Weekly Clips, October 14, 2016
Texas Pension Review Board
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PRB PLANS

Fitch lowers Dallas bond rating on police and fire pension plan concerns
October 7, 2016, By Meaghan Kilroy

Fitch Ratings lowered Dallas' general obligation bond rating to AA from AA+ on Thursday, citing concerns over the city's unfunded pension liabilities and recent developments at the $2.8 billion Dallas Police & Fire Pension System.

The police and fire retirement system reported about $6.9 billion in unfunded pension liabilities at the end of 2015, a 40% increase from the previous year, due primarily to realized private equity and real estate losses. Unfunded liabilities at the city's other defined benefit plan, the $3.3 billion Dallas Employees' Retirement Fund, more than doubled in 2015 to $2.2 billion.

Pensions & Investments

Dallas Police, Fire Pension Crisis Worsens
October 13, 2016

The Dallas Police and Fire Pension crisis worsened Thursday as trustees learned a run on the fund has shortened the time to insolvency and boosted the bailout amount needed.

Instead of the $650 million suggested earlier as a taxpayer contribution to balance the fund's liabilities the figure suggested now is $1.1 billion. Instead of being insolvent by 2030, the fund would now fall short of ability to pay promised benefits by 2027 without major changes in the fund's finances.

NBC DFW

Dallas Police and Fire Pension Fund now wants city to pay $36M to keep the lights on
October 13, 2016, By Tristan Hallman

The Dallas Police and Fire Pension Fund needs Dallas taxpayers to pay its bills.

Board members voted unanimously Thursday to formally ask the city to pay its overhead costs, which total $36.3 million.

The vote came after pension board trustees heard that the fund could potentially need hundreds of millions more from taxpayers than they had originally wanted. The $2.39 billion fund is now set to become insolvent by 2028 after a spate of lump-sum withdrawals by retired police and firefighters who were wary of the pension fund's woes.

The Dallas Morning News

Dallas police, fire pension seeks more than $36M from city
October 14, 2106

The Dallas police and fire pension board is asking that city taxpayers contribute more than $36 million to pay for the pension fund's overhead costs.

The vote Thursday to request the money from the city came after board members were told that taxpayers may need to contribute hundreds of millions of dollars in additional funding to keep it solvent.

About $115 million already is contributed to the fund each year by the city.

Houston Chronicle

TEXAS ECONOMIC INDICATORS

Texas economy cools as energy slump continues, analyst says
October 7, 2016, By John C. Moritz

A leading economist told an Austin think tank Thursday the pace of job growth in Texas has chilled during the past year and a half, driven by the stubborn slump in the energy sector. However, he said the state should end 2016 with a modest gain in employment.

"The Texas economy has grown slower than the national average for the first time in about 13 years," Keith Phillips, the senior economist and policy adviser for the Federal Reserve Bank of Dallas, told the Texas Taxpayers and Research Association that the Texas at its annual meeting.

Corpus Christi Caller-Times

Texas, Once a Star, Becomes a Drag on the U.S. Economy
October 12, 2016, By Erin Ailworth and Ben Leubsdorf

Texas helped lead the U.S. out of recession, thanks in part to the shale drilling revolution. But after more than two years of slumping oil prices, the state is now a sore spot for the national economy.

Petroleum prosperity helped usher in an economic boom in Texas, which added one out of every seven new American jobs between 2010 and 2014. But since the end of 2014, the state has lost more than 91,000 jobs in oil-and-gas extraction and mining-support activities, nearly half of the total national job losses in those categories. Texas payrolls were up 1.6% in August from a year earlier, trailing the national pace of job growth for the 11th consecutive month.

The Wall Street Journal

LEGAL PROCEEDINGS, LAWS & REGULATIONS

Wells Fargo Cross-Selling Scandal Spawns ERISA Class Action
October 11, 2016, By Jacklyn Wille

Wells Fargo & Co.'s month long struggles continued Oct. 7, when a participant in the company's 401(k) plan filed a proposed class action challenging a 12 percent drop in the company's stock price following recent revelations of an illegal cross-selling scheme (*Allen v. Wells Fargo* , D. Minn., No. 0:16-cv-03405, complaint filed 10/7/16).

The lawsuit follows news last month that Wells Fargo employees had been secretly signing customers up for unauthorized accounts in order to meet internal quotas and keep profits high. Based on these allegations, the bank was fined $185 million, with $100 million of that representing the largest fine ever issued by the Consumer Financial Protection Bureau.

Bloomberg BNA

NATIONAL ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

U.S. State Pension Deficits to Widen as Investment Gains Shrink
October 6, 2016, By Katherine Greifeld

The shortfalls in U.S. state pension funds are poised to increase over the next two years as investment returns lag forecasts and many governments fail to set aside enough to cover promised benefits, according to Moody's Investors Service.

The unfunded liabilities already stood at about $1.25 trillion in the 2015 fiscal year, which ends in June for most states, the rating company said in a report released Friday. The retirement plans' investments were battered by stock-market volatility over the following year, leaving an average return of about 0.5 percent, far less than the 7.5 percent growth they typically assume, according to Moody's.

Bloomberg

Retirement perk for city's teachers costing taxpayers a bundle, report finds
October 6, 2016, By Diane C. Lore

A retirement perk afforded exclusively to city teachers is costing New York taxpayers more than $1 billion a year, according to a report by the Citizens Budget Commission (CBC), a non-profit watchdog group.

The retirement benefit provided only to New York City public school employees and to no other city employees: a guaranteed return of 7 percent on certain investments in their tax-deferred compensation plans.

SILive

Calpers Sees Next Headache in Slowing Private-Equity Cash Gusher
October 7, 2016, By John Gittelsohn

First it gave up on hedge funds. Now the largest U.S. pension fund isn't sure how much it can count on private equity.

"We anticipate it may be moving from a gusher to a garden hose and then maybe even a trickle," Wylie Tollette, chief operating investment officer of the $305 billion California Public Employees' Retirement System, said this week in a telephone interview.

Bloomberg

Possible PERS fix: Borrowing money
October 8, 2016, By Ted Sickinger

With a $22 billion deficit in Oregon's public pension system threatening budgets around the state, members of the two boards charged with overseeing the system's financial stability are feeling compelled to weigh in with potential fixes.

The principal money-saving idea they are kicking around: borrowing money to plug the hole.

The idea isn't new. It's risky, and it may not be feasible given the state's debt limits, required voter approvals and reaction of Republican state leaders, who are dead set against the idea.

Oregon Live

$1.6 Million Bill Tests Tiny Town and ‘Bulletproof’ Public Pensions
October 9, 2016, BY Mary Williams Walsh

Until the certified letters from Sacramento started coming last month, Loyalton, Calif., was just another hole in the wall — a fading town of just over 700 that had not made much news since the gold rush of 1849. Its lifeblood, a sawmill, closed in 2001, wiping out jobs, paychecks and just about any reason an outsider might have had for giving Loyalton a second glance.

“It’s a walking ghost town,” said Don Russell, editor of the 163-year-old Mountain Messenger, a local newspaper that refuses, fittingly, to publish on the web.

The New York Times

PBGC, Alcoa agree on extra pension fund contributions
October 11, 2016, By Hazel Bradford

Alcoa Inc., Pittsburgh, will contribute an additional $150 million total to its two largest pension funds, under an agreement with the Pension Benefit Guaranty Corp. announced Tuesday.

The agreement, which calls for three $50 million payments over 30 months, was a result of the PBGC's Early Warning Program, which monitors large pension plans and corporate transactions that could jeopardize pension funds.

Pensions & Investments

New Issue Brief Explains Implications of Pension Risk Transfers for Different Stakeholders
October 12, 2016

A new issue brief from the Pension Committee of the American Academy of Actuaries, *Pension Risk Transfer*, explains the implications for different stakeholders of transactions intended to reduce risks such as longevity, investment, interest rate, and other types of financial risk for sponsors of defined-benefit pension plans.

“Pension risk transfers can have significant implications for the financial security and responsibilities of different plan stakeholders,” said Ellen Kleinstuber, chairperson of the Pension Committee. “This new issue brief explores how pension risk transfers can affect different parties. Whether you’re a plan participant, a plan sponsor, or a pension regulator or plan fiduciary, *Pension Risk Transfer* can help you take stock of how other key stakeholders view pension risk transfer and what a risk transfer transaction might mean for you."

[Actuary.org]

Nashville pension fund leads U.S. in risky investments
October 13, 2016, By Mike Reicher

Nashville's public pension system invested city workers' retirement funds in the nation's largest share of risky, high-priced investments among its peers. After eight years, the aggressive strategy shows promise, but it's not clear if it's worth the risk to retirees, or the millions paid to Wall Street managers.

Since the 2008 financial crisis, Nashville's pension managers have been shifting taxpayer money into junk bonds, hedge funds, troubled mortgages, private equity funds and other alternatives to conservative stocks and bonds. If successful, these "alternative investments" can earn greater profits, but they also demand high fees and carry the risk of heavy losses.

The Tennessean

WORLDWIDE ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

New pension ceiling meant to help low-paid workers may hit housewives
October 8, 2016, By Philip Brasor and Masako Tsubuku

Starting this month, workers who make at least ¥1.06 million a year will be enrolled in the *kōsei nenkin* pension plan, which means they and their employers will split the monthly contributions on a 50-50 basis.

Previously the ceiling for eligibility was ¥1.3 million a year, which means people who made less than that amount didn't have to enroll in the program, though they were required to pay into the basic pension (*kokumin nenkin*) plan on their own. The exception is homemakers — almost always housewives — whose spouses are enrolled in the kōsei nenkin plan at their own workplaces. They were still automatically part of the basic pension system and would receive payments when they reached a certain age, but they didn't have to contribute to it at all.

The Japan Times

U.K. pension funding slide gets reprieve in September as deficit improves
October 11, 2016, By Sophie Baker

The total deficit of U.K. corporate pension funds tracked by the Pension Protection Fund's 7800 index fell 8.6% over the month ended Sept. 30 to £419.7 billion ($546 billion), as a drop in liabilities more than offset a fall in total assets.

Over the year, however, the total deficit grew 61.4%.

The funded status of these pension funds improved to 77.5% as of Sept. 30, vs. 76.1% as of Aug. 31. However, at Sept. 30, 2015, the plans were 82.8% funded.

Pensions & Investments

Chile to Open Up a New Range of Investments to Pension Funds

October 13, 2016, By Laura Millan Lombrana

Chile's $176 billion pension fund industry is about to get a whole new range of investment options.

President Michelle Bachelet signed a law Thursday that will allow pension funds, known as AFPs, to invest directly in closely held companies and real estate for the first time, as well as buy shares in infrastructure concessions. The law will come into effect in 12 months, when all the accompanying regulations are in place.

[Bloomberg]