Weekly Clips, Friday January 8, 2016

Texas Pension Review Board
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PRB PLANS

City's pension debt takes center stage

January 2, 2016, By Bill White

After Mayor-elect Sylvester Turner and the new City Council are sworn in this week, they will confront many challenges. In an op-ed published Wednesday, I offered observations - based on experience - about the city's road and public safety needs. The election campaign highlighted those issues, along with problems arising from employee pension obligations. As ultimate decision-making on that issue rests in Austin rather than City Hall, Turner should use that momentum of citizen awareness to press for legislative reforms. At the same time, both citizens and city employees should have a realistic view of the alternatives.

Pension reform is nothing new. Shortly after I became mayor 12 years ago, Houston was the state's only city that opted out of a change in the state's Constitution that served as another obstacle to pension reform. Then and now, state statutes limit the ability of Houston's elected officials to reduce pension benefits, including an increase adopted in 2001 that ballooned city liabilities by more than $2 billion. Then-City Controller Annise Parker, who has supported pension reforms and who had served on City Council when the 2001 pension changes were made, explained that in 2001 the pension board's actuary had "estimated that 14 percent of the city's annual payroll would be needed to cover pension obligations. We thought we could afford the more generous pension benefits being discussed in Austin."

Houston Chronicle

TEXAS ECONOMIC INDICATORS

Houston economy: 'It's bad, but it's not awful'

Outlook: Despite loss of 50,000 jobs, city sees reasons to remain optimistic

January 2, 2016, By Rhiannon Meyers

The four-star business lunches are disappearing. Upscale apartments that once were filling fast now are offering free-rent specials. Factories that ran around-the-clock to produce oil hardware are slashing shifts or shutting down entirely. The hard-luck jobless lining up for career counseling include the suit-and-tie engineers, geologists and energy executives who once earned six-figure (or higher) salaries.

Houston Chronicle

Do Houston's oil troubles spell danger for the Texas economy?
January 5, 2016, By Ritika Shah

More than half of the publicly traded companies in Houston are oil and gas related. Nearly three-fourths of them have dipped lower in the past 12 months.

Brian Busch, director of oil markets and business development at Genscape, said not just Houston, but the entire world is facing an oil supply-demand imbalance.

"We are oversupplied with crude production right now, given what the world demand is, and until the economy picks up, it's going to continue," he told CNBC's "Power Lunch" on Tuesday. "We have over 100 million barrels of storage in tanks above where we were this time last year."

CNBC

NATIONAL ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

US indexes mix small gains and losses as energy slides
January 5, 2016, By Marley Jay

NEW YORK — U.S. stocks are slipping Tuesday afternoon. Energy stocks are leading the market lower as the price of oil dips, and shares of GM and Ford slumped as their December sales fell short of analysts' estimates.

KEEPING SCORE: The Dow Jones industrial average fell 11 points, or 0.1 percent, to 17,137 as of 1:50 p.m. Eastern time Tuesday. The Standard & Poor's 500 index added four points, or 0.2 percent, to 2,017. The Nasdaq composite rose three points, or 0.1 percent, to 4,906. Stocks have spent most of the day lower but haven't sustained big losses.

Austin American Statesman

Census Bureau: Public pension fund assets dip nearly 5% in third quarter
January 4, 2016, By Hazel Bradford

The 100 largest U.S. public employee retirement systems had $3.212 trillion in assets as of Sept. 30, a 4.9% decrease from three months earlier, said the U.S. Census Bureau's latest quarterly survey of public pension funds. Compared to the same quarter in 2014, assets were down 2.5%.

Earnings on investments fell from a gain of $32.6 billion in the second quarter to a loss of $145.9 billion in the third quarter. Corporate stocks, which make up 36.2% of the pension funds' holdings, had the largest quarterly decline of 4.9%, but a year-over-year increase of 0.5%. Corporate bonds, which make up 13.2% of holdings, had a quarterly increase of 1% and a year-to-year increase of 11.9%.

International securities, which make up 17.6% of holdings, dropped 9.3% in the third quarter, and fell 9.1% year-over-year, while federal government securities, at 7.6% of holdings, decreased 6.1% in the quarter and 19.9% from the previous year.

Pension & Investments

Towers Watson: Corporate pension funding flat in 2015

January 4, 2016, By Meaghan Kilroy

The aggregate funded status of the largest corporate pension plans was an estimated 82% at the end of 2015, unchanged from Dec. 31, 2014, said Towers Watson in its annual corporate pension funding report released Monday.

However, the funded status is still down from 89% at the end of 2013.

Rising interest rates, which help reduce plan liabilities, were offset by a weak global stock market, resulting in little funded status movement year-over-year.

Towers Watson estimated that liabilities and assets decreased approximately 6% each to $1.62 trillion and $1.33 trillion in 2015.

Pensions & Investments

CRSB Completes Feasibility Study Of Public Retirement Plan For Private-Sector Employees; Reports Findings To Legislature And Governor

January 4, 2016, Connecticut Press Release

The Connecticut Retirement Security Board (CRSB) today submitted a report to the General Assembly that says a public retirement program for private-sector employees is financially feasible under a range of market scenarios and plan designs.

Connecticut is the first state in the nation to complete a market feasibility study of such a plan to address retirement financial insecurity.

Press Release

Alaska to Sell $2.6 Billion in Pension Obligation Bonds

January 5, 2016, By Kate Smith

Alaska wants to increase the size of its potential 2016 pension obligation bond to $2.6 billion, a billion dollar jump from earlier proposals.

In November, Governor Bill Walker announced plans to explore the possibility of a $1.6 billion pension obligation bond to help fund the teacher’s pension system, dusting off a plan from 2008 that was ultimately scrapped. In the final weeks of 2015, Walker increased that figure to $2.6 billion, expanding the scope of the funds to involve the state’s public employee retirement trust as well as the teacher’s pension system, said Deven Mitchell, the state’s debt manager at the Alaska Department of Revenue.

"As the state was going through its budget development process, which hasn’t been easy, this came up," Mitchell said. "We need the savings, especially in upcoming years, so we figured we’d give it a try."

Bloomberg

Minnesota Teachers seeks to cut return assumption, hike employer contributions

January 7, 2016, By Rick Baert

Minnesota Teachers Retirement Association, St. Paul, will ask the state Legislature to let the pension fund cut its long-term rate of return assumption to 8% from the current 8.5%, increase its employer contribution rate one percentage point to 8.5%, and cut retirees’ cost-of-living increases to 1% from 2% for five years beginning in 2017.

The employee contribution rate would remain at 7.5%, and the COLA adjustment would rise to 1.75% in 2022.

The $20.4 billion defined benefit plan announced the move on its website Tuesday; the pension fund's board approved the recommendations Dec. 16.

Pensions & Investments

WORLDWIDE ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

Stournaras Warns on Measures as Tsipras Defiant on Pensions

January 2, 2016, By Nikos Chrysoloras

Bank of Greece governor Yannis Stournaras gave a stark warning about the risk of Greece failing to reach an agreement with its creditors on a set of measures attached to the country's bailout as Prime Minister Alexis Tsipras reiterated his government won't succumb to "unreasonable" demands for additional pension cuts.

The European Union is now much less prepared to deal with another Greek crisis, Stournaras wrote in an article published in Kathimerini newspaper, in an unusually strong public intervention, as Europe's most indebted state braces for negotiations with creditor institutions on a set of tough economic steps, including pension and income tax reform. A repeat of the 2015 standoff which pushed Greece to the verge of leaving the euro area would entail risks that the country's economy may not be able to withstand, the central banker said.

Bloomberg

Why China's Market Fell So Much

Updated January 4, 2016, By Chao Deng, Anjani Trivedi in Hong Kong and Mark Magnier in Beijing

China's stock market displayed its global heft Monday, as a sharp selloff in Shanghai ushered in a grim opening day for trading world-wide.

Fast-trading individual investors dumped shares in China on further evidence that its economy was slowing and that Beijing was weakening the country's currency. The decline also appeared to be hastened by expectations that a support propping up the market could disappear soon, as well as the debut of new circuit breakers.

Most of the factors blamed for the selloff aren't new; the surprise was China's impact on the rest of the world. During the market's crash this past summer, it took weeks of selling in China before other markets reacted, while on Monday, just one bad day in the normally volatile market helped send stocks elsewhere tumbling.

The Wall Street Journal

Worst stock market start of the CENTURY: Fears for pensions as FTSE 100 loses £40BILLION

January 4, 2016, By Lana Clements

The FTSE 100 plunged by more than two percent in the opening hours of trading, amid worries over China's economy, wiping up to £36billion off its value and slashing the value of British pension pots.

Stock markets in China had to be shut earlier in the day after falling by as much as seven per cent, as investors panicked over the country's colossal economy slowing.

And now the worry has spread to London where a number of FTSE 100 companies are heavily exposed to China's economy.

Express

Alcatel-Lucent completes buy-in for U.K. pension fund, eyes full buyout

January 5, 2016, By Sophie Baker

Alcatel-Lucent Pension Scheme, London, completed a £300 million ($448 million) buy-in with Aviva.

The size of the pension fund could not be learned by press time, but the U.K. pension fund has total liabilities of about £1 billion.

The transaction is part of a longer-term derisking objective, with a goal of full buyout, said Martin Couzens, chairman of Alcatel-Lucent Pension Trustees Ltd., in a news release by Aon Hewitt, which advised the trustees on the deal.

Pensions & Investments

LEGAL PROCEEDINGS, LAWS & REGULATIONS

Labor relations board rules against San Diego's pension cutbacks

January 1, 2016, By David Garrick

A new state labor board ruling casts doubt on San Diego's aggressive pension cutbacks and orders the city to spend millions creating retroactive pensions for roughly 2,000 employees hired since those cutbacks took effect.

City Atty. Jan Goldsmith said he hopes to quickly get City Council approval to appeal Tuesday's ruling by the Public Employment Relations Board, which he has criticized as staunchly pro-union.

Goldsmith predicted that a state appellate court would nullify the ruling and vindicate the pension cutbacks, which city voters easily approved as Proposition B in 2012. The measure replaced guaranteed pensions with 401(k)-style retirement plans for most new city hires.

Los Angeles Times

IRS determination letter guidance on deck

January 5, 2016, By Hazel Bradford

The IRS announced Monday it will issue guidance Jan. 19 to plan sponsors on how it will revise its employee plan determination letter program.

In 2015, IRS officials said on Jan. 1, 2017, they will stop issuing the determination letters that plans rely on to affirm their qualified tax status, and instead only provide them when plans are started or terminated, due to limited resources.

The upcoming guidance will extend the period that certain employers may apply for a preapproved determination letter to April 30, 2017, from April 30, 2016, among other issues.

Annette Guarisco Fildes, president and CEO of the ERISA Industry Committee said her group will continue to press the IRS to save the determination letter program. "Eliminating the program would have significant consequences for ERIC's members and their ability to provide pension benefits in a cost-effective manner," she said in a statement.

The guidance will be posted in an IRS internal bulletin.

THIS IS THE ENTIRE ARTICLE. REFERENCE: Internal Revenue Bulletin: 2015-1, Rev. Proc. 2015–6

Pensions & Investments