1. We Don’t Deserve Them

2. They Are Too Expensive

3. We Can’t Manage Them Ourselves
My Background

- 28 Years in Public Service
- Vested Member of Two Pension Plans
- Trustee on Pension Board for 8 years
- Former Union E-Board Member
- Masters Degree in Public Administration
- CPPT from Florida Public Pension Trustee Association
- CAPPP from IFEB
- NCPERS Accredited Fiduciary Program (NAF)
City of Fort Lauderdale
Police and Fire Retirement System

- 7 Member Board
- Police And Fire
- 2 Active Firefighters Elected By Members
- 2 Active Police Officers Elected By Members
- 2 Appointed By The Mayor
- 1 Elected By The Board
- Approximately 1500 Members And $850 AUM
- Funded Ratio In The Upper 90%
- Assumed Rate Of Return Of 7.5%
- Adopted NCPERs Code Of Conduct

Capital stewardship is about helping trustees manage pension and employee benefit plan assets with the goal of enhancing the economic value of their plan's investments. Because workers' capital is invested primarily to secure health and retirement benefits, pension and employee benefit plans are long-term investors.

Mission Statement

The pension plan for the police officers and firefighters in the City of Fort Lauderdale is a defined benefit plan. The plan is administered by the Fort Lauderdale Police and Firefighters' Board of Trustees. The mission of the trustees is the efficient stewardship of the statutory pension benefits of its active members, retirees, and beneficiaries in such a manner as to safeguard retirement security.
Terms of Service Agreement

By clicking ACCEPT below, you AGREE to ACCEPT and ABIDE by anything our lawyers have written below.

You, as the customer and consumer, basically have no rights. We, as the corporation employing lawyers to write clever documents like this, reserve all the rights for ourselves. This means you have to agree to whatever terms we dictate if you want to use our products and services, and we can change them whenever we want. You are the slave, we are the master. This formalizes our relationship. Thanks so much for taking the time to read and comply.

☐ I have read and accept these terms
1. We Don’t Deserve Them
1. We Don’t Deserve Them

- We 100% Deserve Our Benefits
- The California Supreme Court Upheld this ([Marin Assn. of Public Employees v. Marin County Employees’ Retirement Assn.](https://www.marin.gov/485/Benefits-and-Compensation/Retirement))
- “While a public employee does have a ‘vested right’ to a pension, that right is only to a ‘reasonable’ pension—not an immutable entitlement to the most optimal formula of calculating the pension,”
- “Reasonable” or “Fair” should be determined by market forces
- Fairness is unqualifiable and discounts intangibles such as PSM
Public Service Motivation (PSM)

- **Public Service Motivation (PSM)** is a theorized attribute of government employment that explains why individuals have a desire to serve the public and link their personal actions with the overall public interest. Understanding the theory and practice of PSM is important in determining the motivations of individuals who choose careers in the government and non-profit sectors despite the potential for more financially lucrative careers in the private sector.

- **PSM Dividend** is one of the factors why public sector pension should be higher than in the private sector.
OFF TILT

- We Have Focused Too Much Attention Defending Our Worth
- We Are Starting To Appear Like We Have “Entitlement Disorder”
- The Other Side Has Moved On And Is Now Focusing On The More Quantifiable Argument Of “Too Expensive”
2. They Are Too Expensive

$5 Trillion Price Tag for Public Pensions
Enormous tax hikes for next 30 years needed to honor retirement promises to state and local employees.

By Philip Moeller | Staff Writer  Nov. 8, 2012, at 9:55 a.m.

States face pension fund gap approaching $1 trillion

John W. Schoen | @johnwschoen
Thursday, 25 Aug 2016 | 1:09 PM ET

Opinion: The $6 trillion public pension hole that we’re all going to have to pay for

Published: Aug 20, 2016 10:44 a.m. ET
Moving from Paper Crisis to Real Crisis

As Pension Funding Takes More And More Revenue From Their General Funds, More GO Bonds Will Have To Be Issued For Essential Services:

- Schools
- Roads
- Welfare
- The Homeless, Etc.

State Gets Another Credit Downgrade Due to Pension Woes

Another day, another downgrade for Illinois amid its budgetary and pension problems.

S&P Global Ratings on Friday dropped the state’s credit rating one notch — from BBB+ to BBB, the Chicago Sun-Times is reporting.
Figure 4. State and Local Government Direct Expenditure by Type of Expenditure, 2008

Note: Total budget equals direct expenditures from the general fund, excluding capital outlays.
Sources: Authors’ calculations from the U.S. Census Bureau (2008a); and U.S. Census Bureau (2008b).
Pension Problem
U.S. public retirement plan costs exceed tax revenue

Unfunded Pension Liabilities as Percent of State and Local Government Tax Revenue
## Aggregate Funded Status

### Figure 1: Aggregate Funded Status as of Most Recent Measurement Date ($ Trillions)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sponsor Reported</td>
<td>Recal Figures</td>
<td>Sponsor Reported</td>
<td>Recal Figures</td>
</tr>
<tr>
<td><strong>Median Discount Rate</strong></td>
<td>7.75%</td>
<td>7.47%</td>
<td>7.75%</td>
<td>7.34%</td>
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<tr>
<td><strong>Plan Liability</strong></td>
<td>$3.77</td>
<td>$3.86</td>
<td>$3.88</td>
<td>$4.03</td>
</tr>
<tr>
<td><strong>Plan Assets</strong></td>
<td>$2.58</td>
<td>$2.58</td>
<td>$2.75</td>
<td>$2.75</td>
</tr>
<tr>
<td><strong>Funded Ratio</strong></td>
<td>68.5%</td>
<td>66.8%</td>
<td>70.7%</td>
<td>68.2%</td>
</tr>
<tr>
<td><strong>Unfunded Liability</strong></td>
<td>$1.19</td>
<td>$1.28</td>
<td>$1.13</td>
<td>$1.28</td>
</tr>
</tbody>
</table>

Cash Flow Imbalances

Data from the U.S. Census Bureau on 100 U.S. public pension plans show payments to beneficiaries outpaced investment earnings and plan contributions in 2015 by $45.9 billion. Through the first quarter of 2016, the shortfall was approximately $12 billion. Investment earnings and contributions ran a surplus relative to payments from 2012 through 2014.

Payments have steadily increased year-over-year at an average rate of 6% annually since 2011, while contributions have increased at an average rate of 7%. Despite contributions growing at a slightly better rate, the dollar amount of the annual inflows has been approximately $100 billion short of the outflows.
Admitting That Our Pensions Are Expensive Is Not Admitting That We Are To Blame For It, Or That We Don’t Deserve Them.

- It Is Hard To Meet The Assumed Rate Of Return Targets In The New Norm
- Lowering Assumed Rate Of Return Only Worsens The Issue
- Demographics Are Working Against Us
- Working Through Excesses That Were Created “Fairly” Via Collective Bargaining
FIGURE 5: EXPECTED RETURN FOR A HYPOTHETICAL ASSET ALLOCATION BASED ON MILLIMAN’S CAPITAL MARKET ASSUMPTIONS OVER A 30-YEAR PERIOD

Note: Hypothetical asset allocation consists of 35% broad U.S. equities, 15% developed foreign equities, 25% core fixed income, 5% high-yield bonds, 10% mortgages, 5% real estate, and 5% short-term investments; inflation assumption is fixed at 2.5% for all years.
One Side Effect Of Aggressive Monetary Policy Is An Increasing Strain On Public Pensions, Which Rely Upon Consistent Investment Returns In Order To Meet Their Obligations.
Figure 8. Government Contributions as a Percent of State and Local Budgets, 1957-2043

Sources: Authors’ calculations from the U.S. Census Bureau (2008a); U.S. Census Bureau (2008b); and 2009 CRR PPD.
Macro Implications For Capital Allocators

• One Theory Suggests That Due To The Effort To Beat Our Assumed Rate Of Return During This Low Return Environment, The Force Exerted By The Vast Amount Of Public Pension Funds Could Cause A Serious Distortion To Financial Asset Pricing.

• This Makes Our Plans Not Only Expensive For Us, But For Society As A Whole.
3. We Can’t Manage Them Ourselves
Issues with Self-Management

• We Have To Re-Evaluate Our Board Governance
• We Have To Recognize Our Own Implicit Bias
• We Have To Control Political Pressure On Short-Termism
• Formal And De Facto Risk-sharing
We Have To Recognize Our Own Implicit Bias

- Boards Take Too Much Risk
- Boards Get To Set Their Own Rates of Returns and Asset Allocations
- Create Artificial “Call Option”
- Rely On The Advice Of Professionals
“Public DB pension funds with a higher percentage of state-political and participant-elected trustees invest more in risky assets and use higher liability discount rates.”

Pension Fund Asset Allocation and Liability Discount Rates, March 2016, Aleksandar Andonov, Erasmus University Rotterdam, Rob Bauer Maastricht University and Rotman ICPM, University of Toronto, Martijn Cremers, University of Notre Dame
“participant-elected trustees represent the currently employed and retired plan members and effectively hold a short-term “call option” on the pension fund assets that may incentivize them to increase risk-taking. In the short-term, plan participants are not obliged to pay higher contributions if increased risk-taking results in low returns and underfunded liabilities, but they could benefit from increased benefits if risk-taking yields good returns. It is only after reported underfunding persists for a prolonged period that plan members may be exposed to reductions of future benefits”
“Investment consultants advise institutional investors on their choice of fund manager. Focusing on U.S. actively managed equity funds, we analyze the factors that drive consultants’ recommendations, what impact these recommendations have on flows, and how well the recommended funds perform. We find that investment consultants’ recommendations of funds are driven largely by soft factors, rather than the funds’ past performance, and that their recommendations have a very significant effect on fund flows. However, we find no evidence that these recommendations add value, suggesting that the search for winners, encouraged and guided by investment consultants, is fruitless.”

Picking winners? Investment consultants' recommendations of fund managers Tim Jenkinson, Howard Jones, and Jose Vicente Martinez, September 26, 2014
Short Termism

- Pension Plans Are Designed To Have Very Long Term Horizons
- We Measure Performance Quarterly
- Plan Sponsors Measure Annually
- Short Term Bias Is Affecting Our Investment Decisions.
Formal and de facto risk-sharing

- **Formal and de facto risk-sharing plans**: In the case of formal risk-sharing features, changes to plan benefits and costs are known and understood in advance, whereas de facto risk-sharing is introduced after participants already are in the plan.

- **De facto risk-sharing**: Benefit reductions or cost increases are imposed upon current employees, retirees, or both.
What Can We Do

- Get Over Point One
- Keep An Open Mind About Point Two
- Examine Your Board Governance
- Keep Doing What You’re Doing
To deal with this challenge, policymakers and union leaders need to admit that the status quo is possibly unsustainable; and also, that clinging to strict adherence to current plan designs that were enacted for a world that no longer exists will only lead to growing pension insolvency. Ironically, the unions and plan sponsors failing to deal with these issues are ultimately jeopardizing the retirement security of their own members and fellow government workers.
CHIEF BROWN PROVIDES UPDATE ON INVESTIGATION OF DEADLY ATTACK ON POLICE OFFICERS IN DALLAS
You Tube Links

• FPPTA- https://youtu.be/4-dxhl6Dk8k
• Dallas Police Chief: https://youtu.be/3RtnQ2GqBeg
• FEDEX: https://youtu.be/J97knhJQcug
• Crazy Rant: https://youtu.be/04s448a5_OU
• Meeting: https://youtu.be/K7agjXFFQJU
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2. Unintended Consequences, Michael Hayhoe, Exchange Magazine.com, 9/13/16
3. California Case Opens Door for Pension Benefit Reductions, Romy Varghese September 6, 2016 Bloomberg.Com
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6. Once-Celebrated Dallas Pension Fund Runs Risk of Going Broke – Bloomberg.com
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9. Rising U.S. State Post-Employment Benefit Liabilities Signal An Unsustainable Trend Carol H Spain, John A Sugden, Sussan S Corson,
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13. Payment Imbalances, Charles McGrath Published: September 13, 2016,Pensions & Investments