PRB

Weekly Clips, December 1, 2017

Texas Pension Review Board
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PRB PLANS

Fort Worth Is The Latest Texas City To Grapple With Serious Pension Problems
November 27, 2017, By Christopher Connelly

While Dallas and Houston have been wrestling with very public battles over their pensions for city employees, Fort Worth has been nursing a pension crisis of its own for years. Now, city officials are working to find solutions.

The bad news for the more than 10,000 former and current city workers, firefighters and cops covered under Fort Worth's pension plan came at a joint meeting of the City Council and pension board earlier this month.

KERA News

Crisis Averted! Why the fixers of the Dallas police pension are my Texans of the Year
December 1, 2017, By Mitchell Schnurman

Pension problems can be so gnarly that they never get fixed. In 44 states, the funding gap for public pensions grew larger last year, a trend that's been building since the early 2000s. New Jersey, Kentucky and Illinois have only about a third of what's needed to pay retirement benefits, and taxpayers in most of the country are on the hook for billions in future obligations.

Some pensions were so underwater that their sponsors used bankruptcy to escape them. Think of Detroit, United Airlines and Bethlehem Steel.

The Dallas Morning News

TEXAS ECONOMIC INDICATORS

Houston Job Growth Rate Exceeds U.S.
November 27, 2017, By Marissa Cummings

Hurricane Harvey took a toll on job growth in Houston during the month of September, said Cheryl Abbott with the U.S. Bureau of Labor Statistics. "A lot of people who were in say, the leisure and hospitality industry were unable to work and that would be places like restaurants."

But now, Abbott said the city is getting back on track. "You're back up here slightly above now 1.6 percent versus the U.S. average of 1.4," she said.

Houston Public Media

Texas Manufacturers, Thriving Under NAFTA, Brace for Uncertain Future

November 27, 2017, By Andrew Schneider

President Trump has called NAFTA, the North American Free Trade Agreement, a “job killer” for American manufacturers. It’s a message voters in the industrial Midwest seemed to buy. But with the U.S. now renegotiating the treaty with Mexico and Canada, we found that manufacturers here in Texas are becoming deeply concerned.

Daniel Allford is one of those manufacturers. We talked with him on the floor of his factory, ARC Specialties, on Houston’s west side. Allford started the company in his garage in 1983.

Houston Public Media

How a giant agriculture merger could price Texas farmers out of their jobs

November 29, 2017, By Matthew Choi

Two of the world's largest agricultural firms plan to merge, and some Texas farmers fear the move will diminish competition in an already shrinking market and cause prices for seeds and other essential products to spike.

German conglomerate Bayer, a global distributer of seeds best known for its pharmaceuticals like aspirin, hopes to buy Missouri-based agricultural firm Monsanto, which sells agricultural chemicals. But the merger must first gain approval from European antitrust regulators.

The Dallas Morning News

Dallas Fed: Regional economy expands despite lingering Harvey effects

November 29, 2017By Dan Zehr

The regional economy brushed off most of Hurricane Harvey’s impact and sustained a healthy pace of expansion over the past six weeks, according to a survey released Wednesday by the Federal Reserve Bank of Dallas.

In its chapter of the Beige Book, an anecdotal survey of the economy compiled every six weeks by the Federal Reserve banks, the Dallas Fed said economic growth in its district “continued to expand at a moderate pace.”

The Dallas Fed’s district includes all of Texas and parts of New Mexico and northern Louisiana. Texas accounts for more than 95 percent of the region’s economic activity, and the greater Houston area accounts for about a quarter of that.

Austin American-Statesman

Liberty Mutual’s $325M regional campus to connect thousands of DFW employees

November 30, 2017, By Candace Carlisle

By mid-January, Boston-based Liberty Mutual plans to begin moving the insurance company's existing North Texas employee base, which now totals about 2,700 workers, into the campus. The phased move is scheduled through the middle of 2018, bringing employees from Irving, Richardson, Frisco and along the Dallas North Tollway in one campus.

In the next few years, the insurance company plans to add to its growing workforce, with the new Plano regional campus designed to seat up to 5,000 workers.

Dallas Business Journal

LEGAL PROCEEDINGS, LAWS & REGULATIONS

Tax reform progress – retirement plans still safe?
November 20, 2017, By Michael A. Curto

The U.S. House of Representatives passed the "Tax Cut and Jobs Act" (H.R. 1) last Thursday without, unsurprisingly, any Democratic support. The retirement plan provisions in the bill haven't changed. No eleventh-hour revenue-grabbing effort to convert all 401(k) plan contributions to Roth contributions or to place substantial limits on pre-tax plan contributions. But there are still opportunities to do so if the need for additional revenue offsets arises.

There was additional action on Thursday night – the Senate Finance Committee approved its version of the tax reform bill. The Committee removed two of the retirement savings provisions from the earlier version of the Senate bill: the application of the 10% early withdrawal tax to governmental section 457(b) plans and the elimination of catch-up contributions for high-wage employees, which were described in our last post.

The National Law Review

Basic Legal Protections Vary Widely for Participants in Public Retirement Plans
November 21, 2017, By PEW

State and local pension plans hold over $3.6 trillion in retirement fund investments for participants and their beneficiaries, with returns on these investments accounting for an estimated 60 percent of the money paid out in pension benefits each year. In recent decades, public pension funds, in a bid to boost returns, have shifted funds away from low-risk, fixed-income investments—such as government and high-grade corporate bonds—to a greater reliance on equities and alternative investments. This strategy change can provide higher returns, but it increases the complexity of fund portfolios, as well as the risk of losses.

The rules governing plan trustees and administrators—those individuals, known as fiduciaries, with the authority to invest and manage these assets—have not always kept pace with this trend. Fiduciaries have a legal duty to exercise "great care" in managing plan assets. The origins of these duties date back centuries to what is known as the common law of trusts, which is widely recognized but uncodified law.

The PEW Charitable Trusts

Here are the retiree health care changes Michigan lawmakers are considering
November 30, 2017, By Emily Lawler

LANSING, MI - Lawmakers have been talking for weeks about a plan to change retiree health care, and have finally reached a consensus on what that plan looks like.

The legislature is considering changes after the Responsible Retirement Reform for Local Government Task Force found a collective $7.46 billion in unfunded pension liabilities and $10.13 billion in unfunded health care liabilities lurking in local governments' finances.

Sixteen bills were introduced in the Senate and another 16 will be introduced in the House on Thursday, said Senate Republican spokeswoman Amber McCann.

M Live

It's Official! DOL Finalizes Delay

November 30, 2017, By Daniel R. Kleinman, Michael B. Richman, Lindsay B. Jackson, Katrina L. Berishaj and William J. Marx

The Fiduciary Rule transition period is extended until mid-2019, with financial institutions having flexibility in complying with the impartial conduct standards during this period.

The US Department of Labor (DOL) has finalized an 18-month extension of the transition period under the new Best Interest Contract (BIC) and the Principal Transactions (PrT) exemptions and the amended Prohibited Transaction Exemption 84-24 (the PTEs). This means that the full conditions (as originally finalized) of the PTEs—including the contract, warranty, and specific policies and procedures and disclosure conditions—will not become applicable until July 1, 2019, subject to the DOL's ongoing review of the Fiduciary Rule and expected changes. In the meantime, exemptive relief under the BIC and PrT will be available so long as fiduciaries comply with the "impartial conduct standards" (ICS) that include prudence, loyalty, reasonable compensation, and disclosure.

The National Law Review

DOL Delays "Final Rule" for ERISA Disability Benefits

December 1, 2017, By Kristine M. Woliver

On November 29, 2017, The Department of Labor delayed through April 1, 2018, the applicability of a Final Rule amending the claims procedure requirements applicable to ERISA-covered employee benefit plans that provide disability benefits. The purpose of the Final Rule was to add procedural protections and safeguards similar to those applicable to group health plans under the Affordable Care Act.

In a nutshell, the Rule would require that plans providing disability benefits ensure all claims are adjudicated in a manner designed to ensure independence and impartiality, certain disclosure requirements, the right to review and respond to new information before a final decision, and that if a plan fails to adhere to all the claims procedure rules, the claimant would be deemed to have exhausted administrative remedies and may pursue court action (unless a limited exception applies).

The National Law Review

NATIONAL ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

Yellen Will Leave Federal Reserve Next Year

November 20, 2017, By Binyamin Appelbaum

WASHINGTON — Janet L. Yellen, chairwoman of the Federal Reserve, said on Monday that she would step down from the Fed's board at the same time that she ends her term as chairwoman.

President Trump decided earlier this month to nominate Jerome H. Powell, a Republican who sits on the Fed's board, as the next chairman, deciding against offering Ms. Yellen a second term. Ms. Yellen, whose term as chairwoman ends in February, could have remained on the Fed board until her term as governor expires in 2024.

Her decision to step down instead had been widely expected, though some Democrats had argued publicly and privately that she could best defend her legacy from the inside.

The New York Times

6 Trends Transforming Manufacturing in the US

November 21, 2017, By Caroline Gerenyi

What are the major trends transforming manufacturing in the U.S? Conventional wisdom, as reflected in much of the U.S. news media, seems to view manufacturing as an unchanging or change-averse business sector notable for its grease-stained, blue collar workforce and outdated heavy equipment. This stigmatizing (and utterly mistaken) perception often positions U.S. manufacturing as stuck in some bygone era, akin to an old machine left out in the rain. Nothing could be further from the truth.

In fact, U.S. manufacturing is being transformed and disrupted by precisely the same forces transforming the rest of the business landscape: the evolution of digital technology, globalized logistics and partnerships, and an accelerating need for organizational agility.

Markets Insider

Colorado's PERA calls $32 billion fix a "shared sacrifice," But current and future workers would shoulder $17.7 billion

November 24, 2017, By Brian Eason

Decades of overpromising and underfunding benefits have dug Colorado's public pension system into a deep financial hole, and a new analysis of competing proposals to fix it shows that younger generations would be left to pick up most of the $32 billion tab.

The latest financial breakdown undercuts public statements made by advocates of each proposal to shore up the Public Employees' Retirement Association and underscores the difficulty of finding an equitable solution for past and future generations of public workers without asking taxpayers for a bailout.

The Denver Post

Going to 401-(k)-style retirement for teachers will reduce costs | Opinion

November 25, 2017, By Andrew G. Biggs

There is a story that an engineer determined that, based on the size of the bumblebee's wings, the insect should not be able to fly. The bumblebee flew anyway. In the same way, actuaries working for the Kentucky Teachers Retirement System claim that Gov. Matt Bevin's plan to switch newly hired public employees to 401(k)-type retirement accounts would cost billions more than simply keeping them in their traditional "defined benefit" pension plan. This conclusion flies in the face of a worldwide movement toward 401(k)s that was designed to reduce costs. And it has.

Courier Journal

Editorial: Brown comes to taxpayers' defense on pensions

November 27, 2017, By Mercury News & East Bay Times Editorial Boards

With the state Supreme Court considering the most significant public employee pension casein nearly three decades, it's reassuring to see the governor come to the defense of taxpayers.

For Jerry Brown, this case, a union challenge to portions of his 2012 pension changes, could determine his legacy on the issue.

He will be remembered either as someone who put a Band-Aid on a gaping wound, $374 billion of retirement debt and growing, or as the leader who meaningfully staunched the bleeding of public money.

The Mercury News

Survey Shows Geopolitical Risk Tops Pension, Asset Managers' Concerns
November 28, 2017, By Michael Katz

Institutional investors see geopolitical stability as the biggest short- to medium-term risk to the global economy, more than inflation, growth rates, and central bank policy combined, according to a report from asset manager PineBridge Investments.

In a survey of pensions, consultants, and asset management professionals, PineBridge found that 55% of pension professionals, and 54% of asset managers, saw geopolitical risk as the biggest threat to the economy.

Chief Investment Officer

Kansas insists pension fund still stable amid concerns
November 28, 2017, By The Associated Press

TOPEKA, KAN. Kansas officials say retirees won't be affected by eliminated or delayed pension fund payments to teachers and other government workers.

Officials with the Kansas Public Employees Retirement System assured retirees' financial safety to a legislative oversight committee on Monday. The message was part of the retirement system's annual report to the Legislature about the actuarial value of the pension fund and the estimated difference between its current assets and long-term obligations, the Lawrence Journal-World reported.

US News

Yellen, Roped Into Tax Debate, Backs Case to Lift Growth Potential
November 29, 2017 By Rich Miller

Outgoing Federal Reserve Chair Janet Yellen said the central bank would welcome and support a faster expansion of the economy stemming from changes in the tax code, provided it was the right kind of growth.

"The Fed is not trying to stifle growth," she told the Joint Economic Committee on Wednesday in what may be her final testimony to Congress as head of the central bank. But "we're worried about trends that could push inflation above our 2 percent objective."

With the economy close to full employment, any acceleration in economic growth needs to be a sustained one that comes from productivity gains or an expansion of the labor force, she said. By implication, she was cautioning against tax cuts that simply create a short-term boost in demand that could stoke inflation.

Bloomberg

Multiemployer pension plans in 'dire' shape, government monitor says
November 29, 2017, By Sean Higgins

Multiemployer pension programs are in dire shape, the director of the Pension Benefit Guaranty Corporation told a congressional panel Wednesday, with the plan having liabilities of $67.3 billion but assets of just $2.3 billion to cover them.

"Projections show that the program is likely to become insolvent by the end of 2025, absent changes in law," PBGC Director Thomas Reeder told the House Education and the Workforce Committee, according to prepared testimony provided to the Washington Examiner.

Washington Examiner

U.S. third-quarter economic growth fastest in three years
November 29, 2017, By Lucia Mutikani

WASHINGTON (Reuters) - The U.S. economy grew faster than initially thought in the third quarter, notching its quickest pace in three years, buoyed by robust business spending on equipment and an accumulation of inventories.

Gross domestic product expanded at a 3.3 percent annual rate last quarter also boosted by a rebound in government investment, the Commerce Department said in its second GDP estimate on Wednesday. That was the fastest pace since the third quarter of 2014 and a pickup from the second quarter's 3.1 percent rate.

The economy was previously reported to have grown at a 3.0 percent pace in the July-September period. It was the first time since 2014 that the economy experienced growth of 3 percent or more for two straight quarters.

Reuters

Stock Wealth Surges for the Oldest Americans While the Young Miss Out
December 1, 2017, 2017, By Jordan Yadoo and Ben Steverman

U.S. stocks have more than tripled in value since 2009, but the bull market has left a lot of Americans behind. In almost every age group, the share of families owning equities—either directly or through funds and retirement accounts—declined from 2007 to 2016, according to the Federal Reserve's most recent Survey of Consumer Finances. There's one prominent exception: households headed by someone 75 or older.

Almost 49 percent of those households own stocks, up from 40 percent in 2007, just before the financial crisis, and about 35 percent in 2013, as many Americans were still recovering from the wreckage. It's the highest number since the Fed began its triennial report on Americans and their money in 1989.

Bloomberg

WORLDWIDE ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

No, Norway isn't Turning Away from Fossil Fuels
November 21, 2017, By Sony Kapoor

There was widespread excitement last week on the news that Norway's $1 trillion sovereign wealth fund has announced an intention to sell off its oil and gas holdings. This amounts to about 6 percent of the fund's stockholdings, about $37 billion. Environmental activists, in particular, are delighted and expect this to trigger a broader sell-off in fossil fuels. They should hold the champagne.

Bill McKibben, the founder of 350.org, called it "astonishing" and compared this to the Rockefellers divesting from fossil fuels. Paul Fisher, now at the Cambridge Institute for Sustainability Leadership, stated that the Fund is "no longer prepared to take the increasing risk associated with oil and gas assets, which do not have a long-term future." Stephanie Pfeifer, head of the Institutional Investors Group of Climate Change said investors will look more closely at alignment with the low carbon transition.

Bloomberg

Singapore's Economy Hits Fastest Pace in More Than Three Years in Third Quarter

November 22, 2017, By Michelle Jamrisko

Singapore raised its economic growth forecast for this year and sees global growth underpinning that momentum into 2018, with some moderation.

A healing in global trade this year has helped boost export-reliant economies like Singapore's, with manufacturing buoyed by demand for electronics goods. Growth has started to broaden out to other industries, such as services, giving economists and the government reason to upgrade their full-year projections. Prime Minister Lee Hsien Loong said earlier this week that growth could exceed 3 percent in 2017.

The trade ministry said Thursday global growth is expected to improve next year, on the back of faster expansion in the U.S. and some emerging markets. The U.S. economy will probably "pick up slightly" due to a resilient labor market and modest business investment while growth in the eurozone area and in China is set to moderate, the officials said.

Bloomberg

UK officially falls out of world's top five economies, Government admits

November 23, 2017, By Josie Cox

During Wednesday's Budget, Philip Hammond, in a series of statements aimed at highlighting the strength and health of the British economy, admitted that the country has slipped to sixth spot, trailing France. The other four countries that make up the leaderboard are the US, China, Japan and Germany.

"London is the number one international financial services centre. We have some of the world's best companies. And a commanding position in a raft of tech and digital industries that will form the backbone of the global economy of the future. Those who underestimate Britain, do so at their peril," the Chancellor said.

But he also admitted, "Britain is the world's sixth largest economy". There are several ways of measuring the size of an economy. According to data from the World Bank, ranked by gross domestic product for 2016, the UK still easily outpaced France with a GDP of $2.618 trillion. But according to IMF forecasts for 2017, France has leap-frogged the UK.

The Independent

As Brexit looms, UK pitches new industry plan, wins support from Merck, Qiagen

November 26, 2017, By Paul Sandle, Ben Hirschler

LONDON (Reuters) - Britain pitched a new strategy for industry on Monday, pledging greater state intervention to tackle weak productivity and to help the world's sixth largest economy cope with the upheaval of leaving the European Union.

Prime Minister Theresa May flagged the plan in January, seven months after Britain voted to leave the EU, adopting a hands-on approach to business that had largely been abandoned by her predecessors from the time of Margaret Thatcher in the 1980s.

The 131-page document aims to reposition Britain so it can profit from the technological revolution by increasing research and development investment, improving technical education and building better infrastructure.

Reuters

Economists Fret as Italian Politicians Promise to Scrap Pension Cuts

November 29, 2017, By Gavin Jones

ROME, Nov 29 (Reuters) - Many of Italy’s leading politicians are promising more money for pensioners after elections next year, campaigning to undo reforms that economists say stabilised the country’s finances at the height of the euro zone debt crisis six years ago.

Italy still spends more than 16 percent of its GDP on state pensions, the second highest percentage in Europe after Greece, despite a package of deep cuts imposed by a government of technocrats in 2011 that helped halt a sell-off of its bonds.

The reform, named after then-Welfare Minister Elsa Fornero, was never fully accepted by Italians. It raised the retirement age and requires further rises to be phased in over time, with the next hike -- to 67 years from 66 years and 5 months -- due to take place on Jan. 1, 2019.

Reuters

How Outrage Over Australian Banks Sparked a Public Inquiry

November 30, 2017, By Emily Cadman

Rigging interest rates. Enabling money laundering. Giving misleading financial advice. These are just some of the things Australian banks have been accused of doing in recent years. Now, public outrage and a threatened rebellion by lawmakers has pushed Prime Minister Malcolm Turnbull to set up a public inquiry into the financial services industry. By one reckoning, it’s the 52nd investigation of Australian banks since the financial crisis.

The inquiry will cover any misconduct by financial services companies or conduct that falls “below community standards and expectations,” and will also look into the adequacy of regulators’ powers. Pension funds will also be probed over how they use the public’s retirement savings. The draft terms of reference don’t envision looking into wider issues demanded by critics such as profitability or competition. The inquiry will need to submit an interim report in September and findings and recommendations within 12 months.

Bloomberg