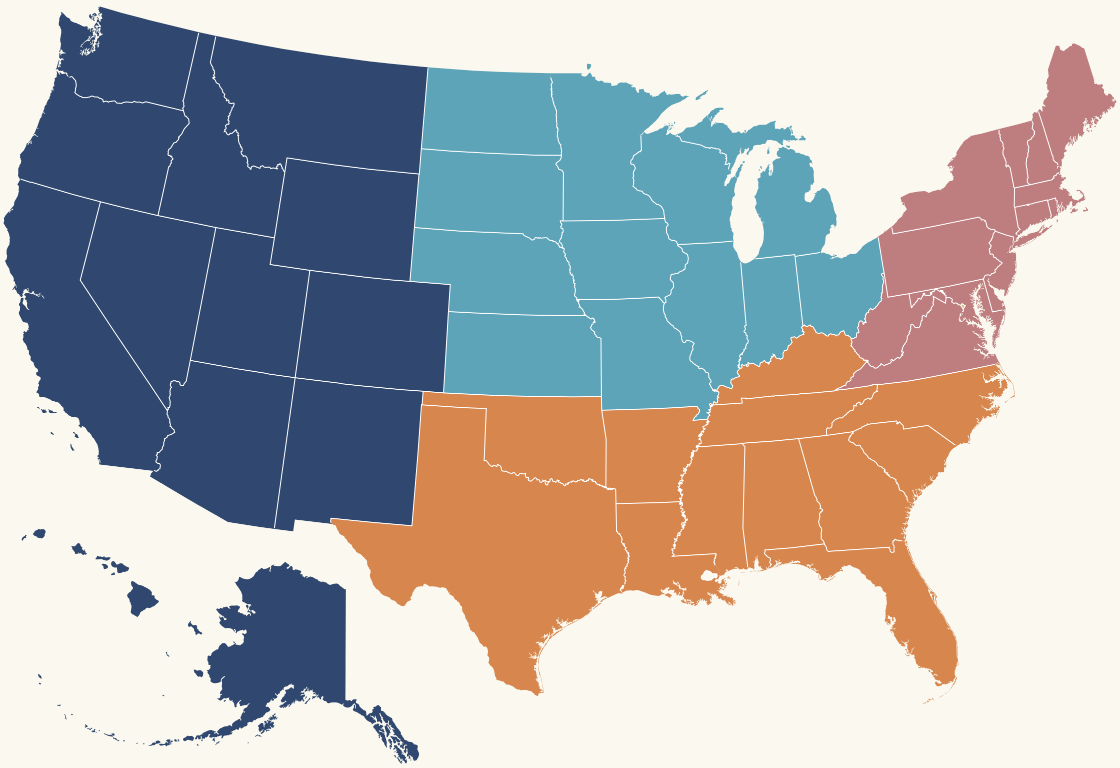
Much more is coming. In March, the NCPERS Accredited Fiduciary Program, or NAF, resumes in a virtual format. The NAF program is designed to equip trustees and staff of public pension plans with the key competencies they need to fulfill their fiduciary responsibilities.

NAF Module 1 (Governance and the Board's Role) and Module 2 (Investment and Finance) will be presented March 2-5, requiring a three-hour time commitment over four days. Module 3 (Legal, Risk Management and Communication) and Module 4 (Human Capital) will be present March 9-12, with the same time commitment. Participants who complete all four modules are eligible to take the NAF test, which culminates in the Accredited Fiduciary designation for successful participants. If they pass, they join the 149 students who have already earned their Accredited Fiduciary credentials.

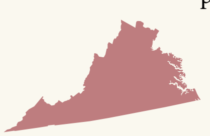
CONTINUED ON PAGE 7

NCPERS Around the Regions

This month, we will highlight Virginia, Illinois, Arkansas and California.



NORTHEAST: Virginia



The VirginiaSaves auto-IRA program was progressing through the state legislature as of late February. The House of Delegates on January 26 passed a bill to create the program. On February 5 the Senate Finance and Appropriations Committee approved it on a 16-0 vote, clearing its way for consideration by the full Senate and eventual enactment.

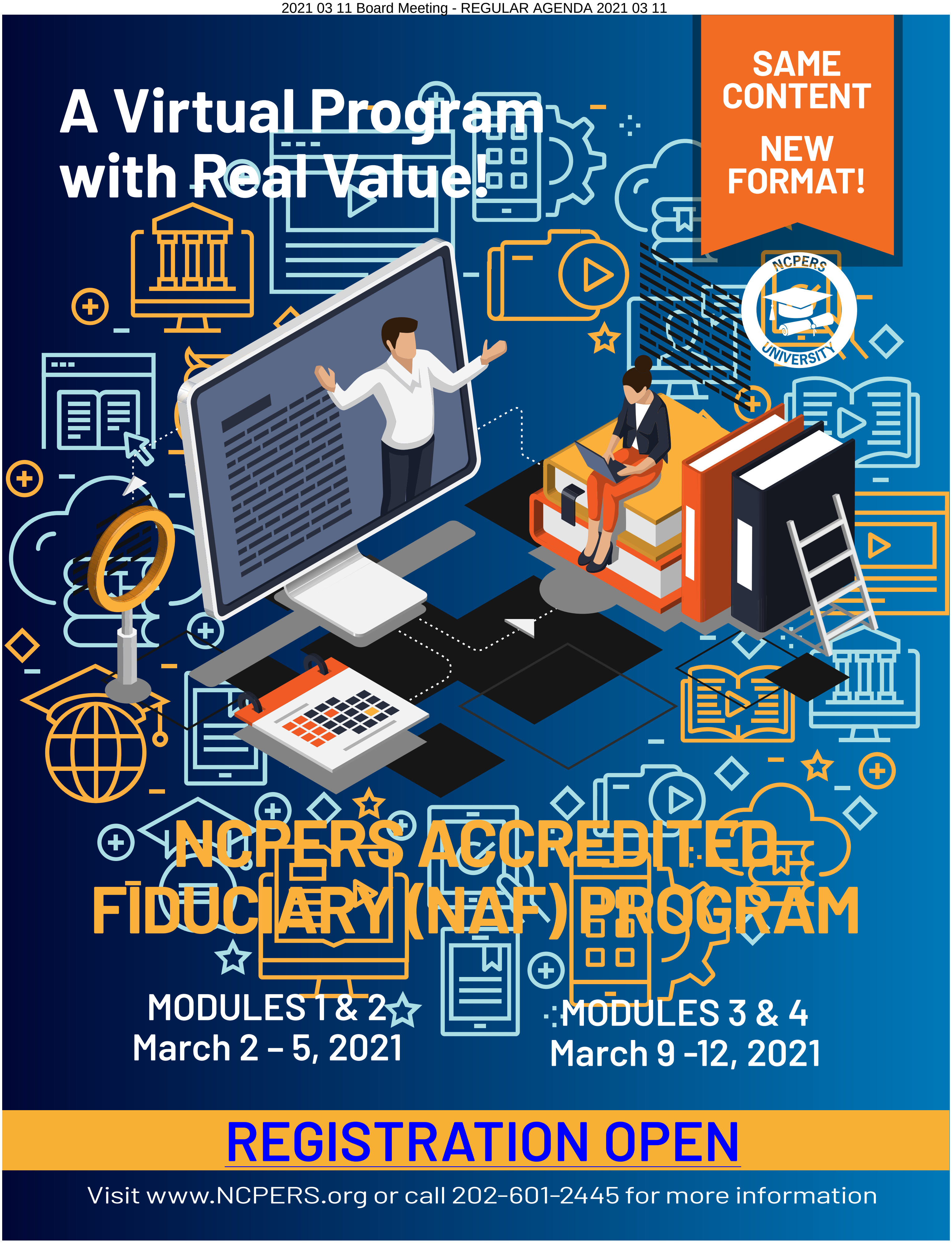
The sponsor of the bill, HB 2174, is House Appropriations Committee Chairman Luke Torian, a Democrat. He noted in a press release that 45 percent of Virginia's workforce lacks access to a workplace retirement savings plan. Payroll savings program have proved successful in helping workers to save.

The legislation stipulates that the VirginiaSaves program would be sponsored and administered by the governing board of the Virginia College Savings Plan, also known as Virginia529, which would establish a program advisory committee to provide specialized expertise. The program would require participation by employers that do not already offer a retirement benefit and that have five or more workers. It would begin enrolling eligible employees no later than July 1, 2023, and would establish a maximum penalty for non-compliance of $200 per eligible employee per year.

"Virginia529 can do for retirement planning what it did for college savings," Torian said." VirginiaSaves could be a crucial wealth building mechanism so that a single unexpected expense does not force Virginians to borrow or cut essentials from a fixed budget."

Torian said HB 2174 has been supported by Governor Northam, AARP Virginia, Small Business Majority, and The Pew Charitable Trusts.

CONTINUED ON PAGE 8


A Virtual Program with Real Value!
SAME CONTENT
NEW FORMAT!
NCPERS UNIVERSITY
NCPERS ACCREDITED FIDUCIARY (NAF) PROGRAM
MODULES 1 & 2
March 2 – 5, 2021
MODULES 3 & 4
March 9 -12, 2021
REGISTRATION OPEN
Visit www.NCPERS.org or call 202-601-2445 for more information

BIDEN ADMINISTRATION CONTINUED FROM PAGE 1

Biden's nomination of Boston Mayor Marty Walsh to be Secretary of Labor. The vote was 18-4, with seven of the committee's 11 Republicans joining all the Democrats in support of the nomination. At press time, the nomination was awaiting a vote by the full Senate.

Now, as the Biden Administration settles into the job of governing, there are some things to watch for.

For example, will President Biden's plan for 401(k) plans move forward? During the campaign, candidate Biden issued a proposal outlining how he would replace the tax deduction for contributing to a 401(k) plan with a tax credit. This would address an inequity: Currently, putting money aside in a 401(k) plan favors high earners because their tax break is proportionately larger than the break for low and middle earners. Changing the tax break from a deduction to a credit would give bigger benefit to low and middle earners. One thing is clear: Changes are more feasible now that Democrats command a majority, albeit a thin one, in the Senate.

A key question on this matter is how the Biden Administration will navigate the inevitable chorus of complaints from the mutual fund and investment management lobbies about the impact of any revisions that disadvantage wealthy customers, who are their bread-and-butter clients.

Details about priorities may continue to trickle out, but it is likely that there will be more information when President Biden submits his Fiscal Year 2022 budget request to Congress, probably sometime in May.

We are saying probably because exactly when the budget will emerge is far from clear. For one thing, the $1.9 trillion COVID-19 relief bill was consuming most of the oxygen on Capitol Hill at press time in late February.

Also, Presidential press Secretary Jen Psaki has refused to put a timeline on the federal budget process. The U.S. Office of Management and Budget has emphasized that the delay in the transition is to blame.

"In a dramatic departure from past presidential transitions, the previous administration's political appointees at OMB placed severe limits on the type of assistance career professionals could provide the Biden transition team, including blocking analytical work that is necessary to developing a budget," OMB spokesman Rob Friedlander told CQ Roll Call.

Additionally, opposition to the President's nominee to head the U.S. Office of Management and Budget, Neera Tanden, had intensified at press time. A delayed nomination or the need to withdraw the nomination could exert a further drag on the budget process.

According to the Congressional Research Service, Clinton and Bush didn't submit full, detailed budget volumes to Congress in their first years in office until early April. Obama didn't submit his until May 7; Trump waited until May 23. ◆

SECOND RECONCILIATION BILL CONTINUED FROM PAGE 2

Later in the year, the attention of the tax-writing committees is expected to turn to the SECURE Act 2.0, which will be legislation largely aimed at enhancing the savings option under defined contribution plans, including 457(b) and 403(b) plans. Efforts are already underway to include improvements to Section 402(l) of the federal tax code, known as HELPS, which allows retired public safety officers to exclude from gross income up to $3,000 per year from governmental retirement plan distributions, provided the monies are paid directly from the retirement plan to a health care or long-term care provider. The proposed changes would increase the annual exclusion amount to $6,000 (H.R. 4897, 116th), index the new exclusion amount for inflation in subsequent years, and repeal the direct payment requirement (H.R. 6436, 116th).

In addition, Congress has been looking at further increases in the age trigger for Required Minimum Distributions (RMDs). Federal tax law was changed through enactment of the SECURE Act at the end of 2019 to increase the age trigger for Required Minimum Distributions (RMDs) to 72 from the previous age of 70 ½. The RMD rules apply to Internal Revenue Code Section 401(a) plans, 401(k) plans, 457(b) plans, 403(b) plans, and IRAs. RMDs do not apply to Roth accounts.

At the end of the 116th Congress, legislation was pending to increase the age trigger yet again and these proposals are likely to be considered during action on the SECURE Act 2.0. The House bill would have increased the age to 75 beginning in year 2021; the Senate bill would have moved the trigger to age 75 as well but not until 2029. In addition, the House legislation included an exception from the RMD rules for holders of small accounts, which was defined as aggregate defined contribution account holdings of less than $100,000.

Please be assured that NCPERS will closely monitor the issues discussed in this article as well as new issues as they arise. We will keep our members informed of significant developments. ◆

Tony Roda is a partner at the Washington, D.C. law and lobbying firm Williams & Jensen, where he specializes in federal legislative and regulatory issues affecting state and local governmental pension plans. He represents NCPERS and statewide, county, and municipal pension plans in California, Colorado, Georgia, Kentucky, Ohio, Tennessee, and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from Catholic University of America, and LL.M (tax law) from Georgetown University.

EXECUTIVE DIRECTORS CORNER CONTINUED FROM PAGE 3

Our Legislative Conference is always a highlight of the year. This year, we will present it as a free webcast. We will come to you on April 20 from the National Press Club. Over the course of a three-hour program, we will present an array of speakers from Capitol Hill and the executive branch. We will also feature policy analysts and experts, including our esteemed outside counsel, Anthony J. Roda of Williams & Jensen, who specialize in deciphering and demystifying what is happening in Washington so that we can plan and pursue necessary policy action. Scheduled speakers will be announced closer to the date.

June 8-9 will bring our popular Trustee Education Seminar and Program for Advanced Trustee Studies. TEDS and PATS will be virtual offerings in 2021. We have opted to skip the Chief Officers Summit in 2021 as much of the content was moved in the FALL program.

As we look ahead to the second half of 2021, we are hopeful that we will be able to return to at least some in-person programming. It's a delicate balance, however; we need to be good stewards of our financial resources, and the costs of planning a conference only to have it cancelled due to a surge in infections would be significant. So we are keeping a close watch on the progress of vaccinations and on other trend lines.

We expect to make a decision in the spring to determine whether any 2021 program can be in-person for those who wish to attend. Regardless of what we decide about in-person programming, our remaining 2021 program will be available virtually and on-demand.

We are exploring the possibility of in-person delivery of our Public Pension Funding Forum, scheduled for August 24-24 at University of California-Los Angeles; if that is not, possible, the show will go on anyway with a virtual conference.

Finally, we are exploring options for bringing you a live Annual Conference and Exhibition in 2021. Seeing everyone would be a joyful homecoming, and clear evidence that the waters have grown calmer.

The dynamic nature of life is that it isn't always smooth. Continuing education places big demands on us, especially as we battle a global pandemic. But if there's one think I know about NCPERS members, it's that you are know how critical it is to just keep rowing even when times are tough. ◆

NCPERS Around the Regions

AROUND THE REGIONS CONTINUED FROM PAGE 4

Nationally, three auto-IRA programs are in operation, and additional programs are in the start-up phase. The three active programs are OregonSaves, Illinois Secure Choice, and California's CalSavers, which administered a combined $172.5 million in auto-IRA assets as of January 31, according to the Georgetown Center for Retirement Initiatives at Georgetown University. About two-thirds of eligible employees currently participate, with the remainder opting out.

MIDWEST: Illinois

A coalition of organizations including AARP Illinois is advocating an expansion of the Secure Choice program as part of a broader push to reduce racial disparities that prevent people from living longer, healthier and more productive lives.

The coalition announced the initiative as it launched its "Disrupt Disparities: Challenges & Solutions for 50+ Illinoisans of Color" report on February 8. Other members are the Chicago chapters of Asian Americans Advancing Justice and the Urban League, as well as the Resurrection Project. The research was conducted by Loyola University Chicago.

Specifically, they advocated enacting legislation to expand the Secure Choice program by reducing the employee threshold from a minimum of 25 employees to one. Passing this legislation would expand retirement savings access to around 1.2 million Illinois workers, they said. Particular gains would be achieved in the African American/Black, Hispanic/Latino and Asian American/Pacific Islander communities.

Currently, businesses that do not provide a retirement plan for their workers are only required to enroll in Secure Choice if they have 25 employees or more and have been operational for two years.

The report noted that the state of Illinois is aging. More than 34 percent of the state population of Illinois is above the age of 50 and continues to age. Of Illinois residents above the age of 50, more than a third are African American/Black, Hispanic/Latino, or Asian American/Pacific Islander.

That report provides a number of other policy recommendations to be taken up as bills in the General Assembly to solve some of the challenges faced by older Illinoisans. They include expansion of telehealth to increase healthcare access, and targeted broadband expansion to communities of color so older adults of color can access resources and services.

The coalition described the report and policy recommendations as the first phase in a multiyear initiative to create systemic policy changes on behalf of older adults of color in Illinois.

SOUTH: Arkansas

Republican State Rep. Les Warren has spearheaded the reintroduction of legislation to create a state-sponsored retirement savings plan for private-sector workers whose employers do not offer such a benefit.

Warren introduced House Bill 1349, The Every Arkansan Retirement Opportunity Act, on January 29. Upon its introduction, HB 1349 had bipartisan support from co-sponsors in the House and 13 in the Senate. A similar bill died in Arkansas' 2019 legislative session.

"There are too many people retiring without having put enough money back for that time. They retire and then find out they cannot survive on Social Security alone," Warren said, according to the *Arkansas Democrat-Gazette*.

Arkansas has 530,000 private sector workers who stand to benefit if the bill is adopted, according to the legislation, including private sector workers, independent contractors, and self-employed persons. The legislation pointed to the state's college saving program as an example of the auto-IRA program's advantages.

"The Arkansas 529 GIFT Plan demonstrates the feasibility of a public-private partnership that outsources investment and administration to assist the citizens of this state in saving on a voluntary and cost-efficient basis," the bill said.

CONTINUED ON PAGE 9

NCPERS Around the Regions

AROUND THE REGIONS CONTINUED FROM PAGE 8

Participating employers would automatically enroll eligible employees, who would have the right to opt out. The bill would establish a mandatory exit as the program amasses assets: Once a participating employer's combined contributions reached $600,000, the employer would have to withdraw from the Every Arkansan Retirement Plan Opportunity and hire a private organization to manage the accumulated funds.

The bill would create a seven-person governing board operating within the office of the state treasurer.

WEST: California

With the change in administrations, the U.S. Department of Labor has withdrawn its participation as a friend of the court in a federal case seeking to invalidate the California Secure Choice program, known as Savers.

The Biden Administration's Labor Department notified the U.S. Court of Appeals for the 9th Circuit that it does not stand by the amicus curiae brief submitted in June 2020 by the previous administration. The new administration also signaled that it will be neutral in the matter, stating in its filing that it "does not support either side."

The Trump Administration had supported the plaintiff, the Howard Jarvis Taxpayers Association, which filed suit in 2018 claiming that the state-run auto-IRA program is pre-empted by the Employee Retirement Income Security Act (ERISA).

Attorneys have notified the 9th U.S. Circuit Court of Appeals that, "after the change in administration," the Department of Labor (DOL) no longer wishes to participate as an amicus curiae in the case arguing that California's state-run automatic individual retirement account (IRA) program is pre-empted by the Employee Retirement Income Security Act (ERISA).

The case was dismissed by a lower court in March 2020 and the appeal to the 9th Circuit was filed. The Labor Department argued at the time that subjecting multi-state employers to a patchwork of state laws that regulate how employers must structure retirement benefit program and plans violates ERISA.

At the end of January, CalSavers held $35.8 million in assets in more than 106,000 funded accounts. More than 8,000 employers were registered. ◆

Calendar of Events 2021

Photo Illustration © 2021, Shutterstock.com

March

NCPERS Accredited Fiduciary Program (NAF): Modules 1&2
March 2 – 5, 2021
Virtual

NCPERS Accredited Fiduciary Program (NAF): Modules 3&4
March 9 -12, 2021
Virtual

April

2021 Legislative Conference Webcast
April 20, 2021

2020-2021 Officers

Executive Board Members

The Voice for Public Pensions

The Monitor is published by the National Conference on Public Employee Retirement Systems.
Website: www.NCPERS.org • E-mail: amanda@ncpers.org

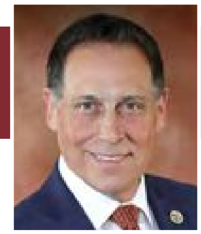
NCPERS

PERSist

The Voice for Public Pensions

Winter 2020 | Volume 34 | Number 1

Message from the President



Daniel Fortuna
NCPERS President

NCPERS has successfully hosted our first virtual Financial, Actuarial, Legislative, and Legal (FALL) Conference! From February 2-3, 2021, we hosted over 250 members in our new dynamic, vibrant, and virtual conference platform. We have risen to the challenge during these unprecedented times. By adapting to a new virtual format, we have maintained our excellence in delivering valuable education.

FALL kicked off with a great opening keynote from Randi Weingarten, president of the American Federation of Teachers. Randi discussed the three crises impacting public employees today- COVID-19, economic downturn, and ongoing racial inequities. “The truth is that we can’t afford NOT to fund public pensions fully, we can’t afford to turn our backs on public employees, and we can’t afford NOT to make sure every American can count on a secure retirement,” Weingarten declared.

After that inspiring keynote, NCPERS moved to our new three-track system of education- a financial track, an actuarial track, and a legislative & legal track. The track system of instruction allows for focused education of significant issues facing public pensions today. Our financial track began with a global equity markets update with Ron Temple from Lazard Asset Management. The track continued with a discussion on infrastructure debt with Paul David from Allianz Global Investors, and asset allocation conversation with Jeffrey Covell from Arthur J. Gallagher & Co. Passive management was the focus for Julian Regan and Maureen O’Brien from Segal Marco Advisors. Michael Hunstad from Northern Trust Asset Management began day two of the financial track discussing a new type of volatility public pensions needs to prepare for in their portfolios. Best practices in structuring and implementing a

CONTINUED ON PAGE 9

In This Issue

2 **Actuary:** Interest in pension obligation bonds for public pension financing has risen lately. However, they are far from risk free, so it is important to approach them with both understanding and some caution.

3 **Asset Manager:** Derek Jones, co-head of GCM Grosvenor’s diverse manager practice, explores what it takes for investors to achieve more diversity in their programs. He highlights common traits among investors who have successfully done so, the importance of asking the right questions, and where to turn if additional resources are needed to find the right managers.

4 **Custodian Bank:** As China’s weight within global equity indices increases and its markets mature, the time is right for US public pension plans to consider a dedicated All-China allocation. Allianz Global Investors makes that case, arguing that an All-China allocation should go beyond China’s current weighting in MSCI’s All Country World Index.

5 **Healthcare:** Post-employment health care is expensive, costing most couples over age 65 $280,000+ in retirement; an HRA is one of the only ways to save for those costs completely tax-free.

6 **Investment Consultant:** There is more to the public pension plan story than is typically portrayed. This article intends to uncover certain aspects about the investment strategy component. The strategic process followed by most plans is rigorous and statistics show that the average asset allocation has become more diversified, providing a portfolio better prepared to weather a variety of market environments.

7 **Legal:** On December 1, 2020, Nasdaq Inc. filed a proposal with the Securities and Exchange Commission to adopt a rule that would require all publicly listed companies to follow specific board diversity rules. California also enacted a similar law requiring publicly traded corporations based in the state to have a diverse board of directors.

Take the PERSist Quiz on pages 9, 10, 11, 12, 13 and 14

Submit Completed Quiz Here

TAKE THE QUIZ

What Can Be Risky about Pension Obligation Bonds?

By: Todd Tauzer

Photo illustration © 2021 istock.com

During an extraordinary 2020, interest in pension obligation bonds (POBs) for public pension financing has risen. S&P Global Ratings noted[1] that by October 2020, POB issuances were three times 2019 levels and seven times 2018 levels in California alone.

When a state or local government wants to raise capital, one approach is issuing bonds (debt) to help finance their objectives. POBs are taxable bonds where the proceeds are contributed to a pension plan to reduce the government's unfunded pension obligations. The interest charged on these bonds determines their cost, related to the government's credit rating and other market factors. The goal is that in total the invested proceeds' returns will be higher than the interest cost. While this sentiment has some validity, POBs are far from risk free, so it is crucial to approach them with understanding and caution.

Why the Resurgence?

Interest rates are at low levels with no indication of upward movement. So the spread between the interest that a government must pay on POBs and the return on pension investments it hopes to realize has widened, making POBs more attractive. Additionally, COVID has caused many governments' revenues to decline, squeezing budgets. POBs appear to provide some net budget relief at little perceived risk.

Understanding the Risks

POBs may be a useful capital generating tool in certain situations, but they also have potential pitfalls that must be understood:

- **Hidden Costs** – POBs can be structured in ways that can hide potential costs. An **imprudent structure** such as initial interest-only payments or very long amortization periods can back-load and compound costs for future taxpayers. A **complex structure** that incorporates market instruments like swaps or derivatives can obscure built-in costs and introduce additional forms of market risk.

- **Hidden Risks** – POBs are inherently governments taking on debt to invest in the market. This **speculative leverage** could be followed by investments not performing as expected, leaving the issuer with a higher combination of pension contributions and debt service. Taking on fixed debt service to invest in variable pension assets should never be considered arbitrage. Additionally, these supplemental assets immediately boost contribution sensitivity to market movements. That is, contributions have **elevated volatility** after the issuance of pension obligation bonds as the pension plan rides market ups and downs with more assets. This elevated volatility is especially noticeable in the years immediately following the issuance, leading to a **timing vulnerability** of when might be a beneficial or disastrous time to issue.

CONTINUED ON PAGE 10

[1] S&P Global Ratings' "Pension Brief: POBs See Increasing Activity in Low-Interest-Rate Environment" October 14, 2020, by Todd Kanaster

TAKE THE QUIZ

Answers to 3 Common Questions on How Investment Programs Can Become More Diverse

By: Derek K. Jones

Photo illustration © 2021 istock.com

Are There Traits Common to Those Who Have Achieved Diversity in Their Investment Programs?

Yes, there are common traits. For one, these investors have a thorough knowledge of the diverse manager universe. They meet frequently with managers and are proactively source talent rather than relying solely on placement agents or general partners (GPs) that approach them.

Successful limited partners (LPs) also immerse themselves in the diverse manager community and participate in relevant industry organizations. Being involved with associations of diverse professionals can create new relationships and strengthen existing ones.

These investors also can consider managers with complex stories or shorter track records. Thus, they are prepared to invest early in funds that may be smaller and less-known and can often move quickly to execute co-investments with managers.

Finally, LPs in this space often have diversity on their boards and investment teams. This is not necessarily a requirement, but there's an element of "walking the walk" in doing so.

What About LPs Who Wish to Invest with Diverse Managers, But Are Short on Resources?

Investors can supplement their efforts by working with an advisor or consultant at varying levels of engagement. For example, LPs in the early stages of diverse investing may require advisors for help with sourcing, due diligence, and implementation. Others may play a more active role by participating in deal flow calls to get an advisor's views on managers or invest alongside the advisor in its commitment to a particular manager.

When it comes to maintaining a pipeline, LPs should hold themselves and their advisors accountable and leave no stone unturned to find the very best opportunities. It is not about meeting quotas, but LPs may benefit from being more "intentional" in asking themselves questions like: Are we invested with diverse managers who have generated exceptional performance? If not, why not? How many diverse managers have we met with this quarter? And if we've not met with many, why not? Who's in the pipeline?

CONTINUED ON PAGE 9

Derek K. Jones *is a member of the Private Equity, Real Estate, and Infrastructure Investment Committee and serves on the Global Investment Council and the Diversity, Equity and Inclusion Committee. He co-heads the firm's private equity co-investment practice and diverse manager practice. His responsibilities include deal sourcing and investment underwriting activities. Prior to joining GCM Grosvenor, Mr. Jones was a Managing Partner at Oncore Capital, as well as a General Partner at Provender Capital. He started his private equity career at Prudential Insurance Company as part of Prudential Equity Investors, which subsequently became Cornerstone Equity Investors, where he was a partner. Mr. Jones received his Bachelor of Arts in Economics from American University and his Master of Business Administration in Finance from New York University.*

TAKE THE QUIZ

Should investors consider a stand-alone All-China equity allocation?

By: Anthony Wong and Christian McCormick

Photo illustration © 2021 istock.com

As China's weight within global equity indices increases and its markets mature, should US public pension plans consider a dedicated All-China allocation or continue gaining their Chinese equities exposure via international or emerging market (EM) allocations? Our research suggests that despite the growing opportunity, institutions are typically under-exposed to Chinese equity.

Chinese equity markets are rapidly changing. Whereas historically China's economy was powered by State Owned Enterprises (SOEs), the modern economy is increasingly driven by small- and mid-size private companies, foreign investment, increasing capital supply and investment in biotech, artificial intelligence, 5G and other innovative sectors.

As a result, we contend that All-China equity is the best way to take advantage of these trends. The market, from Hong Kong to A-share exchanges and the new Nasdaq-like STAR board, has matured and is evolving in five constructive ways: 1) China's economy is no longer dominated by SOEs; 2) Corporate governance has improved; 3) Capital markets have developed; 4) China's benchmark weightings are rising, and; 5) China's new consumer increasingly buys domestic.

At the same time, Beijing is also investing heavily in "new infrastructure"—technologies in which it wants to reduce its foreign reliance; artificial intelligence, 5G, cybersecurity, alternative energy, electric vehicles and semiconductors. Beijing's policies are encouraging a startup culture it hopes can rival Silicon Valley while also attracting institutional investors.

Against this backdrop, we believe that allocating to China by index tracking is the wrong approach to exploit inefficiencies and maximize potential alpha. **Exhibit 1** shows MSCI ACWI weightings heavily favor large-cap "offshore" firms—those traded in Hong Kong and in New York as ADRs—while having a negligible exposure to the faster-growing, domestic Chinese firms that trade as A-shares. MSCI's EM Index (**Exhibit 2**) is similarly weighted toward offshore China at the expense of A-shares.

So, allocating to China by tracking benchmarks is akin to gaining US equity exposure by overweighting mega-caps at the expense of everything else. An All-China equities allocation offers a more balanced approach and enhances the odds of capturing potential future returns. Another challenge is aggregating China and EM allocations. China is already 42.1% of the MSCI EM Index (**Exhibit 2**) and as the free float of A-shares increases in the coming years and as market access improves, that dominance will grow, reducing portfolio diversification.

Investors should consider the alpha opportunity in Chinese equity markets, which still have inefficiencies that can exploited: Over the past decade, the median China A-shares strategy outperformed the

Anthony Wong, CFA, *is Hong Kong/China portfolio manager and* ***Christian McCormick, CFA,*** *is a Senior Product Specialist China Equity, both at Allianz Global Investors.*

CONTINUED ON PAGE 10

NCPERS Healthcare

The Not-so-hidden Cost of Retiree Health Care

TAKE THE QUIZ

By: Dutch Ross

It's no secret. Health care in the United States is expensive, and the cost is only going up. Rising costs continue to impact employees' household budgets and employers' bottom lines. More and more cost shifting to employees may have far reaching effects. Besides the obvious stress factor, it can erode employees' spendable income and overall financial wellbeing, cause them to work past retirement eligibility, and rob them of opportunities to realize lifelong dreams.

Photo Illustration © 2021 istock.com

Employers face a different set of challenges, such as figuring out how to do more with less, how to continue attracting and retaining top talent, slower organizational and financial growth, and less resources to invest in personnel, facilities, technology, etc.

Projected Cost of Retirement Health Care

During active employment, employees are typically better positioned to absorb and manage out-of-pocket costs while still earning an income. They have more flexibility to make adjustments to their budget, pay down debt, increase savings, and take advantage of employer-sponsored accounts, such as health reimbursement arrangements (HRAs), flexible spending accounts (FSAs), or health savings accounts (HSAs). What many employees fail to recognize is how increasing healthcare costs translate into retirement. Moreover, Americans are generally living longer than their parents and grandparents, which adds to the problem and makes saving up for retiree health care even more important today than in the past.

Fidelity Investments' Annual Healthcare Cost Estimate states that a 65-year-old couple retiring in 2018 would need approximately $280,000 to cover healthcare costs in retirement—a 75% increase from 2002 (Fidelity Investments). This boils down to about $1,230 per month, assuming the couple lives until age 84. This is similar to taking on a new mortgage in your retirement years!

Regardless of the cost, retirees have to find a way to pay for health care. Besides pension and Social Security income, options may include general savings, or income from a retirement plan such as a 401(k), IRA, Roth-IRA, 457, or 403(b). However, note that each of these sources has one thing in common: they are all subject to taxation at some point, either up front or as withdrawals are made. So, is there something better?

Funded HRAs are Tax Free

Funded HRAs (similar to HSAs) are growing in popularity among public sector and non-profit employers and Taft-Hartley trusts. Funded HRAs help employees get a jump on retiree healthcare costs. Employer contributions can come from any number of

CONTINUED ON PAGE 12

__Dutch Ross__ is the National Sales Director for HealthInvest HRA and has 20 years of health and welfare consulting and brokerage experience, including over 10 years with Gallagher. Prior to joining Gallagher's HRA team, Dutch worked within Gallagher's public sector practice assisting health and welfare consulting clients with self-funded plan administration, including collective bargaining negotiations. He continues to serve on Gallagher's public sector niche leadership team.

Dutch graduated from University of Colorado Boulder with a Bachelor of Arts in Philosophy, and is a licensed consultant and producer in multiple states.

TAKE THE QUIZ

Trust the Process: Public Pension Investment Strategy

By: Katie Comstock

Photo Illustration © 2021 istock.com

Public pension plans have long been a veritable punching bag for critics in the institutional world. Nuance tied to the benefit structure, funding policy, investment strategy (asset allocation), governance framework, and the interplay of each is often boiled down to a quick talking point about funded ratio or investment return expectations. Instead, stakeholders should seek to understand the underlying factors, as there is more to the story than is typically portrayed.

In this article we highlight three key underlying factors that are often overlooked and that exemplify prudent investment management of public pension member benefits.

- **Most plans endure a rigorous asset-liability study when setting asset allocation.** An asset-liability study is a rigorous process that factors in market risk and return expectations, liability profile, investment horizon, contribution policy, and stress testing across various economic scenarios. These studies inform plan sponsors of the appropriate investment strategy and provide fiduciaries confidence to stay the course through market volatility.

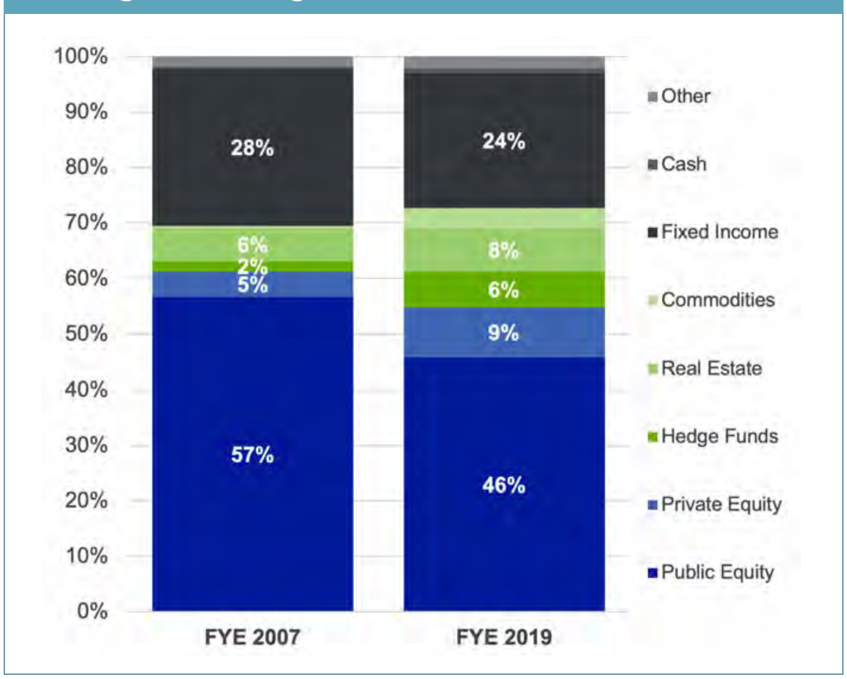
- **The average public plan has increased its allocation to diversifying asset classes.** The most notable shift in asset allocation over the past 10 years has been a reduction in public equities and corresponding increases to diversifying investments such as private equity, real estate, and hedge funds, as shown in Figure 1[1].

  This evolution allows public pension plans to better weather periods of market volatility, such as experienced in the Spring of 2020. Diversification away from public equities (which declined 22%[2] in 1Q 2020) proved beneficial in preserving assets during this market sell-off.

- **Today, the average public pension plan is better positioned for a volatile market.** Greater x diversification better positions portfolios to weather a variety

CONTINUED ON PAGE 14

Figure 1: Average Public Pension Asset Allocation



TAKE THE QUIZ

Nasdaq Files Proposal with SEC to Require Diverse Board for Listed Companies

Photo Illustration © 2021 istock.com

On December 1, 2020, Nasdaq Inc. filed a proposal with the Securities and Exchange Commission to adopt Rule 5605(f) (Diverse Board of Representation). This rule would require all publicly listed companies to have one woman on their boards, a director who is a minority, or one who identifies as LGBTQ+, at a minimum. Any company that does not meet this standard would be required to justify its reason to remain listed on Nasdaq, and any company that does not disclose diversity information may be subject to potential delisting.

On December 1, 2020, Nasdaq Inc. filed a proposal with the Securities and Exchange Commission to adopt Rule 5605(f) (Diverse Board of Representation). This rule would require all publicly listed companies to have one woman on their boards, a director who is a minority, or one who identifies as LGBTQ+, at a minimum. Any company that does not meet this standard would be required to justify its reason to remain listed on Nasdaq, and any company that does not disclose diversity information may be subject to potential delisting.

The timeframe in which a company must meet the minimum board composition expectation is based on a company's listing tier. "All companies will be expected to have one diverse director within two years of the SEC's approval of the listing rule. Companies listed on the Nasdaq Global Select Market and Nasdaq Global Market will be expected to have two diverse directors within four years of the SEC's approval of the listing rule. Companies listed on the Nasdaq Capital Market will be expected to have two diverse directors within five years of the SEC's approval," stated Nasdaq. If companies cannot meet the new board composition expectations within the specified timeframe, they will not be subject to delisting as long as they provide a public explanation for their reasoning for not meeting the new rules.

Robbins Geller is currently litigating important board diversity cases involving companies such as Advanced Micro Devices, Inc., Cisco Systems, Inc., and Intuit, Inc. These cases allege the directors of these companies breached their fiduciary duties by failing to consider and nominate African Americans to their respective boards of directors. According to Shawn Williams, one of the Robbins Geller partners working on those cases: "Some public companies have for years boasted of a commitment to building diversity amongst their employee and leadership ranks but have fallen far short of those commitments. By compelling the expansion of diverse members on corporate boards, the proposed rule will help publicly traded companies overcome various forms of resistance to achieving more diverse and balanced leadership consistent with their own stated diversity and financial performance goals."

According to Adena Friedman, Nasdaq's President and CEO: "Nasdaq's purpose is to champion inclusive growth and prosperity to power stronger economies. Our goal with this proposal is to provide a transparent framework for Nasdaq-listed companies to

CONTINUED ON PAGE 12

Robbins Geller Rudman & Dowd LLP, *is a leading law firm that has recovered billions of dollars for defrauded investors in global securities litigation. With 200 lawyers in 9 offices, Robbins Geller consistently outperforms other law firms by attaining greater investor recoveries in more resolved cases year after year, including many of the largest securities class action recoveries in history. Beyond the Firm's unmatched results, Robbins Geller also specializes in implementing meaningful corporate governance reforms, helping to improve the financial markets for investors worldwide. Robbins Geller attorneys are consistently recognized by courts, professional organizations, and the media as leading lawyers in the industry. Please visit rgrdlaw.com for more information.*

A Virtual Program with Real Value!

SAME CONTENT

NEW FORMAT!

NCPERS ACCREDITED FIDUCIARY (NAF) PROGRAM

MODULES 1 & 2
March 2 – 5, 2021

MODULES 3 & 4
March 9 -12, 2021

REGISTRATION OPEN

Visit www.NCPERS.org or call 202-601-2445 for more information

MESSAGE FROM THE PRESIDENT CONTINUED FROM PAGE 1

diverse manager program were the hot topic in GCM Grosvenor's Peter Braffman and Jason Howard's presentation. The final two sessions were on ESG investing from Chris McDonald of Kennedy Capital Management, and the positives of negative cash flow from Vijoy Chattergy of Sakala Portfolio Solutions and Scott Strone from Pentegra Investors.

Not to be left out of the fun, the actuarial track kicked off with a popular discussion on the COVID-19 societal changes and challenges we can expect to affect retirement systems. This discussion was led by Jeffrey Williams and Megan Yost from Segal. Aon's speakers, Eric Atwater, Mark Meyer, and Bryan Falato, spoke to attendees about assessing their retirement systems' health. Joseph Newton from Gabriel, Roeder, Smith & Company focused on ensuring sustainable public pension plans. At the same time, Douglas Anderson from Club Vita and Doug Anderson from Minnesota PERA discussed how factor-based mortality models could capture diversity in plans. Our final actuarial track looked at pension obligation bonds with Paul Angelo and Todd Tauzer from Segal.

The third track, legislative & legal, was just as topical and informative. Securities fraud during COVID-19 was the hot topic for Mark Soloman of Robbins Geller Rudman & Dowd and Josh Ruthizer from Wolf Popper. As always, Brad Kelly and Peter Landers from Global Governance Advisors brought a great conversation about preparing your board for the post-COVID world. Our legal, legislative, and regulatory update from Rob Gauss of Ice Miller, Peter Mixon of Nossman LLP, and Tony Roda of Williams & Jensen, updated attendees on what legislation to expect in the future. Motley Rice's Marlon Kimpson and Meredith Weatherby focused on what we can expect from the new Biden administration and provided tips on avoiding healthcare fraud scams. And finally, Chuck Campbell and Alyca Garrison from Jackson Walker LLP discussed recent DOL guidance and fiduciary implementations of ESG investing.

The FALL Conference closed with an exciting and hopeful conversation with Charles Triano from Pfizer, and Rhett Brown and Ron Temple with Lazard Asset Management. Chuck Triano discussed the Pfizer COVID-19 vaccine development from research to production, what we can expect from Pfizer on a global scale, and new studies we can expect. Our panel answered attendees' questions live, including reassurance of the vaccine's safety and efficacy.

I'm very pleased with the success of the FALL Conference and how it ushers in a new era for virtual learning for NCPERS and our members. Remember to join us in March for our NCPERS Accredited Fiduciary (NAF) Program and April 20 for our Legislative Conference Webcast! I look forward to seeing you all in person soon! ◆

ASSET MANAGER CONTINUED FROM PAGE 3

Can an LP Apply Its Same Investment Process to Source and Evaluate Diverse Managers?

Yes and no. Diverse managers are not an asset class based on ethnicity or gender. A buyout manager is a buyout manager and is evaluated on the same criteria – alignment, track record, stability of team, strategy, and potential competitive advantage – and nothing should be compromised. LPs are looking for benchmarked performance and, just because it's a diverse manager, the standards for underwriting don't change.

That said, there may be nuances in sourcing – how and where investors are finding diverse managers. LPs must be able to sort through complexity to identify and evaluate managers that may lack a long history or typical track record. But that's a common theme in emerging manager investing broadly. So, when we are asked by LPs, "Why isn't my manager roster diverse?" we often answer with another question: "Are you looking in the right places?" Frequently, that answer is "no." ◆

PERSist Quiz | Asset Manager

Can an LP Apply Its Same Investment Process to Source and Evaluate Diverse Managers?

❍ A. Yes ❍ B. No ❍ C. Yes and no

Answer: C

ACTUARY CONTINUED FROM PAGE 2

On the surface POBs may appear more advantageous in today's marketplace. However, they can carry potential pitfalls and do not replace the need for plans to use prudent assumptions and effective methods for setting contribution rates. Any government considering POBs should first explore these analytical considerations in order to make an informed decision aligned with their long-term financial objectives and risk tolerances. ◆

Todd Tauzer, FSA, CERA, FCA, MAAA, *is a vice president and actuary in Segal's San Francisco office. He works with major city and county retirement systems throughout the state of California. Previously he was Director of Municipal Pensions from S&P Global Ratings.*

PERSist Quiz — Actuary

What has spurred the renewed interest in POBs?

❍ A. Low interest rates with no anticipated upward movement

❍ B. Decline in governments' revenue

❍ C. Both a. and b.

Answer: C

CUSTODIAN BANK CONTINUED FROM PAGE 4

MSCI China A Onshore index by 8.2%, annualized, according to eVestment data as of September 30. Meanwhile, in global emerging market equities over the same period, the median manager only outperformed the MSCI EM index by 0.9%, annualized. So, for long-only equity investors, China offers a rare source of meaningful, sustainable alpha potential.

While the specific All-China allocation for any investor depends on factors such as risk appetite and mandate restrictions, we believe that current allocations to China do not reflect the country's bright prospects and that US institutions should consider an All-China allocation beyond current benchmark levels, now 5.1% of the MSCI ACWI Index. Less benchmark-sensitive investors sharing our

CONTINUED ON PAGE 11

Exhibit 1: MSCI's evolving weightings are changing the balance of China equity allocations

As of August 31, 2020
Note: "November 2019" data represents regional/country weightings at the time of the final step of the first phase of MSCI's inclusion process for China A-shares into the MSCI ACWI Index while "Future" represents potential future allocations. As of the time of writing this paper, MSCI had not disclosed a formal timeline for the second phase of inclusion.
Source: Bank of America Merrill Lynch, Allianz Global Investors

CUSTODIAN BANK CONTINUED FROM PAGE 10

Exhibit 2: MSCI EM Index leaves investors underweight China A-shares and overweight large caps

As of August 31, 2020
[1] MSCI Country Category as of 31st August 2020. Figures may not sum to 100% due to rounding errors.
[2] For more detail, see The Time is Right to Use China A-Shares to Optimize Equity Allocation, Allianz Global Investors, March 2020.
Source: Bloomberg, Allianz Global Investors

conviction in China's improving outlook could consider carving out an even larger All-China allocation. ◆

Investing involves risk. The value of an investment may fall as well as rise, and investors may not get back the full amount invested. Past performance is not indicative of future results. This document is being provided for informational purposes only and should not be considered investment advice or recommendations of any particular security, strategy or investment product.

Statements concerning financial market trends are based on current market conditions, which will fluctuate. Predictions, opinions, and other information contained in this article are subject to change without notice of any kind and may no longer be true in the future. Allianz Global Investors assumes no duty to and does not undertake to update forward-looking statements.

Allianz Global Investors is a global asset management business that operates under the marketing name Allianz Global Investors through affiliated entities worldwide, including Allianz Global Investors U.S. LLC (AllianzGI US) a SEC registered investment adviser.

PERSist Quiz — Custodian Bank

What is current weight for China equity in the MSCI All Country World Index?

❍ **A.** 5.1% ❍ **B.** 10.2% ❍ **C.** 15.3%

Answer: A

LEGAL CONTINUED FROM PAGE 7

present their board composition and diversity philosophy effectively to all stakeholders; we believe this listing rule is one step in a broader journey to achieve inclusive representation across corporate America."

Similarly, in California, a new law effective January 1, 2021 requires publicly traded corporations based in the state to have a diverse board of directors. The bill requires that: "No later than the close of the 2021 calendar year, such corporation[s] have a minimum of one director from an underrepresented community, as defined. The bill would require, no later than the close of the 2022 calendar year, such a corporation with more than 4 but fewer than 9 directors to have a minimum of 2 directors from underrepresented communities, and such a corporation with 9 or more directors to have a minimum of 3 directors from underrepresented communities."

The SEC will now solicit public comments, which typically lasts several weeks, and then will decide on how to proceed further. ◆

PERSist Quiz | Legal

What are the diversity options a company must adhere to for the new proposed Nasdaq rule?

❍ **A.** One woman on a company's board

❍ **B.** A director who is a minority, or one who identifies as LGBTQ+

❍ **C.** Both

Answer: C

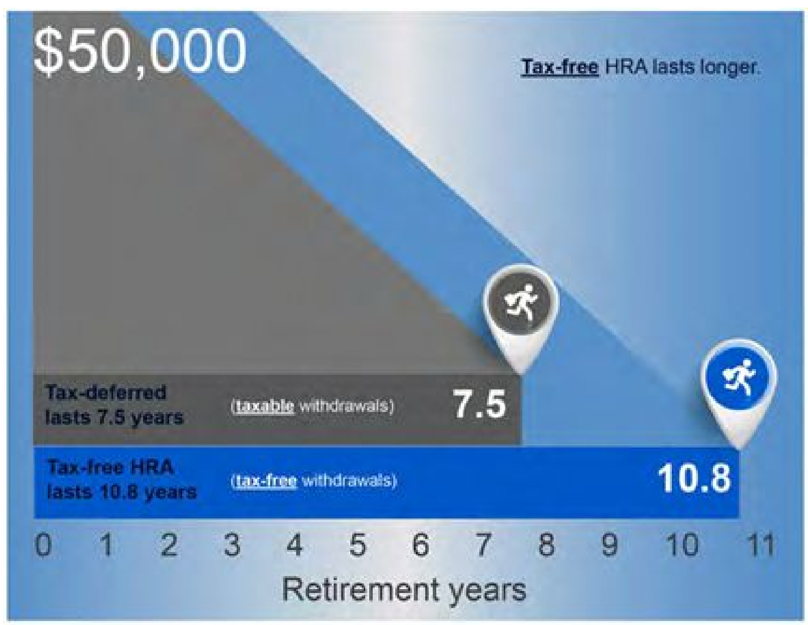
HEALTHCARE CONTINUED FROM PAGE 5

sources. Often, employers and unions simply agree to redirect funds that would otherwise be paid to employees as taxable wages (unused leave (PTO) cash outs, per-hour or per-pay period contributions, COLAs, pay raises, mandatory employee contributions (similar to a contributory retirement plan), etc.).

The tax advantages for employers and employees are win-win. Contributions, investment earnings, and withdrawals (claims) for qualified medical care expenses and premiums are completely tax-free—not tax-deferred. This results in greater purchasing power and longevity compared to tax-deferred accounts.

For example, let's say two individuals retire today. One has $50,000 in a tax-deferred 401(k) or 457 account. The other has $50,000 in a tax-free HRA. They each need $500 per month to help with healthcare expenses. The tax-free HRA outlasts the tax-deferred account by more than three years!

Exhibit 1



HRA Advantages

Funded HRAs typically cover the participant's spouse and dependents, even if the participant passes away. They also offer several important advantages compared to FSAs and HSAs.

- No high-deductible health plan (HDHP) coverage requirements like HSAs
- No annual use-it-or-lose-it or annual carryover limits like FSAs
- No IRS contribution limits like HSAs and FSAs
- Participant-directed investments, similar to 403(b) 457, or 401(k) plans

CONTINUED ON PAGE 13

HEALTHCARE CONTINUED FROM PAGE 12

HRA Funding Works

Can employees really save enough to make a significant impact to their retirement healthcare savings? Yes, they can! Look at this typical example.

John Dixon is a 35-year-old employee. His employer begins contributing $150 per month to an HRA ($75 from the employer, plus a $75 mandatory employee contribution from John's pay check). John invests these funds and saves them up until he retires at age 65. Assuming his HRA investments earned 6%, John now has over $150,000 in his HRA. In addition, John's employer will cash out 50% of his unused vacation leave and add it to his HRA. John's HRA will help him cover his healthcare expenses and premiums for many years into retirement—completely tax-free!

Exhibit 2

To sum things up, retirement health care is expensive, and it will eat up a significant portion of a retiree's budget. It's time to start saving for these costs in a smarter, more effective way. ◆

PERSist Quiz | Healthcare

If a tax-free HRA and tax-deferred investment account both held $50,000 and were being used to pay the same post-employment monthly medical premium, approximately how much longer would the HRA last?

❍ A. No difference

❍ B. 1 year

❍ C. 2 years

❍ D. 3 years

Answer: D

INVESTMENT CONSULTANT CONTINUED FROM PAGE 6

of market environments. As shown in Figure 2[3], the FYE 2019 average asset allocation is expected to have better risk/reward characteristics relative to the FYE 2007 average asset allocation. Diversification[4] serves to smooth returns in both up and down markets and is most beneficial over full market cycles.

Figure 2

Trust the Process and Capitalize on Competitive Advantages

Looking ahead, focusing on competitive advantages can supplement a plan's strategic framework to ensure preparedness for the future. Not all public pension plans will enjoy every advantage, but most will embrace at least a few of the following:

- Strong governance structure
- Deep investment expertise
- Board or committee expertise
- Fund size
- Longer time horizons

Although asset allocation strategies are better positioned today, public pension plans continue to cope with significant risks, many of which are heightened in today's environment. The strategic process followed by many public pension plans is rigorous and statistics over the past decade show that the average asset allocation has evolved to a more diversified portfolio. This diversification positions plans better today than they were prior to the global financial crisis, validating our guidance to trust the process. ◆

[1] Source: Public Plans Data (publicplansdata.org) as of July 2020.

[2] MSCI All Country World IMI Index

[3] Expected returns are using Aon Q2 2020 30 Year Capital Market Assumptions (CMAs) as of 6/30/2020, which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). Expected returns presented are models and do not represent the returns of an actual client account. Actual returns will be reduced by fees and other expenses. Not a guarantee of future results. Please see the link to our latest CMAs for disclosure pages.

[4] Diversification does not ensure a profit, nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.

__Katie Comstock__ is an Associate Partner within Aon Investments. She has served within Aon's advisory practice for over 10-years. Her primary focus has been within the public pension space and currently consults to five public fund clients with assets ranging from $9 billion to $170 billion in assets under management. Katie provides consultant services related to asset-liability studies, asset allocation reviews, risk budgeting, investment policy, benchmarking, manager structure and selection and performance reporting. In addition to client responsibilities, Katie has contributed to the firm's research and is a leading member of the Public Fund Interest Group, a subset of consultants who specialize in issues facing public pension funds. Katie holds a B.B.A. in finance and a B.S. in psychology from Emory University—Goizueta Business School.

PERSist Quiz | Investment Consultant

Select the answer that appropriately fills in the blanks:

The most notable change in the average public plan's asset allocation over the past decade has been a decrease in _______ in favor of _______, which has served to improve diversification and risk/return expectations.

❍ **A.** Fixed Income / Public Equity

❍ **B.** Public Equity / Diversifying Asset Classes

❍ **C.** Diversifying Asset Classes / Public Equity

Answer: B

Don't Miss NCPERS' Social Media

The Voice for Public Pensions

Calendar of Events 2021

February

Webinar: NCPERS 2020 Public Retirement System Study
February 16, 2021
Zoom

March

NCPERS Accredited Fiduciary Program (NAF): Modules 1&2
March 2 – 5, 2021
Virtual

NCPERS Accredited Fiduciary Program (NAF): Modules 3&4
March 9 -12, 2021
Virtual

2020-2021 Officers

Daniel Fortuna
President

Kathy Harrell
First Vice President

Dale Chase
Second Vice President

Carol Stukes-Baylor
Secretary

Will Pryor
Treasurer

Mel Aaronson
Immediate Past President

Executive Board Members

State Employees Classification
Stacy Birdwell
John Neal

County Employees Classification
Teresa Valenzuela

Local Employees Classification
Sherry Mose
Thomas Ross
Ralph Sicuro

Police Classification
Kenneth Hauser
James Sklenar

Fire Classification
Dan Givens
Emmit Kane
James Lemonda

Educational Classification
David Kazansky
Richard Ingram

Protective Classification
Peter Carozza, Jr.
Ronald Saathoff

Canadian Classification
Frank Ramagnano

The Voice for Public Pensions

PERSist is published by the National Conference on Public Employee Retirement Systems.
Website: www.NCPERS.org • E-mail: Amanda@ncpers.org