Securing the Health and Independence of PFRS: Governance and Investment Restructuring

New Jersey State PBA

New Jersey State FMBA

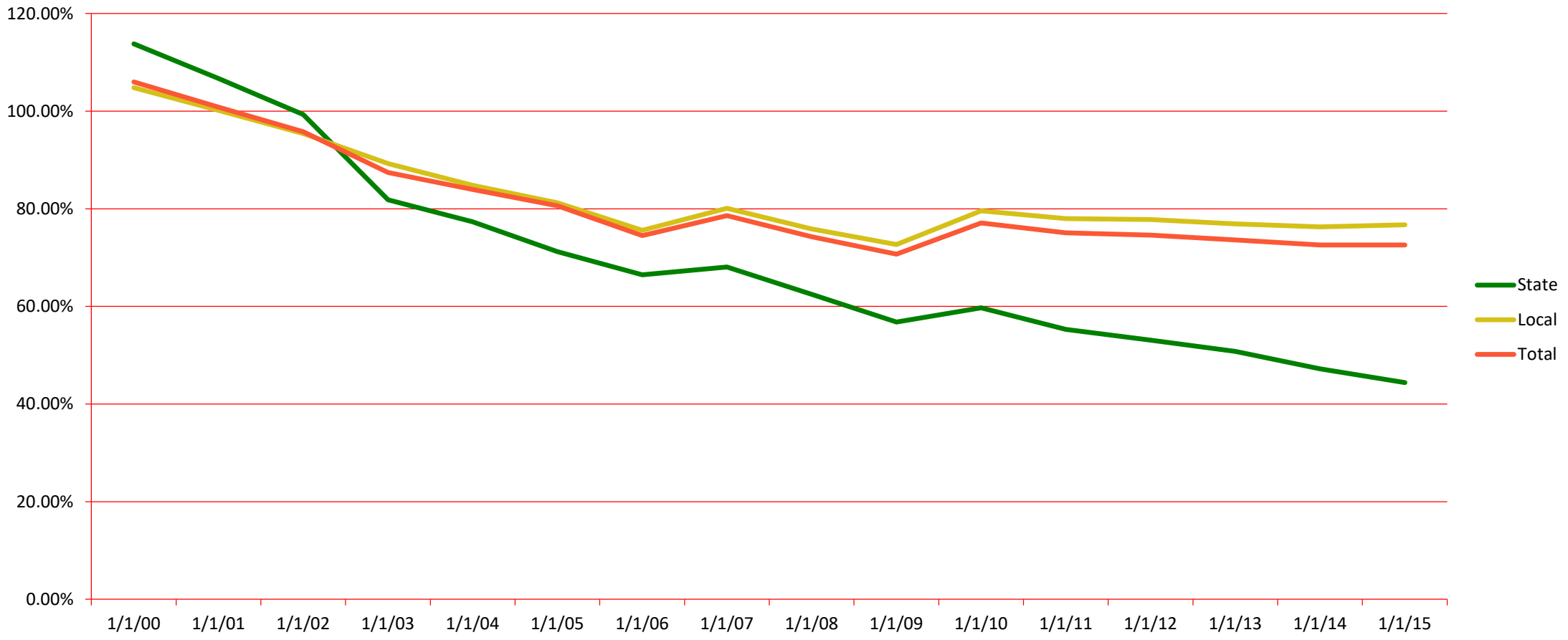
PFRS FACTS

- Established in 1944
- Mandatory for all law enforcement and firefighters (except State Police) hired by State, county and local government
- Age restricted enrollment: 35 year old max at appointment/65 year old mandatory retirement
- Benefits defined by State law
- Currently 3 tiers of Plan membership
- State and local parts funded separately

Current Status of PFRS

- PFRS Funding Levels(Local - 76.5%/Combined State/Local 72.5%)
- Since 2000, however, PFRS funded value plummeted a combined 41.7% due to investment losses, lack of State contributions and pension holidays
- Future health and growth of PFRS requires fiscal discipline in plan management, investment strategy and continued employer contributions

PFRS Funding Levels (2000-2015)



Why Consider a New Model?

- Both the Pension Reform Commission and Legislative Leadership has suggested that the State needs to get out of the pension business
- The State has not done a good job in either managing benefits or investments
- Proposed governance model shifts management to a member/employer model; both have a vested interest in succeeding
- Other public employers have made the shift: it works!

Pension Reform and PFRS (Since 2005)

- Murphy Commission (2005) recommends employer contributions/opposes DC pension concept
- Joint Legislative Pension Reform Committee
    - Proposes pension reforms but rejects Multi-tiered and DC plans
- 2nd tier established in 2010
    - Pension amount capped
    - Calculation changes for determining pension
- 3rd tier established in 2011 (Chapter 78)
    - Benefit levels reduced
- Healy Commission proposal
    - Pension systems closed to new members
    - “Hybrid” pensions
    - 401K model with limited employer contribution
    - Blending fund assets
    - NEVER examined PFRS

Concept Development

- Initial Partnership between PBA and FMBA
- Meeting with other public safety unions/employers
- Review of national police and fire pension “best practices”
- Expert and pension plan meetings and analysis (NCPERS/NY/WA/OH/CO and others)
- Meetings with League, Finance Officers, Municipal Managers, NJAC
- Actuarial and Legal Opinions have been received
- Meetings with Senate President and Speaker

PFRS Management: Problems/Risks of State Control

- State Division of Pensions manages PFRS under State law
- PFRS funds invested by State Investment Council
  - Both offices in Treasury, under direct control of Governor
  - PFRS member of Investment Council but no direct control of PFRS funds
- AG serves as legal counsel for PFRS Board
- Governor appoints members to PFRS, including State Treasurer rep
- PFRS Board can adopt policy but Treasurer, AG and Pensions Director can effectively ignore or overrule Board in many cases
- Treasurer can be given control over local government pension contributions by Legislature (pension holidays)

PBA/FMBA Proposal: "PFRS Governance and Investment Act"

Concepts

1. Governance of PFRS must be independent of political interference
2. PFRS Board should focus on fully funding of system as primary goal
3. Investment strategies should be managed by the PFRS independent of the State Investment Council and front office politics
4. PFRS would be accountable to PFRS members through a revised Board of Trustees with "checks and balances" to preserve funding/benefits
5. PFRS Board should determine and administer all pension policy
6. New Pension Board would be based on successful models around U.S.

PBA/FMBA Proposal:
PFRS Governance and Investment Act

- PFRS Board to have “exclusive powers” to act on behalf of its employees, employers and retirees
- Board shall direct policies to achieve and maintain full funding of System
- Provide Board powers to make all policy and investment decisions over PFRS
- Provide strategic planning focused on PFRS only

PFRS Governance and Investment Act
An Independent PFRS Board

- "Labor-Management" Board
  - Employer-Employee governance of PFRS
  - Ensures the impacted parties have a say over fund management
- Provide oversight through Board Committees
  - Audit
  - Investment
- Mandate Board training
  - Pension management and investment
  - Ethics
- Contract with Division of Pensions for system administration
  - Ensures smooth and professional transition and back office management
  - Options for future to be considered

PFRS Governance and Investment Act
"An Independent PFRS Board"

Grant PFRS Board of Trustees new powers:

- Exclusive powers over all policy decisions governing pensions, investment of pension funds and funding level of the PFRS
- Power to hire Executive Director to manage system for Board
- Power to hire General Counsel/Attorney's
- Power to hire Chief Investment Officer
- Power to appoint actuary and establish actuarial standards
- Power to contract for management of Fund/Investments
- Establish contribution rates for employers/employees subject to actuary
- Establish/revise benefit levels and COLA based on system funding
- Appoint professionals, doctors and staff
- Adopt rules and regulations, Governance Manual and other documents
- Act on approving pensions

PFRS Governance and Investment Act

PFRS Investment Powers

- Investment Policy managed by PFRS Board of Trustees through Chief Investment Officer and staff
- Board would have sole fiduciary responsibility for PFRS funds and investments
- Board would adopt all investment strategies and hire all investment managers, etc.
- Permits State Investment Council to continue to invest at Board's discretion
- Independent PFRS remains in "Top 100" government pension funds and retains its buying power and investment strength

PFRS Governance and Investment Act

Why?

There is major risk in being unprepared:

- Constitutional amendment wins: State cuts local government aid, State offers another pension holiday that saves towns money but further weakens fund.
- Constitutional amendment loses: State believes public doesn't care about protecting pensions. More cuts are made despite PFRS health due to lack of alternatives.
- PFRS gets forced into debate over underfunding of other systems and is sucked into a pension reform bill that further reduces benefits.
- State unable to fund State side of system and passes law to blend the funded ratio of all the funds; PFRS forever financially weakened and facing court fight

PFRS Governance and Investment Act
Benefit to Local Government

- Currently local government play no role in PFRS Governance
- Proposal provides membership on board and voice in health of system
- PFRS Fiscal Growth can mean lower annual costs for local government
- Power through Board to prevent fiscal tricks, like deferrals and skipped payments, from driving up future costs
- Ability to mirror proposal for Local PERS

Next Steps

- Further discussions with employers
- Continue to revise legislation
- Introduction and Legislative activity
- Lobbying/PR effort

PFRS Governance and Investment Act
Correcting Misconceptions

Myth 1: PFRS is fine so leave it alone.

- PFRS would be healthier if the Legislature hadn't cut employer contributions and if Governor had allowed all post C.78 assets to remain in Fund.
- 76% funded is not acceptable after multiple rounds of reforms .Pension professionals working exclusively for PFRS – and not for the State – directed its growth

Myth 2: This plan turns PFRS over to "the unions"

- The plan doesn't turn PFRS over to the unions to run. PFRS would become a "labor-management board" with oversight and controls built into law.

Myth 3: The Plan does nothing to compel pension payments

- PFRS local government employers are making payments and proposal gives Board power to continue to compel them. Constitutional amendment applies only to State now. This plan gives greater power over enforcing funding that currently exists for PFRS members.

Myth 4: PFRS would lose its "purchase power" acting on its own

- PFRS would remain one of the largest pension plans by asset in the nation and there is no risk to purchase power by investing on its own.
- State investment losses, coupled with excessive broker fees are draining the fund and increasing costs

PFRS Governance and Investment Act
Correcting Misconceptions

Myth 5: This will make the system “less safe” for the future

- The Plan establishes the Board as the legal guardians of the Fund. Politics is removed under the plan and focus of the Board by law would be full funding.
- Future pension reform and asset blending would destroy PFRS. Plan gives PFRS and its professionals a chance to focus exclusively on the growth of the system.

- Myth 6: Chapter 78 would limit power of the Board
  - The proposal repeals parts of Chapter 78 and gives the new Board control over benefit and contribution levels, including revising COLA to better reflect the fiscal condition of the Fund.
- Myth 7: Unions will be blamed if funding doesn’t increase
  - PFRS members did nothing to earn the benefit cuts and cost increases under Chapter 78 but they happened anyway. This plan gives PFRS its best chance at fiscal growth outside of State interference and mismanagement.
  - Legislative leaders have ASKED US to look into this.
  - This plan has worked around the nation with Washington State showing a dramatic increase in fund value since their governance reform. Why wouldn’t it work in NJ?

QUESTIONS?