

## AGENDA



**Date:** November 2, 2018

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, November 8, 2018, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

**A. MOMENT OF SILENCE**

**B. CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of October 10, 2018

**2. Approval of Refunds of Contributions for the Month of October 2018**

- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for November 2018**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Payment of Military Service Contributions**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

- 1. Asset Allocation Implementation**
- 2. Portfolio Update**
- 3. Legislative Consultant Contract Renewal**
- 4. Second reading and discussion of the 2019 Budget**

- 5. Third Quarter 2018 Financial Statements**
- 6. Trustee Absences at October 10, 2018 Board Meeting**
- 7. 401(a) Money Purchase Plan and 457(b) Deferred Compensation Plan**
- 8. Required Training Manual Delivery**
- 9. Internal Controls Review**
- 10. Reconsideration of Board Motion regarding transmittal of CAFR to City of Dallas**
- 11. Board approval of Trustee education and travel**
  - a. Future Education and Business-related Travel
  - b. Future Investment-related Travel
- 12. Board Members' reports on meetings, seminars and/or conferences attended**

IFEBP New Trustee Training Level 1

**13. Closed Session – Board serving as Medical Committee**

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

Disability application

**14. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including Open Records litigation with the Texas Attorney General or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

**15. Performance Input to the Executive Director regarding the General Counsel**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

**16. Performance Review of Executive Director**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

## **D. BRIEFING ITEMS**

- 1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**
- 2. Executive Director's report**
  - a. Associations' newsletters**
    - NCPERS Monitor (October 2018)
    - NCPERS PERSist (Fall 2018)

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by the Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.



**ITEM #A**

**MOMENT OF SILENCE**

**In memory of our Members and Pensioners who recently passed away**

**(September 29, 2018 – October 19, 2018)**

<b>NAME</b>	<b>ACTIVE/ RETIRED</b>	<b>DEPARTMENT</b>	<b>DATE OF DEATH</b>
Raymond L. Ysasaga	Retired	Police	Sep. 29, 2018
Eugene J. Fox	Active	Police	Oct. 1, 2018
Alexander P. Csaszar	Retired	Police	Oct. 2, 2018
Jimmy R. Kincaid	Retired	Police	Oct. 19, 2018

***Regular Board Meeting – Thursday, November 8, 2018***

**Dallas Police and Fire Pension System  
Wednesday, October 10, 2018  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX**

Regular meeting, William F. Quinn, Chairman, presiding:

**ROLL CALL**

**Board Members**

Present at 8:31 a.m. William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Tina Hernandez Patterson, Joseph P. Schutz, Kneeland Youngblood (by phone)

Present at 9:28 a.m. Blaine Dickens

Absent: Robert C. Walters

**Staff**

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Milissa Romero

**Others**

Jill Svoboda, Matt Liu, Leandro Festino, Aaron Lally, Jeff Williams (by phone), Janis Elliston, Darryl Wachsman, Jerry Rhodes, David Elliston

\* \* \* \* \*

The meeting was called to order at 8:31 a.m.

\* \* \* \* \*

**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of retired firefighters Jim Meador, D. L. Sides, Curtis R. Good, Roy J. Stewart, Jr.

No motion was made.

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**Regular Board Meeting  
Wednesday, October 10, 2018**

**B. CONSENT AGENDA**

**1. Approval of Minutes**

- a. Required Public Meeting #2 of September 13, 2018
- b. Regular meeting of September 13, 2018

**2. Approval of Refunds of Contributions for the Month of September 2018**

**3. Approval of Estate Settlements**

**4. Approval of Survivor Benefits**

**5. Approval of Service Retirements**

**6. Approval of Alternate Payee Benefits**

**7. Approval of Payment of Military Leave Contributions**

**8. Approval of Payment of DROP Revocation Contributions**

After discussion, Mr. Nixon made a motion to approve the minutes of the Required Public Meeting #2 of September 13, 2018. Mr. Garcia seconded the motion, which was unanimously approved by the Board. Mr. Dickens was not present for the vote.

After discussion, Mr. Garcia made a motion to approve the minutes of the meeting of September 13, 2018. Mr. Friar seconded the motion, which was unanimously approved by the Board. Mr. Dickens was not present for the vote.

After discussion, Mr. Garcia made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Friar seconded the motion, which was unanimously approved by the Board. Mr. Dickens was not present for the vote.

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**Regular Board Meeting  
Wednesday, October 10, 2018**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. 2017 Financial Audit**

Jill Svoboda and Matt Liu, representatives from BDO, DPFP's independent audit firm, were present to discuss the results of their audit for the year ended December 31, 2017.

The Audit Committee reported their findings from their meeting with BDO.

The Executive Director presented a draft of the 2017 audited financial statements.

After discussion, Mr. Garcia made a motion to approve issuance of the 2017 audit report, subject to final review and approval by BDO and the Executive Director. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**2. 2017 Comprehensive Annual Financial Report**

Staff presented the draft of the 2017 Comprehensive Annual Financial Report.

The report is scheduled to be completed following final approval by the Executive Director, as well as BDO. Upon completion, the report will be posted to the DPFP website and provided to the Pension Review Board and the City of Dallas.

After discussion, Mr. Garcia made a motion to authorize the Executive Director to issue the 2017 Comprehensive Annual Financial Report upon finalization and the Chairman to prepare a letter from the Board transmitting the report to officials of the City of Dallas. Mr. Schutz seconded the motion, which was unanimously approved by the Board.

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**3. Asset Allocation**

Leandro Festino, Managing Principal, and Aaron Lally, Executive Vice President of Meketa Investment Group, Jeff Williams, Vice President and Consulting Actuary, Segal Consulting (by phone) answered questions related to actuarial impact and projection and presented the long-term asset allocation, analysis, recommendation, and implementation considerations.

**Regular Board Meeting  
Wednesday, October 10, 2018**

**3. Asset Allocation (continued)**

After discussion, Ms. Hernandez Patterson made a motion to approve the recommended long-term asset allocation. Mr. Merrick seconded the motion, which was unanimously approved by the Board.

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**4. Portfolio Update**

The Chief Investment Officer briefed the Board on recent events and current developments with respect to the investment portfolio.

No motion was made.

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**5. Quarterly Private Asset Cash Flow Projection Update**

Staff provided the quarterly update on the private asset cash flow projection model first discussed at the February Board meeting. The cash flow model projects estimated contributions to, and distributions from, private assets over the next 5 years. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DPF's exposure to these assets and the implications for the overall asset allocation and expected portfolio risk and return.

No motion was made.

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**6. Initial reading and discussion of the 2019 Budget**

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and/or projected 2018 actual expenses were explained in the comments accompanying the proposed budget.

**Regular Board Meeting  
Wednesday, October 10, 2018**

**6. Initial reading and discussion of the 2019 Budget (continued)**

After discussion, Mr. Garcia made a motion to direct staff to reflect any proposed changes, present the amended budget to the Board at the November 8, 2018 Board meeting, and authorize the posting of the amended budget to www.dfp.org for member review prior to the November meeting. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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**7. Professional Services Provider Policy**

The Committee Policy and Procedure provides for the appointment of a Professional Services Committee whose responsibility is to meet at least annually to interview the actuary, outside legal (fiduciary) counsel and investment consultant in order to give a forum to the service providers to speak candidly to the Committee. All material comments are then required to be passed on to the full Board by the Committee.

The policy provides that the Committee will be one Trustee who is a Mayoral appointee, one Trustee elected by the Members and either the Chairman or a Trustee selected by the Chairman.

After discussion, Mr. Merrick made a motion to appoint Mr. Schutz, Mr. Dickens, and Mr. Quinn to the Professional Services Committee required under the Committee Policy and Procedure. Mr. Garcia seconded the motion, which was unanimously approved by the Board. Ms. Hernandez was not present.

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**8. Uniformed Services Leave Payback Policy and Procedure**

Staff proposed an amendment to the policy to combine all potential buybacks which occur in a year for purposes of the member paying back contributions to acquire service time by December 31st of that year.

After discussion, Mr. Merrick made a motion to adopt the Uniform Services Leave Payback Policy and Procedure as amended. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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**Regular Board Meeting  
Wednesday, October 10, 2018**

**9. Board approval of Trustee education and travel**

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

The Board and staff discussed approval of future education and business-related travel. There was no future investment-related travel.

After discussion, Mr. Garcia made a motion to approve Mr. Dickens’ request to attend the IFEBP New Trustee Institute. Mr. Merrick seconded the motion, which was unanimously approved by the Board.

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**10. Executive Staff Personnel Review and Compensation Process**

The Board went into a closed executive session – personnel at 11:50 p.m.

The meeting was reopened at 12:16 p.m.

The Chairman led a discussion with the Board concerning the process by which the Board at a future meeting will review the Executive Staff’s performance and compensation. No motion was made.

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**11. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including Eddington et al. v. DPFPP et al., USERRA contributions owed by the City of Dallas or any other legal matter in which the duty of the attorneys to DPFPP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

The Board went into a closed executive session – legal at 12:16 p.m.

The meeting was reopened at 12:44 p.m.

The Board and staff discussed legal issues. No motion was made.

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**Regular Board Meeting  
Wednesday, October 10, 2018**

**D. BRIEFING ITEMS**

**1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

The Board heard member and pensioner comments. No motion was made.

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**2. Executive Director's report**

- a. Associations' newsletters
  - NCPERS Monitor (September 2018)
- b. IRS Audit
- c. Diligent Material
- d. Web Member Services

The Executive Director's report was presented. No motion was made.

\* \* \* \* \*

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Ms. Hernandez Patterson and a second by Mr. Garcia, the meeting was adjourned at 12:44 p.m.

\_\_\_\_\_  
William F. Quinn  
Chairman

**ATTEST:**

\_\_\_\_\_  
Kelly Gottschalk  
Secretary



## DISCUSSION SHEET

### ITEM #C1

**Topic:** Asset Allocation Implementation

**Attendees:** Leandro Festino, Managing Principal - Meketa Investment Group (by phone)

**Discussion:** Meketa and DFPF investment staff will discuss implementation of the long-term asset allocation that was approved at the October 10 meeting of the Board.

**Staff**

**Recommendation:** **Approve** the asset allocation implementation plan, as presented by Meketa.

Until a rebalancing policy is approved by the Board, recommended rebalancing would be submitted to the Board for approval.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C2

**Topic:** Portfolio Update

**Discussion:** Investment Staff will brief the Board on recent events and current developments with respect to the investment portfolio.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C3

**Topic:** Legislative Consultant Contract Renewal

**Discussion:** DFPF's contract with its legislative consultant HillCo Partners expires November 30, 2018. Staff is recommending to the Board that DFPF renew the contract on the same terms through November 30, 2020. Staff believes HillCo Partners should be retained for the following reasons:

- HillCo was very effective during the 2017 legislative session in keeping legislators informed about the effect on DFPF of the various legislative proposals and helping to educate the legislators on the needs of DFPF with respect to such legislation.
- HillCo continues to be one of the most respected legislative firms in Austin with extensive pension knowledge.
- HillCo personnel who work directly with DFPF, Clint Smith, Eddie Solis and Buddy Jones have a long history with DFPF and understand in depth our legislative needs.

**Staff Recommendation:** **Authorize** the Executive Director to renew DFPF's contract with HillCo Partners on its current terms for two years.

*Regular Board Meeting – Thursday, November 8, 2018*





October 18, 2018

Ms. Kelly Gottschalk  
Dallas Police & Fire Pension System  
4100 Harry Hines Boulevard, Suite 100  
Dallas, TX 75219

Dear Kelly:

In order to protect the System's interests and to work toward preventing punitive recommendations to the Dallas Police and Fire Pension System emerge from interim legislative process, we accomplished the following goals leading up to the 86th Session:

- We actively followed and participated in all applicable interim committee meetings;
- We planned types of input favorable to the Dallas Police and Fire Pension System and communicated this input to members during the interim;
- We coordinated input with TEXPERS and other local public pension systems;
- We established relationships with local legislators and those involved in your issues;
- We aided the efforts of legislators that understood your positions; and

This proposal is for consulting services to further the above stated goals accomplished during the interim period and, to use these successes during the 85<sup>th</sup> Session of the Legislature that will convene January 9, 2019.

Going forward on your behalf HillCo will provide the following services:

- Develop with you and your Board a political strategy for the Dallas Police and Fire Pension System to accomplish its goals;
- Represent the Dallas Police and Fire Pension System in all legislative actions which are identified as having a potential impact on the Dallas Police and Fire Pension System's interests;
- Advocate the Dallas Police and Fire Pension System's position to members of the Texas legislature;

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- Communication with designated representatives of the Dallas Police and Fire Pension System regarding its position on issues;
- Maintain personal contact with members of the legislative and executive branches of state government regarding the Dallas Police and Fire Pension System's position on issues;
- Assist the Dallas Police and Fire Pension System in developing relationships with key legislative members;
- Represent the Dallas Police and Fire Pension System during the 2019 legislative session; and
- Work to pass legislation, if deemed necessary by the Dallas Police and Fire Pension System Board, which is favorable to the Dallas Police & Fire Pension System and its members.
- Regularly report on legislative activities to designated representatives of the Dallas Police and Fire Pension System.

Neal T. "Buddy" Jones, Eddie Solis, and R. Clint Smith will be responsible for the representation of the Dallas Police and Fire Pension Systems on key issues. We have reviewed the issues involved and have determined that the interest of the Dallas Police and Fire Pension System do not conflict with those of our other clients. It is however, specifically acknowledged that HillCo does represent the City of Dallas solely on water issues. Client consents to this representation for this purpose.

All personnel in our office agree that the information provided to and by the Dallas Police and Fire Pension System personnel shall be confidential and shall not be disclosed except as required by law or authorized by the System. Each expressly agrees not to violate the confidentiality of any assignment undertaken for the Dallas Police and Fire Pension System and not to engage in any conflict of interest or to directly or indirectly resort to any act, which could be considered commercial or political bribery. It is further agreed that each shall not utilize his or her compensation from the Dallas Police and Fire Pension System to make payments, which violate state or federal laws and regulations.

The period of this contract is effective from December 1, 2018 through November 30, 2020 provided that either party may terminate this agreement with 30 days' written notice without cause by providing said written notice to the other. This relationship may be extended and/or its scope broadened by mutual agreement of all parties. Hillco Partners will provide the services set out herein for a fee of \$10,000 per month during non-legislative months and \$15,000 per month during the legislative session from January 1, 2019 to June 30, 2019.

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Dallas Police and Fire Pension System further agrees to pay any actual expenses reasonably incurred by HillCo Partners, such as travel, lodging, and food. Dallas Police & Fire also agrees to pay overhead expenses of \$500 per month during non-legislative months and \$1000 per month during legislative session months. All compensation paid under this agreement by the System will be reported to the IRS on form 1099.

We are confident this will continue to be a most successful and beneficial relationship. If there are questions, please let us know. Thank you for your attention to this proposal.

Sincerely,



Neal T. "Buddy" Jones



R. Clint Smith

RCS/llg\_DPFPS

ACCEPTED AND AGREED TO BY:

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(Printed Name)

Date: \_\_\_\_\_



## DISCUSSION SHEET

### ITEM #C4

**Topic:** Second reading and discussion of the 2019 Budget

**Discussion:** Attached is the budget proposal for Calendar Year 2019.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and/or projected 2018 actual expenses are explained in the comments accompanying the proposed budget.

The first reading of the proposed budget was at the October 10, 2018 Board meeting. The proposed budget was posted on the DPFP website on October 11, 2018 and submitted to the City of Dallas for comment.

In accordance with the Budget Adoption Policy, time is allotted for member comment specially addressing the proposed budget at this meeting.

The Chief Financial Officer will review any changes to the proposed budget from the first reading.

**Staff**

**Recommendation:** **Direct** staff to reflect any proposed changes and present the amended budget to the Board for consideration at the December 13, 2018 Board meeting.

*Regular Board Meeting – Thursday, November 8, 2018*

**DALLAS POLICE AND FIRE PENSION SYSTEM  
PROPOSED BUDGET SUMMARY  
FOR THE YEAR 2019  
SECOND READING AT THE NOVEMBER 8, 2018 BOARD MEETING**

Expense Type	2018 Budget	2018 Projected Actual	2019 Proposed Budget	Variances		Variances	
				2019 Prop. Bud. vs	2018 Budget	2019 Prop. Bud. vs	2018 Proj. Act.
				\$	%	\$	%
Administrative Expenses	5,367,639	4,775,511	5,811,377	443,738	8.3%	1,035,866	21.7%
Investment Expenses	19,147,000	17,113,517	16,854,000	(2,293,000)	-12.0%	(259,517)	-1.5%
Professional Expenses	3,038,300	1,566,070	2,189,975	(848,325)	-27.9%	623,905	39.8%
<b>Total</b>	<b>\$ 27,552,939</b>	<b>\$ 23,455,098</b>	<b>\$ 24,855,352</b>	<b>\$ (2,697,587)</b>	<b>-9.8%</b>	<b>\$ 1,400,254</b>	<b>6.0%</b>

Dallas Police & Fire Pension System Proposed Operating Budget Calendar Year 2019							
Description	2018 Budget	2018 Projected Actual*	2019 Proposed Budget	\$ Change 2019 Prop. Bud. vs. 2018 Bud.	% Change 2019 Prop. Bud. vs. 2018 Bud.	\$ Change 2019 Prop. Bud. vs. 2018 Proj. Actual	% Change 2019 Prop. Bud. vs. 2018 Proj. Actual
<b>Administrative Expenses</b>							
1 Salaries and benefits	3,722,945	3,024,636	3,831,889	108,944	2.9%	807,253	26.7%
2 2018 Projected Actual	151,125	148,563	52,275	(98,850)	(65.4%)	(96,288)	(64.8%)
3 Memberships and dues	17,040	23,699	19,182	2,142	12.6%	(4,517)	(19.1%)
4 Staff meetings	1,000	845	1,000	-	0.0%	155	18.3%
5 Employee service recognition	-	599	5,000	5,000	100.0%	4,401	734.7%
6 Member educational programs	2,500	-	2,500	-	0.0%	2,500	100.0%
7 Board meetings	10,100	3,351	7,600	(2,500)	(24.8%)	4,249	126.8%
8 Conference registration/materials - Board	14,900	2,910	14,900	-	0.0%	11,990	412.0%
9 Travel - Board	32,600	-	32,620	20	0.1%	32,620	100.0%
10 Conference/training registration/materials - Staff	27,050	3,176	37,500	10,450	38.6%	34,324	1080.7%
11 Travel - Staff	47,000	12,444	37,500	(9,500)	(20.2%)	25,056	201.4%
12 Liability insurance	510,000	527,256	604,553	94,553	18.5%	77,297	14.7%
13 Communications (phone/internet)	49,100	54,441	55,600	6,500	13.2%	1,159	2.1%
14 Information technology projects	75,000	110,376	70,000	(5,000)	(6.7%)	(40,376)	(36.6%)
15 IT subscriptions/services/licenses	147,100	101,138	147,840	740	0.5%	46,702	46.2%
16 IT software/hardware	17,000	10,884	17,000	-	0.0%	6,116	56.2%
17 Building expenses	342,337	367,584	365,339	23,002	6.7%	(2,245)	(0.6%)
18 Repairs and maintenance	110,092	80,375	108,249	(1,843)	(1.7%)	27,874	34.7%
19 Office supplies	30,500	31,034	33,100	2,600	8.5%	2,066	6.7%
20 Leased equipment	24,500	23,820	23,900	(600)	(2.4%)	80	0.3%
21 Postage	25,800	15,537	27,000	1,200	4.7%	11,463	73.8%
22 Printing	6,370	2,147	5,110	(1,260)	(19.8%)	2,963	138.0%
23 Subscriptions	2,020	521	2,140	120	5.9%	1,619	310.7%
24 Records storage	1,560	1,307	1,320	(240)	(15.4%)	13	1.0%
25 Administrative contingency reserve	-	1,242	12,000	12,000	100.0%	10,758	866.2%
26 Depreciation Expense	-	227,626	248,260	248,260	100.0%	20,634	9.1%
<b>Investment Expenses</b>							
27 Investment management fees	17,522,000	15,684,258	14,490,000	(3,032,000)	(17.3%)	(1,194,258)	(7.6%)
28 Investment consultant and reporting	505,000	282,515	430,000	(75,000)	(14.9%)	147,485	52.2%
29 Bank/security custodian services	260,000	237,424	240,000	(20,000)	(7.7%)	2,576	1.1%
30 Other portfolio operating expenses (legal, valuation, tax)	860,000	909,320	1,694,000	834,000	97.0%	784,680	86.3%
31 Investment Due Diligence	-	-	48,000	48,000	100.0%	48,000	100.0%
<b>Professional Services Expenses</b>							
32 Actuarial services	150,000	132,027	120,000	(30,000)	(20.0%)	(12,027)	(9.1%)

Dallas Police & Fire Pension System Proposed Operating Budget Calendar Year 2019							
Description	2018 Budget	2018 Projected Actual*	2019 Proposed Budget	\$ Change 2019 Prop. Bud. vs. 2018 Bud.	% Change 2019 Prop. Bud. vs. 2018 Bud.	\$ Change 2019 Prop. Bud. vs. 2018 Proj. Actual	% Change 2019 Prop. Bud. vs. 2018 Proj. Actual
33 Accounting services	59,000	59,000	59,000	-	0.0%	-	0.0%
34 Independent audit	152,500	150,000	180,000	27,500	18.0%	30,000	20.0%
35 Legal fees	2,000,000	750,000	1,300,000	(700,000)	(35.0%)	550,000	73.3%
36 Legislative consultants	291,000	126,750	159,000	(132,000)	(45.4%)	32,250	25.4%
37 Public relations	-	-	-	-	100.0%	-	100.0%
38 Pension administration software & WMS	291,000	297,725	273,000	(18,000)	(6.2%)	(24,725)	(8.3%)
39 Business continuity	13,500	12,593	15,500	2,000	14.8%	2,907	23.1%
40 Network security	33,000	7,872	15,000	(18,000)	(54.5%)	7,128	90.5%
41 Disability medical evaluations	30,000	7,583	29,000	(1,000)	(3.3%)	21,417	282.4%
42 Elections	-	-	15,000	15,000	100.0%	15,000	100.0%
43 Miscellaneous professional services	18,300	22,520	24,475	6,175	33.7%	1,955	8.7%
<b>Total Budget</b>	<b>27,552,939</b>	<b>23,455,098</b>	<b>24,855,352</b>	<b>(2,697,587)</b>	<b>(9.8%)</b>	<b>1,400,254</b>	<b>6.0%</b>
Less: Investment management fees	17,522,000	15,684,258	14,490,000	(3,032,000)	(17.3%)	(1,194,258)	(7.6%)
<b>Adjusted Budget Total</b>	<b>10,030,939</b>	<b>7,770,840</b>	<b>10,365,352</b>	<b>334,413</b>	<b>3.3%</b>	<b>2,594,512</b>	<b>33.4%</b>

**SUPPLEMENTAL BUDGET**

<b>Total Budget ( from above)</b>	27,552,939	23,455,098	24,855,352	(2,697,587)	-9.8%	1,400,254	6.0%
Less: Allocation to Supplemental Plan Budget*	236,894	182,950	193,872	(43,022)	(18.2%)	10,922	6.0%
<b>Total Combined Pension Plan Budget</b>	<b>27,316,045</b>	<b>23,272,148</b>	<b>24,661,480</b>	<b>(2,654,565)</b>	<b>(9.7%)</b>	<b>1,389,332</b>	<b>6.0%</b>

\* Projected based on 8/31/18 YTD annualized

\*\* Allocation to Supplemental is based on JPM allocation between accounts as of 8/31/18 of .78%

\_\_\_\_\_ 0.78% per JPM Unitization report as of 8/31/18



Significant Budget Changes - 2019									
Item	2018 Budget	2018 Projected Actual**	2019 Proposed Budget	\$ Change 2019 Prop. Bud. vs. 2018 Bud.	% Change 2019 Prop. Bud. vs. 2018 Bud.	\$ Change 2019 Prop. Bud. vs. 2018 Proj. Act.	% Change 2019 Prop. Bud. vs. 2018 Proj. Act.	Explanation	
<b>INCREASES:</b>									
1	Other portfolio operating expenses (legal, valuation, tax)	860,000	909,320	1,694,000	834,000	97.0%	784,680	86.3%	Expected legal and advisory expenses for end of life fund resolution in 2019
2	Depreciation Expense	-	227,626	248,260	248,260	100.0%	20,634	9.1%	Depreciation has not previously been budgeted
3	Salaries and benefits	Projected Actual	3,024,636	3,831,889	108,944	2.9%	807,253	26.7%	Fully staffed team - 5 or 6 additional employees, other staff employed for full year
4	Liability insurance	510,000	527,256	604,553	94,553	18.5%	77,297	14.7%	Increase due to market factors, as well as claims experience for fiduciary coverage.
5	Investment Due Diligence	-	-	48,000	48,000	100.0%	48,000	100.0%	Due Diligence for new investment manager searches - includes travel and database
6	Independent audit	152,500	150,000	180,000	27,500	18.0%	30,000	20.0%	Expect additional valuation review work for some funds.
7	Building expenses	342,337	367,584	365,339	23,002	6.7%	(2,245)	-0.6%	Increased property taxes for fully leased third and fourth floors
8	Elections	-	-	15,000	15,000	100.0%	15,000	100.0%	Board elections due in 2019
9	Administrative contingency reserve	-	1,242	12,000	12,000	100.0%	10,758	866.2%	Contingency reserve
10	Conference/training registration/materials - Staff	27,050	3,176	37,500	10,450	38.6%	34,324	1080.7%	Returning to a more normal staff training schedule
11	Postage	25,800	15,537	27,000	1,200	4.7%	11,463	73.8%	Primarily additional postage for board elections in 2019
12	IT subscriptions/services/licenses	147,100	101,138	147,840	740	0.5%	46,702	46.2%	Additional Email Filtering and VMware Support services expected in 2019. Also, Network Monitoring is now being included in the IT services account.
13	Travel - Board	32,600	-	32,620	20	0.1%	32,620	100.0%	Expense is flat against 2018 budget. More board travel anticipated in 2019.
14	Conference registration/materials - Board	14,900	2,910	14,900	-	0.0%	11,990	412.0%	Expense is flat against 2018 budget. More board conference attendance anticipated in 2019.
<b>REDUCTIONS:</b>									
15	Investment management fees	17,522,000	15,684,258	14,490,000	(3,032,000)	-17.3%	(1,194,258)	-7.6%	Change from 2018 budget and projected actual primarily due to the liquidation of GAA and gradual liquidation of private market assets.
16	Legal fees	2,000,000	750,000	1,300,000	(700,000)	-35.0%	550,000	73.3%	Continued expected decline in legal fees as cases are resolved.
17	Legislative consultants	291,000	126,750	159,000	(132,000)	-45.4%	32,250	25.4%	One fewer consultant forecasted in 2019. However, the legislature is in session in 2019 which will result in increased fees as compared to YTD 2018 projected actual.
18	2018 Projected Actual	151,125	148,563	52,275	(98,850)	-65.4%	(96,288)	-64.8%	Anticipate less use of search firms to fill open positions in 2019
19	Investment consultant and reporting	505,000	282,515	430,000	(75,000)	-14.9%	147,485	52.2%	New consultant firm hired in 2018 and lower fees are expected.
20	Actuarial services	150,000	132,027	120,000	(30,000)	-20.0%	(12,027)	-9.1%	Less project specific work is anticipated since HB 3158 was passed and the changes have been implemented.
21	Bank/security custodian services	260,000	237,424	240,000	(20,000)	-7.7%	2,576	1.1%	Reduction vs PY budget is due to reduced number of assets and accounts. Expect some increase from YTD 2018 level as manager searches are completed.
22	Pension administration software & WMS	291,000	297,725	273,000	(18,000)	-6.2%	(24,725)	-8.3%	Less specialized software changes are anticipated since the changes by HB 3158 have been implemented.
23	Network security	33,000	7,872	15,000	(18,000)	-54.5%	7,128	90.5%	Change from 2018 budget due to Network Monitoring services now being included in the IT services account.



2018 11 08 Board Meeting - REGULAR AGENDA 2018 11 08

		2018	2018	2019	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Proposed Budget	2019 Prop. Bud. vs. 2018 Bud.	2019 Prop. Bud. vs. 2018 Bud.	2019 Prop. Bud. vs. 2018 Proj. Act.	2019 Prop. Bud. vs. 2018 Proj. Act.	Explanation
24	Travel - Staff	47,000	12,444	37,500	(9,500)	-20.2%	25,056	201.4%	Expense down compared to 2018 budget. Expect to return to more normal staff training / travel schedule in 2019.
25	Information technology projects	75,000	110,376	70,000	(5,000)	-6.7%	(40,376)	-36.6%	Some 2017 projects were completed in 2018. Expenses are expected to return to the budgeted level.
26	Repairs and maintenance	110,092	80,375	108,249	(1,843)	-1.7%	27,874	34.7%	To date, fewer repairs required in YTD 2018 than budgeted.
27	Disability medical evaluations	30,000	7,583	29,000	(1,000)	-3.3%	21,417	282.4%	Estimated 7 medical reviews, 3 recalls and 2 child disabilities. Number of reviews in 2018 was lower than average.

\*\* Projected based on 8/31/18 Prelim YTD annualized

**DALLAS POLICE AND FIRE PENSION SYSTEM  
PROPOSED CAPITAL EXPENDITURES  
FOR THE YEAR 2019  
SECOND READING AT THE NOVEMBER 8, 2018 BOARD MEETING**

Expenditure	Purpose	Cash Amount Expended in 2019	Expected Life in Years	Annual Depreciation
<b>NEW EXPENDITURES</b>				
IT Switches - Four Devices in a single stack	Improve Network Infrastructure speed for the virtualized devices	\$ 110,000 2018 Projected Actual	5	\$ 22,000
<b>EXISTING ASSETS</b>				
Building and Building Improvements				\$ 226,260
<b>TOTALS</b>		<b>\$ 110,000</b>		<b>\$ 248,260</b>

Note:  
City of Dallas depreciation schedule for all IT equipment is 5 years



## **DISCUSSION SHEET**

### **ITEM #C5**

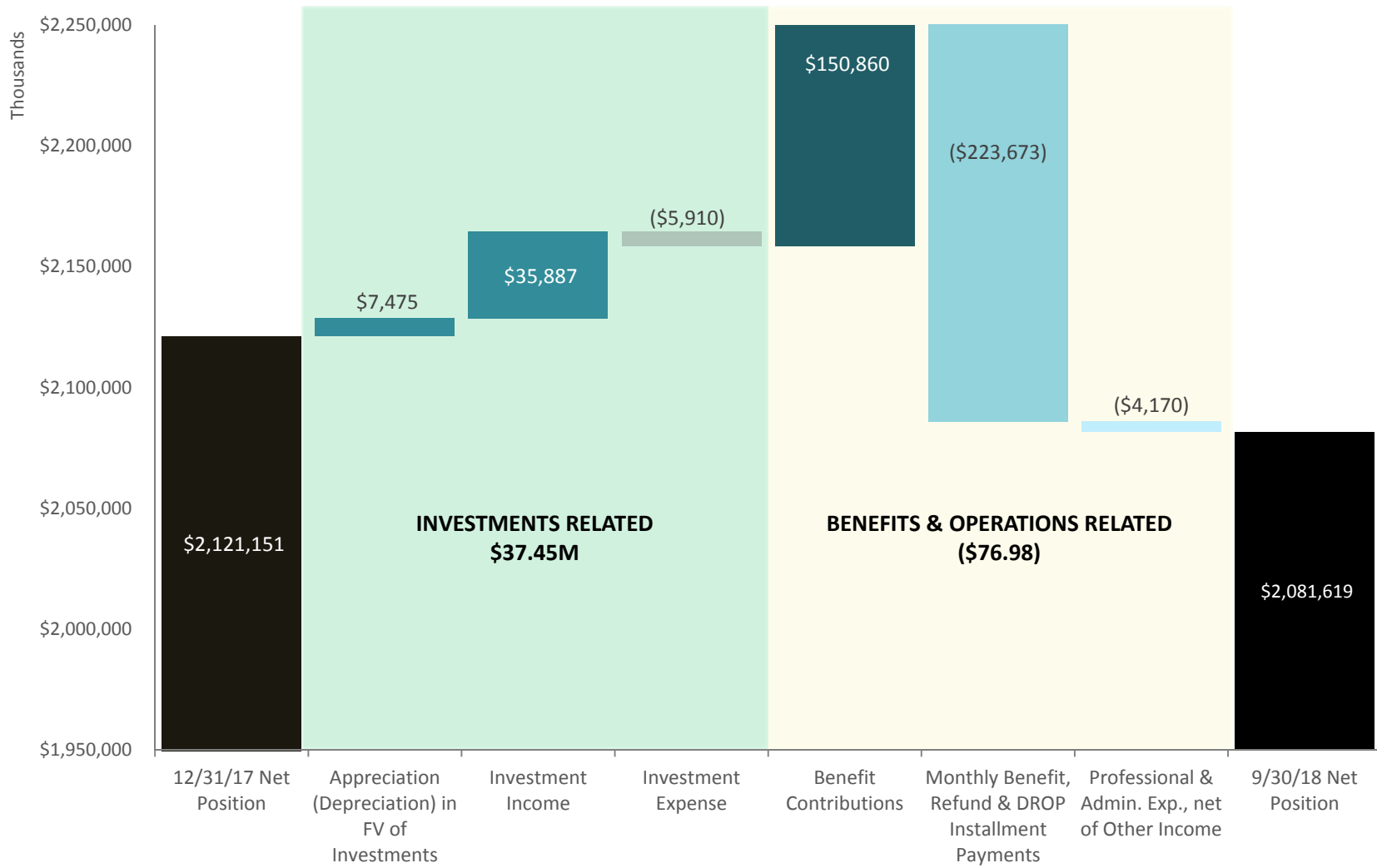
**Topic:** **Third Quarter 2018 Financial Statements**

**Discussion:** The Chief Financial Officer will present the third quarter 2018 financial statements.

*Regular Board Meeting – Thursday, November 8, 2018*

## Change in Net Fiduciary Position

December 31, 2017 – September 30, 2018



Components may not sum exactly due to rounding.

**DALLAS POLICE & FIRE PENSION SYSTEM**  
**Combined Statements of Fiduciary Net Position**

	<b>9/30/2018</b> <i>(unaudited)</i>	<b>12/31/17</b> <i>Audited</i>
<b>Assets</b>		
<b>Investments, at fair value</b>		
Short-term investments	\$ 30,785,135	\$ 24,132,673
Fixed income securities	527,290,806	328,013,649
Equity securities	496,211,086	470,081,008
Real assets	705,017,674	801,206,306
Private equity	252,156,678	222,106,207
Alternative investments	-	144,926,992
Forward currency contracts	(78,848)	135,273
<b>Total investments</b>	<b>2,011,382,531</b>	<b>1,990,602,108</b>
Invested securities lending collateral	15,917,633	12,152,708
<b>Receivables</b>		
City	5,004,481	2,026,827
Members	1,576,512	643,145
Interest and dividends	4,350,809	2,949,258
Investment sales proceeds	35,231,208	28,393,783
Other receivables	236,196	616,051
<b>Total receivables</b>	<b>46,399,205</b>	<b>34,629,064</b>
Cash and cash equivalents	49,935,865	118,586,970
Prepaid expenses	516,523	435,431
Capital assets, net	12,545,508	12,715,204
<b>Total assets</b>	<b>2,136,697,264</b>	<b>2,169,121,485</b>
<b>Liabilities</b>		
<b>Payables</b>		
Securities purchased	15,917,633	12,152,708
Securities lending obligations	35,447,321	31,410,927
Accounts payable and other accrued liabilities	3,713,046	4,407,226
<b>Total liabilities</b>	<b>55,078,000</b>	<b>47,970,861</b>
<b>Net position</b>		
Net investment in capital assets	12,545,508	12,715,204
Unrestricted	2,069,073,756	2,108,435,420
<b>Net position held in trust - restricted for position benefits</b>	<b>\$ 2,081,619,265</b>	<b>\$ 2,121,150,623</b>

**DALLAS POLICE & FIRE PENSION SYSTEM**  
**Combined Statements of Changes in Fiduciary Net Position**

	<b>9 Months Ended 09/30/2018 (unaudited)</b>	<b>9 Months Ended 09/30/2017 (unaudited)</b>
<b>Contributions</b>		
City	\$ 113,656,373	\$ 91,254,840
Members	\$ 37,203,175	\$ 20,881,704
<b>Investments, at fair value</b>	<u>150,859,548</u>	<u>112,136,544</u>
<b>Investment income</b>		
Net appreciation (depreciation) in fair value of investments	7,474,805	59,802,352
Interest and dividends	35,843,542	20,590,071
Total gross investment income	<u>43,318,347</u>	<u>80,392,423</u>
less: investment expense	<u>(5,910,335)</u>	<u>(5,953,622)</u>
<b>Net investment income</b>	37,408,012	74,438,800
<b>Securities lending income</b>		
Securities lending income	218,483	145,083
Securities lending expense	<u>(174,807)</u>	<u>(66,057)</u>
<b>Net securities lending income</b>	43,676	79,026
Other income	390,933	1,856,377
<b>Total additions</b>	<u>188,702,170</u>	<u>188,510,747</u>
<b>Deductions</b>		
Benefits paid to members	221,752,256	217,694,352
Refunds to members	1,920,647	2,750,720
Interest expense	-	1,290,356
Professional and administrative expenses	<u>4,560,625</u>	<u>7,569,931</u>
<b>Total deductions</b>	<u>228,233,528</u>	<u>229,305,359</u>
<b>Net decrease in net position</b>	<u>(39,531,359)</u>	<u>(40,794,612)</u>
Beginning of period	2,121,150,623	2,168,332,130
End of period	<u>\$ 2,081,619,265</u>	<u>\$ 2,127,537,518</u>



## DISCUSSION SHEET

### ITEM #C6

**Topic:** **Trustee Absences at October 10, 2018 Board Meeting**

**Discussion:** Because of the short notice in moving the October Board meeting from October 11 to October 10, the Chairman is recommending that the all Trustee absences at the October Board meeting be considered excused absences under the Board of Trustees Governance and Conduct Policy.

**Chairman's Recommendation:** All Trustee absences at the October 10, 2018 Board meeting be deemed to be excused absences for all purposes.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C7

**Topic:** 401(a) Money Purchase Plan and 457(b) Deferred Compensation Plan

**Discussion:** DPFPP maintains for employees of DPFPP a mandatory 401(a) money purchase plan and 457(b) voluntary deferred compensation plan. Each plan is administered by the Executive Director. The Board is the ultimate fiduciary with respect to each plan.

**Recommendation:** **Appoint** a committee, chaired by the Executive Director and consisting of all DPFPP executives, which is authorized to adopt rules with respect to each plan for meeting periodically to review the plans and their offerings and fees using the Government Finance Officer Association's relevant Best Practices documents for guidance and to report annually to the Board with respect to each plan.

*Regular Board Meeting – Thursday, November 8, 2018*





Government Finance Officers Association

## BEST PRACTICE

# Defined Contribution Plan Fiduciary Responsibility

### BACKGROUND:

Many governments offer defined contribution (DC) retirement plans as a supplement to a defined benefit plan (DB) or, in some cases, the sole employee retirement plan. DC plans and hybrid plans, which have features of both DB and DC plans, have become increasingly prevalent since 2008.<sup>1</sup>

DC plan administrative structures vary significantly among governmental entities. However, regardless of the structure, all governing fiduciaries set strategy and policy, determine decision-making authority, and delegate day-to-day management of the plan. Making sure roles and responsibilities are clearly structured and consistently and fairly enforced not only promotes good governance but also provides legal protections for both plan fiduciaries and plan participants. Individuals and groups charged with plan oversight must use prudent management to act exclusively in the best interest of all plan participants and beneficiaries.

Administrators of DC plans have fiduciary duties that can be divided into three categories:<sup>2</sup>

1. Duty of loyalty – the obligation to act for the exclusive benefit of the plan participants and beneficiaries. Fiduciaries must put the interest of all plan participants and beneficiaries above their own interests or those of any third parties, including the employer. Fiduciaries do not represent a specific constituency or interest group.
2. Duty of care – the responsibility to administer the plan efficiently and properly. This includes evaluating the ongoing appropriateness of investment options and ensuring the plan operates in compliance, as well as seeing that the plan operates in compliance with the plan document, trust agreements, and any other rules and guidelines.
3. Duty of prudence – the obligation to act prudently in exercising power or discretion over the interests that are subject to the fiduciary relationship. A fiduciary should act as a reasonable or prudent person would act in a similar situation or in conducting his or her own affairs.<sup>3</sup>

### RECOMMENDATION:

The Government Finance Officers Association recommends that sponsoring entities provide a clear and well-documented governance structure to guide plan administrators. To provide sound fiduciary guidance, sponsoring entities, governing bodies, and plan administrators should:

1. Clearly delineate the governance responsibilities of the parties charged with plan administration in the appropriate plan and trust documents. Fiduciaries are responsible for following the terms of the plan documents.
2. Require fiduciary training for all those who have fiduciary responsibilities. Plan documentation should also include acknowledgement that fiduciaries understand their roles, along with

- evidence of initial and ongoing fiduciary training.<sup>4</sup>
3. Document the decision-making process, keep plan documents current, and ensure that they reflect the substantive plan. Administrative actions and interpretations that accumulate over time should be formally documented and incorporated in any plan summaries and, when appropriate, in the plan document. Doing so will help avoid legal issues regarding variations between the substantive plan and the official plan documents.
  4. Communicate no less than annually with service providers to identify plan objectives, goals, and performance standards.
  5. Provide participants with a summary plan description, a document that describes plan benefits and the plan's significant features.<sup>5</sup> Fiduciaries should also:
    1. Conduct periodic educational sessions to review the summary plan description.
    2. Answer participants' questions and make participants aware of their rights and responsibilities to direct their investments by providing them with information, investment advice, and education.
    3. Review the summary plan description and other documents carefully to avoid conferring legally binding rights and benefits that the plan sponsor did not intend and that are not included in the official plan documents.
  6. Maintain any information necessary for legal and tax compliance (e.g., labor contracts, Internal Revenue Service determination letters) and in accordance with state and local privacy laws (e.g., participant and beneficiary names; dates such as hire dates; any other information specified in the plan description). Seek qualified professional guidance from the plan record keeper and counsel to ensure that the plan documents reflect current legal and regulatory requirements.
  7. Develop and maintain comprehensive policies and procedures via ongoing review processes. Review the policies at least every three years, and update as needed. The policies should include:
    1. Current plan documents; Internal Revenue Service determination letters, administrative interpretations and decisions; policies, guidelines, and procedures regarding governance, administration, accounting, budgeting, and financial reporting; and legal compliance and reporting documents.
    2. Professional and technical training of fiduciaries and administrative management and staff, particularly in the areas of governance and fiduciary duties and responsibilities; plan compliance and legal issues; and best practices in plan administration and all relevant areas of responsibility.
    3. Due diligence for continued financial stability of the DC service providers.
  8. Implement procedures to control administrative and investment costs:<sup>6</sup>
    1. Understand all costs associated with the plan, who bears the burden of the costs, and what services can be contracted by the plan within the parameters of what is allowable.
    2. Periodically review contracted services and investment services to make sure the services being purchased are reasonably priced, including but not limited to plan administrator platform.
    3. Develop comprehensive procedures for evaluating investment options for plan participants that include both qualitative and quantitative factors. The array of plan investment options should provide adequate opportunity for diversification.<sup>7</sup>
    4. Monitor the plan record keeper at reasonable intervals to evaluate the accuracy and sufficiency of communications to participants, and require periodic reports from the record keeper regarding trends in participant transactions (e.g., new enrollments, investment allocations, types and frequency of distributions). Evaluate performance by

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## Defined Contribution Plan Fiduciary Responsibility

periodically reviewing the record keeper's policies and practices, as well as a sampling of individual transactions. Follow up on participant comments and complaints.

Ensure that the contributions due to the plan are collected, distributed according to participant allocations, and invested in a timely manner according to laws, regulations, and contractual obligations.

**Notes:**

1. See *Defined Contribution Plans in the Public Sector: An Update*, Center for State and Local Government Excellence, April 2014.
2. See GFOA Best Practice, Governance of Public Employee Postretirement Benefits Systems.
3. A measure contained in section 404(a)(1)(B) of the Employee Retirement Income Security Act (ERISA) that requires the fiduciary of a defined contribution retirement plan to use "care, skill, prudence and diligence," and to act in the same way that someone "familiar with such matters" would act. The "familiar with such matters" language has been interpreted to mean "expert." This language creates an important distinction from the earlier prudent person guideline in that it holds fiduciaries to a stricter standard. Public plan administrators should also be aware that ERISA rules provide helpful guidance and best practice, and may actually be binding in certain states. (Fiduciary Responsibility Series, TIAA-CREF.)
4. TIAA-CREF.
5. See GFOA Best Practice, Preparing an Effective Summary Plan Description.
6. For more information, see Meeting Your Fiduciary Responsibilities, United States Department of Labor. (This document provides a number of important tips and information on fiduciary duties. It is intended for plans that are regulated by ERISA, which does not apply to most governmental plans, but public plan laws are modeled after ERISA, and public plan trustees generally look to ERISA for guidance, as it provides a model for best practices.)
7. For more information, see the following GFOA Best Practices: Monitoring and Disclosure of Fees for Defined Contribution Plans, Asset Allocation for Defined Contribution Plans, and Public Employee Retirement System Investments.

**References:**

*An Elected Official's Guide to Public Retirement Plans*, Cathie Eitelberg (Chicago: Government Finance Officers Association, 1997).

*An Elected Official's Guide to Defined Benefit and Defined Contribution Retirement Plans*, Nicholas Greifer (Chicago: Government Finance Officers Association, 1999).

National Association of State Retirement Administrators (NASRA) Resolution 1999-06 - Code of Ethics.

International City County Management Association Code of Ethics.

GFOA Best Practice, Participant Education Guidance for Defined Contribution Plans

GFOA Best Practice, Public Employee Retirement System Investments.

GFOA Best Practice, Governance of Public Employee Postretirement Benefits Systems.

GFOA Best Practice, Monitoring and Disclosure of Fees for Defined Contribution Plans.

GFOA Best Practice, Asset Allocation for Defined Contribution Plans.

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Government Finance Officers Association

## BEST PRACTICE

# Asset Allocation for Defined Contribution Plans

### BACKGROUND:

Defined contribution (DC) plans, including supplemental plans, are an important financial element of public-sector retirement that help participants attain their retirement goals. Plan sponsors have a responsibility to understand structure, costs, and fees of the plan.

A large and increasing number of state and local governments provide some form of a defined contribution retirement plan for their employees, in most cases a voluntary deferred compensation arrangement under Section 457 or Section 403(b) of the Internal Revenue Code. These arrangements may be in addition to, or in lieu of, a traditional defined benefit pension plan. Under most defined contribution plan arrangements, the participating employees self-direct investment of the funds credited to their individual accounts from a menu of investment options selected, or offered, by their employers.

### RECOMMENDATION:

GFOA recommends that public employers as plan sponsors work actively with the plan administrators to provide investment options and education to help employees who participate in defined contribution plans attain their income replacement goals in retirement. (See the GFOA's Best Practice on *Participant Education - Guidance for Defined Contribution Plans*.) To accomplish these objectives, the following practices are suggested:

1. To provide adequate diversification, plan administrators should ensure participants are offered a broad spectrum of investment choices that include all the major asset classes (e.g., equities, fixed income, and cash equivalents). The investment choices should include several passively managed investment options such as low-fee index funds. Another option is a family of asset allocation funds.<sup>1</sup> In addition to mutual funds, plan administrators should consider lower-cost commingled funds and separate account funds as investment options. For more information, see the GFOA Best Practice, *Investment Policies for Deferred Compensation Plans* and the accompanying *Investment Policy Checklist for Assets in a Deferred Compensation Plan*.
2. The investments provided should be screened for sales charges, fees, and expenses; the age and size of the fund; the fund's past performance; the fund's risks, turnover rate, and volatility; and recent changes in the fund's operations, including changes in fund managers. When choosing investment options, keep in mind that too many investment options can confuse participants and even reduce participation in DC plans.
3. The investment structure should be broad enough for proper diversification, and also to accommodate participants' varying levels of risk tolerance. Investment choices should also

accommodate the needs of different age groups and retirement goals, taking into account participants' preferences regarding an income stream throughout retirement, lump sum distributions, and the desire to leave money to heirs.

4. The plan sponsor should make asset allocation tools, including software, literature, or consulting services, available to participants. Access to personal financial planning services should be offered as part of the investment program, and any additional fund fees or expenses required for these products should also be disclosed. See the GFOA's Best Practice on *Monitoring and Disclosure of Fees for Defined Contribution (DC) Plans*.
5. Record keepers should provide participants and plan sponsors with quarterly summaries of their investment portfolios by asset class and with benchmark comparisons. Where possible, graphs with comparative information should be included.
6. Participants should be regularly reminded of their potential need to review and update their asset allocations as they age or experience various life events. For example, a reminder might be issued to participants as they cross certain age levels or change employment status.

#### Notes:

<sup>1</sup> Asset allocation funds are mutual funds that provide investors with a pre-mixed portfolio of securities from the three main asset classes. The main types of asset allocation funds are balanced funds, which usually have a mix of stocks and bonds; life cycle or target date funds, which contain a mix of stocks, bonds, and cash, that start out with a more aggressive mix of investments and gradually become more conservative as the investor ages or nears retirement; and life-style funds, which are actively managed in response to market conditions. Key considerations when choosing a provider for these funds are the evolution of the fund's investment strategy over time; the pros and cons of indexing versus active management; the choice between packaged and customized offerings; the impact of these funds on participant portfolios and adoption; and potential biases toward proprietary products.

#### References:

- *Planning and Establishing Preretirement Education Programs*, David Amick, Ann Risdon, and Sheryl Wilson, GFOA, 1994.
- *A Public Employee's Guide to Retirement Planning*, Kathleen Jenks Harm, GFOA, 1995.
- "Public Employees are Educable Investors," *Pension and Benefits Update*, July/August 1998.
- *An Elected Official's Guide to Defined Benefit and Defined Contribution Retirement Plans*, Nicholas Greifer, GFOA, 1999.
- GFOA Best Practice, Investment Policies Governing Assets in a Deferred Compensation Plan, 2004.
- GFOA Checklist, Investment Policy Checklist for Assets in a Deferred Compensation Plan.
- *Evaluating and implementing target-date portfolios: Four key considerations*, Vanguard Investment Counseling & Research, March 2008.
- GFOA's Best Practice, Monitoring and Disclosure of Fees for Defined Contribution (DC) Plans.
- GFOA Best Practice, Participant Education - Guidance for Defined Contribution Plans, 2009.



Government Finance Officers Association

## BEST PRACTICE

# Monitoring and Disclosure of Fees for Defined Contribution Plans

### BACKGROUND:

In carrying out their responsibilities as fiduciaries, sponsors of state and local government defined contribution (DC) plans make decisions in the best interests of plan participants and beneficiaries. In making these fiduciary decisions, plan sponsors need to understand all the fees and expenses that are charged to the plan and to participants, and ensure that these costs are reasonable. Plan sponsors also need to give participants adequate and accurate information about the fees and expenses that affect their account balances.

The fees paid by public and private DC plans have been the focus of congressional, regulatory, and public scrutiny. In particular, the U.S. Department of Labor (DOL) has issued rules under the Employee Retirement Income Security Act (ERISA) about the disclosure and transparency of fees charged to DC plans and participants.<sup>1</sup> And while the ERISA rules are not binding in the public sector, they may provide guidance for best practices. GFOA members are encouraged to review the DOL's rules on fees and disclosures when developing these practices, as well as the following recommendations below.

### RECOMMENDATION:

GFOA recommends that plan sponsors make sure that DC plan costs are reasonable and appropriate, compared with plans of similar size, structure, and service levels, and that they provide plan participants with meaningful and accessible information about fees and expenses. These policies and practices should ensure that plan sponsors:

1. Thoroughly review and document the process used in selecting DC plan service providers and the types of fees charged.
  1. Require service providers to disclose:
    1. **All** compensation arrangements, both direct and indirect, for themselves, their affiliates, and/or subcontractors.<sup>2</sup> Require the service provider to fully disclose such arrangements on plan websites and in plan documents and investment materials sent to participants.
  2. Fee-related disclosures should include:
    1. Investment fees, which include fees associated with management of the plan's investments.
    2. Plan administration fees (including fees for record keeping, communications, education, and the plan's professional advisors).
    3. Transactional fees, which include expenses charged against a participant's or beneficiary's individual account (such as loans,

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## Monitoring and Disclosure of Fees for Defined Contribution Plans

annuities, brokerage accounts, qualified domestic relations orders, front or back-end loads or sales charges, and redemption fees).

2. Service providers, especially providers that are experienced with ERISA plans, can help with developing disclosure policies and procedures. Plan sponsors might also want to reconsider a relationship with a provider that refuses to provide disclosures or to assist with disclosure policies and practices.
  3. Reevaluate fee disclosure practices regularly to assure compliance with applicable state and federal regulatory requirements and best practices.
2. Review and verify actual fees at least once a year to make sure the provider is not overcharging.
    1. Consider issuing a request for proposal (RFP) to ensure the plan is getting competitive fees.
    2. Consider using an independent consultant to review and report on the reasonableness of the service provider's fees. Independent benchmark studies provide one way to evaluate fees.
    3. Monitor plan service providers for potential conflicts of interest at least once a year, or when there is a material changes in circumstances (such as a merger). Plan sponsors might also want to request an affidavit from the service provider that affirms there are no conflicts of interest or reveals any actual or potential conflicts.
  3. Provide plan participants with meaningful and accessible information about fees and expenses at least once a year, along with other information participants need to make sound investment decisions.
    1. Fee-related information, including the role fees play in investment returns, should be disclosed and communicated in a way that non-investment personnel can understand. One way to provide this information is to send individual participants annual statements with personalized fee disclosures.
    2. Include whatever additional disclosures participants will need to evaluate the investment products offered:
      1. Past investment performance.
      2. Risk and investment objectives.
      3. Appropriate fee benchmarks for each investment category (domestic bonds, domestic large cap equities, emerging markets, etc.).
      4. A glossary of terms.<sup>3</sup>
    3. Provide information on Web sites for easy access.
    4. Communicate fee information when participants enroll in the plan and inform them annually about how they can receive updated information.
    5. Review the effectiveness of these communications regularly, perhaps using an outside consultant.

**Notes:**

<sup>1</sup> See U.S. Department of Labor's Final Rule to Improve Transparency of Fees and Expenses to Workers in 401(k)-type Retirement Plans at <http://www.gpo.gov/fdsys/pkg/FR-2010-10-20/pdf/2010-25725.pdf>, and the U.S. Department of Labor's Final Regulation to Service Provider Disclosures Under Section 408 (b)(2) at <http://webapps.dol.gov/FederalRegister/PdfDisplay.aspx?DocId=25781>.

<sup>2</sup> Direct compensation is compensation received from the plan sponsor or paid directly from the participants' accounts. Indirect compensation comes from any source other than the plan sponsor, participants' accounts, or the service provider's affiliate or subcontractor.



10/29/2018

Monitoring and Disclosure of Fees for Defined Contribution Plans

<sup>3</sup> The Pension Protection Act of 2006 requires quarterly benefit statements to include a notice directing participants to a U.S. Department of Labor website on individual investing and diversification (<http://www.dol.gov/ebsa/investing.html> ).

**References:**

- U.S. Department of Labor Fact Sheet, Final Rule to Improve Transparency of Fees and Expenses to Workers in 401(k)-Type Retirement Plans, February 2012 (<http://www.dol.gov/ebsa/newsroom/fsparticipantfeerule.html>).
- U.S. Department of Labor Fact Sheet, Final Regulation Relating to Service Provider Disclosures Under Section 408(b) (2), February 2012 (<http://www.dol.gov/ebsa/newsroom/fs408b2finalreg.html>).
- Mindy L. Harris, President, National Association of Government Defined Contribution Administrators, Testimony before the House Ways and Means Committee, Hearing on the Appropriateness of Retirement Plan Fees, October 30, 2007.
- *A Primer on Plan Fees*, American Bankers Association, et al, October 18, 2007.
- *Defined Contribution Fee Disclosure Best Practices*, The Committee on Investment of Employee Benefit Assets, Association for Financial Professionals, June 2007.
- *Scrutinizing DC Plan Fees and Expenses for Transparency, Awareness and Disclosure*, The Segal Company, May 2007.

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Government Finance Officers Association

## BEST PRACTICE

# Participant Education Guidance for Defined Contribution Plans

### BACKGROUND:

Under a typical defined contribution plan arrangement, participating employees are responsible for choosing their investments from a menu of investment options offered by their plan sponsors, and for managing those investments through retirement. Plan sponsors have a responsibility to ensure that employees who participate in sponsored defined contribution plans have the information they need to make informed decisions about their participation and about their plan investments, based on their retirement goals.

### RECOMMENDATION:

GFOA recommends that public plan sponsors make sure high-quality investment education is provided to defined contribution plan participants who are allowed to direct their investments. To accomplish this goal:

1. The plan should provide a consistent, ongoing educational program that uses a number of communication channels to address participants' different career stages and learning styles. Channels could include one-on-one meetings, seminars, phone calls, the Internet (e.g., Web sites, podcasts, webcasts), postcards, letters, and newsletters.
2. Educational content and presentation should assist participants with decision making. Financial jargon should be avoided and acronyms should be defined.
3. Where applicable, the educational program should include information on plan design elements such as matching employer contributions, automatic enrollment, default investment options, investment advice, distribution options in retirement, loan provisions, disability and survivor coverage, and participant eligibility for Social Security.
4. The educational program should illustrate the value of financial planning in setting and achieving investment objectives, the significant impact of asset allocation on investment returns over time, and the role of diversification in enhancing risk-adjusted investment returns over time. (See the GFOA's Best Practice on Asset Allocation for Defined Contribution.)
5. Participants should be encouraged to consider their time horizon, investment objectives, and risk profile when making investment decisions. Participants should be given access to professional advice and financial planning tools that will help them assess this information, as well as prospective investment outcomes and income needs in retirement, and help them choose appropriate investments and retirement distribution schedules.
6. Participants should be informed about the risk exposure and historical investment returns of each investment option. They should also be told that, in general, investments that have the highest potential returns also have the highest potential for losses.

10/31/2018

## Participant Education Guidance for Defined Contribution Plans

7. To mitigate potential liability, plan sponsors should not recommend specific investments to participants.
8. All fees associated with each investment option, and with the plan generally, should be fully disclosed in terms that participants can readily understand. (See the GFOA's Best Practice on Monitoring and Disclosure of Fees in Defined Contribution Plans.)
9. Where possible, plan sponsors should make use of the educational resources and capabilities offered by their investment provider, or by a qualified retirement plan consultant.
10. Plan sponsors should encourage eligible employees to participate in the plan by providing them with information about the benefits of participation.
11. At enrollment, all participants should receive a summary description of plan features, policies, and procedures. Subsequent changes should be communicated to participants on a timely basis and incorporated into the summary plan description.
12. Account statements should be made available to participants on a regular basis, preferably quarterly. These statements have an educational aspect, by providing clear and concise investment information. For each investment, statements should include a clear presentation of performance over multiple time periods, with appropriate benchmark comparisons.
13. Plan sponsors should regularly measure participants' satisfaction with the plan's educational program and make program adjustments as indicated.

#### References:

- *Participant Education: Actions and Outcomes*, Deborah Milne, *Employee Benefit Research Institute*, Issue Brief, No. 169, Jan. 1996.
- *An Elected Officials Guide to Defined Benefit and Defined Contribution Retirement Plans*, Nicholas Greifer, Government Finance Officers Association, 1999.
- *Defined Benefit and Defined Contribution Plans: A History, Market Overview and Comparative Analysis*, Stephen P. McCourt, International Foundation of Employee Benefit Plans, February 2006.
- GFOA Best Practice: Design Elements of Defined Contribution Plans as the Primary Retirement Plan, 2008.
- GFOA Best Practice, Monitoring and Disclosure of Fees in Defined Contribution Plans, 2008.
- GFOA Best Practice, Asset Allocation - Guidance for Defined Contribution, 2009.
- TIAA-CREF Institute, articles and information available at <http://www.tiaa-crefinstitute.org>.

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## DISCUSSION SHEET

### ITEM #C8

**Topic:** Required Training Manual Delivery

**Discussion:** Section 3.013(c) of Article 6243a-1 requires the Executive Director to deliver a training manual covering certain subject areas set forth in Section 3.013(b). The Executive Director will provide an overview of the contents and answer any questions concerning the training manual.

**Recommendation:** Acknowledge receipt by each Trustee of the training manual by signing and submitting the Trustee acknowledgment form.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C9

**Topic:** Internal Controls Review

**Discussion:** The Chief Financial Officer will present a brief overview of internal controls in place at DFPF and her assessment of the appropriateness of the controls for DFPF.

*Regular Board Meeting – Thursday, November 8, 2018*

# Internal Controls Overview

**DALLAS POLICE AND FIRE PENSION SYSTEM**

NOVEMBER 8, 2018

# Primary Objectives

2

- ▶ Accurate financial information
- ▶ Compliance with policies and procedures
- ▶ Efficient use of resources
- ▶ Accomplishment of goals and objectives
- ▶ Safeguarding of assets

# Control Environment

3

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board.

-COSO Integrated Framework Executive Summary



# Management's Role

4

- ▶ Create the control environment
- ▶ Assess risk
- ▶ Develop processes and procedures
  - ▶ Approvals
  - ▶ Authorizations
  - ▶ Segregation of duties
  - ▶ Reconciliations
  - ▶ Security of assets
- ▶ Monitor compliance

# Board's Role

5

- ▶ Provide independent oversight of internal controls
- ▶ Provide a forum, separate from management, in which auditors can candidly discuss concerns
- ▶ Help ensure that management develops and adheres to a sound system of internal controls and that the auditors objectively report on any findings

# Auditors' Role

6

- ▶ Report directly to the Board (or Audit Committee)
- ▶ Communicate risk assessment to the Board
- ▶ Communicate corrected and uncorrected audit differences to the Board
- ▶ Report to Board of any lack of cooperation of management during the audit
- ▶ Audit opinion does not cover internal controls, however, any significant deficiencies or material weaknesses in internal control are reported to the Board in writing

## Key Control Considerations Addressed by DPFP

7

- ▶ Culture of accountability and transparency
- ▶ Frequency/content of investment and financial reporting to Board
- ▶ Function of Professional Services Committee of the Board
- ▶ Transparency in budget process
- ▶ Accuracy of payments and reporting to members
- ▶ Valuation of private assets
- ▶ Segregation of duties related to cash disbursements
- ▶ Layers of review, also considering reduction in headcount
- ▶ Accuracy of changes to member information
- ▶ Documentation of Benefits related policies and processes
- ▶ Account reconciliations

Questions?



## **DISCUSSION SHEET**

### **ITEM #C10**

**Topic:** **Reconsideration of Board Motion regarding transmittal of CAFR to City of Dallas**

**Discussion:** The Chairman has requested the Board reconsider its motion to authorize him to prepare a letter to the City of Dallas transmitting the 2017 CAFR.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C11

**Topic:** Board approval of Trustee education and travel

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

**Discussion:**

- a. Per the Education and Travel Policy and Procedure, planned Trustee education and business-related travel and education which does not involve travel requires Board approval prior to attendance.

Attached is a listing of requested future education and travel noting approval status.

- b. Per the Investment Policy Statement, planned Trustee travel related to investment monitoring, and in exceptional cases due diligence, requires Board approval prior to attendance.

There is no future investment-related travel for Trustees at this time.

*Regular Board Meeting – Thursday, November 8, 2018*

**Future Education and Business Related Travel  
Regular Board Meeting – November 8, 2018**

ATTENDING APPROVED

- 1. Conference: Annual National Pension & Institutional Investment Summit**  
**Dates:** November 13-14, 2018  
**Location:** Dallas, TX  
**Est. Cost:** None
  
- 2. Conference: NCPERS Legislative Conference**  
**Dates:** January 27-29, 2019  
**Location:** Washington, DC  
**Est. Cost:** TBD
  
- 3. Conference: TEXPERS Annual Conference**  
**Dates:** April 7-10, 2019  
**Location:** Austin, TX  
**Est. Cost:** TBD
  
- 4. Conference: NCPERS Accredited Fiduciary Program**  
**Dates:** May 18-19, 2019  
**Location:** Austin, TX  
**Est. Cost:** TBD



- 5. Conference: NCPERS Annual Conference**  
**Dates:** May 19-22, 2019  
**Location:** Austin, TX  
**Est. Cost:** \$1,500
- 6. Conference: TEXPERS Summer Educational Forum**  
**Dates:** August 11-13, 2019  
**Location:** El Paso, TX  
**Est. Cost:** TBD



## DISCUSSION SHEET

### ITEM #C12

**Topic:** Board Members' reports on meetings, seminars and/or conferences attended

**Discussion:**                      **Conference:** IFEBP New Trustee Institute Level 1                      **BD**  
**Dates:**                              October 13-16, 2018  
**Location:**                            New Orleans, LA

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C13

**Topic:** **Closed Session - Board serving as Medical Committee**

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

Disability application

**Discussion:** Staff will present an application for On-Duty disability pension for consideration by the Board in accordance with Section 6.03 of the Plan. Documentation will be available at the meeting.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C14

**Topic:** Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including Open Records litigation with the Texas Attorney General or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.

**Discussion:** Counsel will brief the Board on these issues.

*Regular Board Meeting – Thursday, November 8, 2018*



## **DISCUSSION SHEET**

### **ITEM #C15**

**Topic:** **Performance Input to the Executive Director regarding the General Counsel**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

**Discussion:** The Board will provide input to the Executive Director regarding the General Counsel.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #C16

**Topic:** Performance Review of Executive Director

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

**Discussion:** The Board will meet with the Executive Director to review performance and provide recommendations concerning yearly objectives, goals, and performance.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #D1

**Topic:** Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

**Discussion:** This is a Board-approved open forum for active members and pensioners to address their concerns to the Board and staff.

*Regular Board Meeting – Thursday, November 8, 2018*



## DISCUSSION SHEET

### ITEM #D2

**Topic:** Executive Director's report

Associations' newsletters

- NCPERS Monitor (October 2018)
- NCPERS PERSist (Fall 2018)

**Discussion:** The Executive Director will brief the Board regarding the above information.

*Regular Board Meeting – Thursday, November 8, 2018*



THE NCPERS

# MONITOR

The Latest in Legislative News

OCTOBER 2018

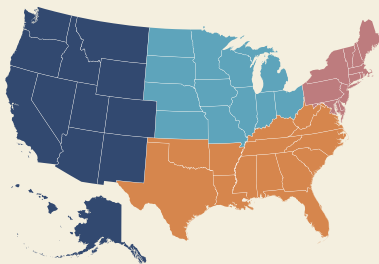
## In This Issue

### 2 Executive Directors Corner



Most of us have warm childhood memories of teachers who encouraged us to learn about ourselves and the world.

### 4 Around the Regions



This month, we will highlight Nevada, Michigan, Connecticut and Oklahoma.

### 6 Looking Ahead to the 116th Congress



The mid-term elections are notoriously difficult for the party of the president. Only twice since the end of World War II has a president's party gained seats in the House of Representatives.

## Executive Order on Retirement Security Is a Mixed Bag



President Donald Trump sent a mixed message on retirement security with an executive order issued August 31. On one hand, the Trump Administration gave a show of support for multiple employer plans, a move that could give a boost to the Secure Choice movement. On the other hand, it ordered the U.S. Department of Treasury to consider changes to required minimum distribution (RMD) rules that would chiefly benefit the wealthy.

In Executive Order 13847, “Strengthening Retirement Security in America,” the administration declared that it is “the policy of the Federal Government to expand access to workplace retirement plans for American workers.”

The executive order cited the advantages of multiple employer plans (MEPs), under which employees of different private-sector employers to pool their retirement savings in a shared plan. MEPs are “an efficient way to reduce administrative costs of retirement plan establishment and maintenance and [to] encourage more plan formation and broader availability of workplace retirement plans, especially among small employers,” the order said.

[CONTINUED ON PAGE 3](#)



## Teachers Provide a Lesson in the Power of Your Vote

Most of us have warm childhood memories of teachers who encouraged us to learn about ourselves and the world.

Throughout 2018, teachers across the United States have been at it again, inspiring us as adults with their example of what it means to speak up, get on ballots and mobilize the vote. With the 2018 election looming on November 6, we could all take a civics lesson from the teaching profession about participating in our democracy.

Voting in state, local, and federal elections is both a right and a civic duty. Union members have traditionally been more likely than non-union members to exercise this right. In the last mid-term election in 2014, 52 percent of union members made it to the polls, versus 39 percent of non-union members. I urge all NCPERS members to get out to vote and push these numbers even higher.

This year's elections for the House and Senate are expected to be hard-fought, with a strong possibility that the House will flip from Republican to Democratic control, and a possibility that the Senate will follow suit. In addition, 7,383 seats in state legislatures and 36 races for governor are up for grabs.

There's never a good time to sit on the sidelines in an election, but this year your vote is more urgently needed than usual. Here are some notes from the teaching profession:

- **Teachers and administrators are running for office.** More than 300 educators are on ballots, more than double the 2014 and 2016 numbers. This surge in candidacies came about in response to a grassroots movement that followed school strikes in states including West Virginia, Oklahoma, Kentucky, Arizona and Colorado. In Wisconsin, for example, state school superintendent Tony Evers is taking on Republican incumbent

*With the 2018 election looming on November 6, we could all take a civics lesson from the teaching profession about participating in our democracy.*



Photo Illustration © 2018, Depositphotos

Scott Walker for governor in response to Walker's initiatives to limit the bargaining power of public employees.

- **The trend cuts across party lines.** Democrats are seeking seats in Republican legislatures that have slashed public education in favor of tax breaks for wealthy corporations. Some Republican educators are campaigning on promises to increase education spending and curb the expansion of charter schools.

• **School funding and pensions are hot topics.** The spectacle of teachers paying out of pocket to provide basic classroom supplies has unfortunately become commonplace. The

Department of Education found that 94 percent of public school teachers in the United States pay for supplies without reimbursement in the 2014-15 school years. And states that are struggling to fund education often try to divert funds from pensions. In Kentucky, for example, thousands of teachers took to the Capitol in April to protest a surprise pension overhaul, and these pension changes still need to be reversed. ♦

**RETIREMENT SECURITY CONTINUED FROM PAGE 1**

Specifically, the administration directed the U.S. Department of Labor to issue proposed guidance or regulations to clarify when a group or association of employers would be considered an employer under the Employee Retirement Income Security Act of 1974 (ERISA).

Such changes, if adopted, could add momentum to Secure Choice plans that have a state-facilitated MEP at their core. Private-sector workers in Vermont are expected to be the first in the nation to gain access to a state-facilitated MEP, the Green Mountain Secure Retirement Plan. It is expected to open in January 2019 for employers with fewer than 50 workers and could eventually cover up to 104,000 workers.

While the MEP change is welcome, questions hang over the administration's decision to call upon the Treasury Department to change rules that currently require individuals to begin making

withdrawals from their retirement accounts no later than six months after their 70th birthday.

Wealthy taxpayers, rather than struggling workers and middle-class savers, would be the main beneficiaries of any decision to stretch out deferrals of IRA and 401(k) plan withdrawals. These funds—and the tax advantages that accompany them—are intended to help workers supplement their retirement. But a change in the RMD rules could have the unintended effect of helping well-to-do workers amass more money to pass on to their heirs.

Rather than relaxing the RMD requirements to benefit the wealthy, the Administration should focus on retirement savings pressures confronting the middle class. Among workers aged 55 to 64, one third have no retirement savings, and IRA/401(k) balances for the rest hold a median balance of only \$60,000. ♦



# Don't Miss NCPERS' Social Media

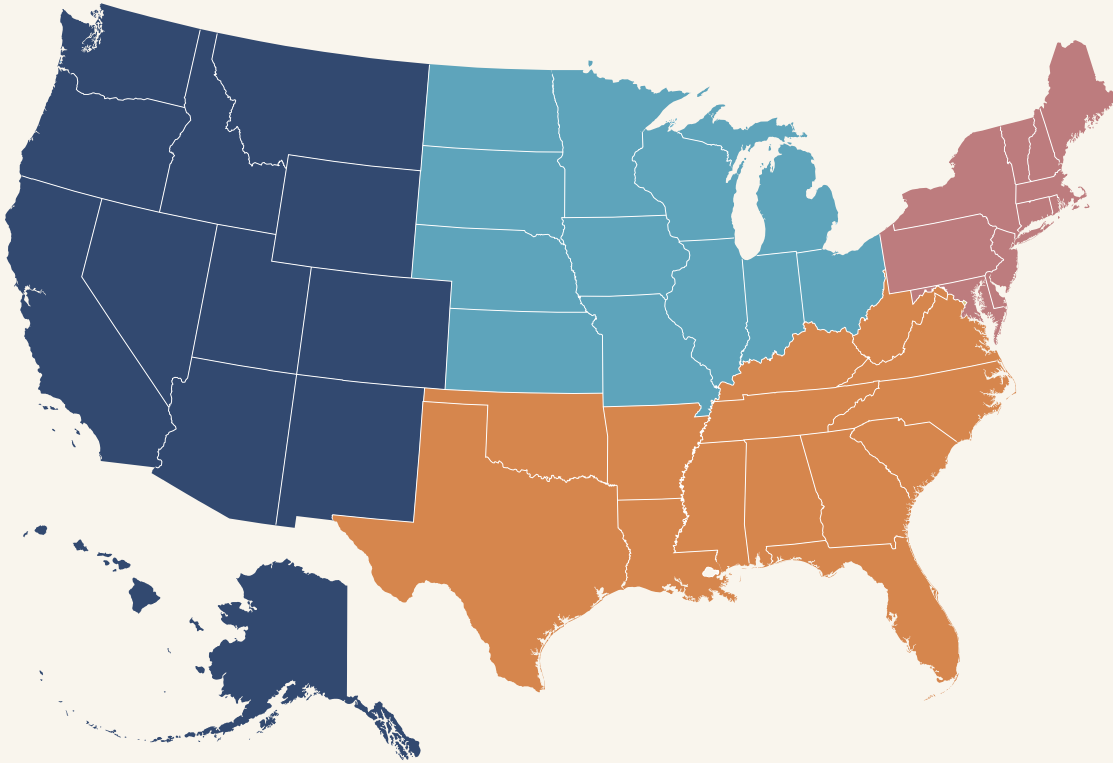
	
	
	



*The Voice for Public Pensions*

## NCPERS Around the Regions

This month, we will highlight Nevada, Michigan, Connecticut and Oklahoma.



### WEST: Nevada

Nevada is the latest addition to the list of states and localities that are creating retirement programs for private-sector workers.

The Nevada Legislature's Task Force on Financial Security voted August 29 to create the Nevada Employee Saving Trust to help employees of small businesses to start socking money way for retirement through automatic payroll deductions. The voluntary state-facilitated retirement accounts could potentially serve 557,000 people who work for Nevada businesses that don't offer retirement benefits, according to AARP.

The task force found that the state stands to save \$24 million over 15 years by offering the saving trust, because improving savings would reduce demand for Medicaid, food stamps, and housing subsidies.

Draft legislation to authorize the Nevada Employee Saving Trust anticipates the creation of a seven-member board, including the state treasurer, the lieutenant governor, three members appointed by the governor, and two other appointees.

The creation of a saving trust was one of 20 recommendations adopted August 29 at the task force's sixth and final meeting. The task force met over the course of eight months.

[CONTINUED ON PAGE 5](#)



[AROUND THE REGIONS CONTINUED FROM PAGE 4](#)**MIDWEST:  
Michigan**

NCPERS has spoken up in opposition to proposed regulations in Michigan to establish an inflexible discount rate and revise mortality tables for the state's public retirement system.

The proposals were issued to implement the Protecting Local Government Retirement and Benefits Act 202 of 2017. In a letter to Michigan State Treasurer Nick Khouri, NCPERS suggests a more equitable approach to calculating the discount rate and said the appropriate investment return assumption range should be 7.25 percent to 7.75 percent.

Regarding the proposed mortality table, NCPERS cited "grave concerns" and called the 2017 improvement table "unrealistic." Plans should be permitted to rely on the most recent experience study for the demographic assumptions, using actual demographics for "mortality, disability, retirement age, etc.," NCPERS said.

Michigan public retirement benefits are determined at the local level, resulting in a wide variety of retirement plans and funding levels, according to Carrie Lombardo, chief strategic and external affairs officer for the Municipal Employees Retirement System of Michigan. The range of benefits offered by localities includes traditional pensions, defined contribution plans, and hybrid plans.

In 2017, Governor Rick Snyder created the Responsible Retirement Reform Task Force. Its goal was to drive collaboration among legislators, state and local government officials, employee representatives, pension managers and insurance professionals, Lombardo said. The idea was that collaborating would ensure the financial stability and effective delivery of local government services, while meeting the commitments made to employees in the coming decades, she added.

However, implementation of the 2017 law that resulted from this collaboration has not been consistent with Task Force recommendations or its intent, Lombardo said. She noted that the Department of Treasury issued draft assumption that were specific rather than a maximum threshold, a move that "would create complexities and administrative challenges for local plans."

If specific assumptions are used, the majority of the state's 859 local units of government would have to pay actuaries to run separate valuation calculations simply to meet a reporting requirement, Lombardo explained. "This results in additional, and in many cases significant, costs to the local units of government," she added.

**NORTHEAST:  
Connecticut**

Connecticut's public employee unions are lining up strongly behind the Democratic candidate for governor, Ned Lamont, a businessman and political newcomer who promises to deal with the state's deficits and unfunded pension obligations.

Lamont has spoken out about what he sees as a push by Republicans in Connecticut and nationally to "dismantle the key protections that the labor movement helped out country put in place to build the middle class." His website identifies "building a path to a secure retirement" as a priority.

Lamont's opponent, Republican Bob Stefanowski, has set his sights on renegotiating Connecticut's 10-year agreement with the State Employee Bargaining Agent Coalition, or SEBAC. The pact, adopted last year, runs through 2027 and bars layoffs through 2020. Stefanowski has said he will look to reduce cost-of-living increases for pension payments, cap benefits, and introduce health insurance co-pays for state employees.

Another contentious issue is the Supreme Court decision in the case *Janus vs. AFSCME*. Under the *Janus* ruling, government workers who decide not to join unions can't be required to pay for a proportionate share of collective bargaining costs.

Lamont has stated that the *Janus* ruling will have "profound impacts on labor and working families across the nation" and pledged to protect workers' rights and keep unions at the table. Stefanowski, meanwhile, applauded the *Janus* ruling at a candidate forum in July, and a tape of his comments was played at Connecticut's AFL-CIO convention in August.

Lamont has expressed willingness to raise taxes on the state's wealthiest citizens, something many union leaders support as a way of raising additional revenue.

Incumbent Gov. Dannel Malloy (D), a supporter of labor, announced last year he wouldn't run for re-election.

[CONTINUED ON PAGE 7](#)

# Looking Ahead to the 116th Congress

By Tony Roda

With the calendar about to turn to October in this even numbered year, it becomes a favorite parlor game in Washington, D.C. to prognosticate about the upcoming elections. This year is no exception. Given the partisanship gripping our nation's capital and the deep political divisions in the country, there is even more attention on this year's mid-term elections.

The mid-term elections are notoriously difficult for the party of the president. Only twice since the end of World War II has a president's party gained seats in the House of Representatives. No one is forecasting that 2018 will be year number three. Instead, more and more people are talking openly about a Democratic takeover of the House. Democrats need to flip 23 House seats to take the majority. Meanwhile, most observers believe that the Senate will stay in Republican hands, but the large number of competitive races makes a prediction on the final party breakdown impossible at this point.

If the Democrats are the majority party in the House in the 116th Congress, be prepared for a lot of messaging bills, i.e., difficult political votes for Republicans. Expect votes on the tax legislation enacted in 2017, particularly focused on the \$10,000 per return limitation on state and local tax deductions and the new top tax rates for corporations. Also, expect numerous oversight hearings on President Trump's policies and management of government agencies. At the House Ways and Means Committee, which would be chaired by Rep. Richie Neal (D-MA), expect substantive action on health care, tax policy and international trade.

One retirement issue that may go unresolved in this Congress and would then need to be considered in the 116th Congress is the effort to shore up certain multiemployer pension plans -- Taft-Hartley plans for private sector, unionized workers in related industries.

About 10 percent of these plans are facing insolvency and the federal insurance backstop provided by the Pension Benefit Guaranty Corporation (PBGC) is insufficient. The plans that are in these dire financial straits are characterized by a dramatic shrinking of the employer base in certain industries, such as trucking, and rapidly declining union rolls. In 1983, there were approximately



Photo Illustration © 2018, Depositphotos

12 million American workers covered by collective bargaining agreements, which represented almost 17 percent of the workforce. By 2016, the number had fallen to 7.6 million workers, which was 6.4 percent of the workforce. These two factors accompanied by lower investment returns and longer lifespans have combined to put some multiemployer plans on the financial brink.

The Congressional Joint Select Committee on the Solvency of Multiemployer Pension Plans is comprised of eight Republicans and eight Democrats, with four coming from each chamber. Under the rules of the Committee, five of eight from each party are needed for expedited floor procedures. The Committee is facing a November 30th deadline to report its recommendations, but according to some Members and staff of the Select Committee, that deadline is not being viewed as firm.

Many policy options are on the table, including a revolving loan program, benefit cuts, increases in premiums paid to the PBGC, composite plans with adjustable benefits, and combinations thereof. Observers have said that whatever path the Committee takes on multiemployer plans would be the likely template for any future Congressional action on state and local governmental pension plans. Public pension plans are not asking for financial assistance from Congress and are unlikely to do so. However, opponents of defined benefit plans continue to assert that state and local plans will be the next to queue up on Capitol Hill for assistance.

[CONTINUED ON PAGE 7](#)

**LOOKING AHEAD CONTINUED FROM PAGE 6**

If Republicans are in the minority in the House in the 116th Congress, they will have fewer options to move two troubling proposals, namely the Public Employee Pension Transparency Act (PEPTA) and the extension of the unrelated business income tax (UBIT) to certain investments of state and local governmental pension plans. PEPTA would require all public plans to report their funded status based on a Treasury bond yield curve, which recently has been hovering around three percent. It has been introduced in each Congress since 2010 by now senior Ways and Means Committee member Devin Nunes (R-CA). Democrats have not shown any appetite to support that legislation or the UBIT extension. However, it would be short-sighted for our community to stop stressing our opposition to the two proposals. If we leave the playing field to Congressman Nunes and other proponents of PEPTA and the UBIT extension, we would create a vacuum in which they could build support. In addition, if the Senate continues to be in Republican control, we must remain vigilant in that chamber on the two issues.

If not dealt with by the end of this year, regulators at the Department of the Treasury and Internal Revenue Service (IRS) may release final rules on the normal retirement age issue, which our community has been involved in since 2007. In addition, the issuance of proposed regulations to define the term “governmental plan” under Internal Revenue Code (IRC) section 414(d) is a

possibility. Finally on the regulatory front, if the current Congress enacts an amendment to IRC section 414(h)(2) to provide greater flexibility for use of the pick up when providing employee elections between plans or plan tiers with different employee contribution rates, Treasury-IRS may need to provide guidance on the parameters of the new law.

Please be assured that NCPERS will work to promote and defend the interests of state and local governmental pension plans for the remainder of the current Congress and into the transition to the 116th Congress. As we have in the past, we will alert you on matters that require your urgent consideration. ♦

**Tony Roda** is a partner at the Washington, D.C. law and lobbying firm [Williams & Jensen](#), where he specializes in legislative and regulatory issues affecting state and local pension plans. He represents the National Conference on Public Employee Retirement Systems and statewide, county and municipal pension plans in California, Georgia, Kentucky, Ohio, Tennessee and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from Catholic University of America, and LL.M (tax law) from Georgetown University.

**AROUND THE REGIONS CONTINUED FROM PAGE 5****SOUTH:  
Oklahoma**

The Oklahoma teachers strike, which lasted for 11 days in April and culminated in long-overdue pay raises for teachers and support staff, is producing results at the voting booth.

A dozen Republican incumbents in the state legislature lost primary or runoff races between June 26 and August 28. When you add in retirements, only four of the 19 Republicans who voted against raising taxes to increase teacher pay last spring will be on the ballot in November.

Teachers were pleased but not finished after they secured \$6,100 raises for themselves and \$1,250 raises for support staff in April. In a state where per-student education spending fell 23.6 percent between 2008 and 2015 in Oklahoma, they promised to push lawmakers to finance broader investments in education.

“We got here by electing the wrong people to office,” Alicia Priest, president of the Oklahoma Education Association, told the New York Times in April. “We have the opportunity to make our voices heard at the ballot box.” Polls in Oklahoma have consistently shown strong public support for raising taxes on the wealthy and oil companies to increase investment in education.

Two lawmakers, Scott McEachin and Chuck Strohm, were eliminated by other Republican nominees during the initial primary, while a further seven did not gain enough votes to win their primaries uncontested. These seven faced runoff elections in August 2018, and six lost. ♦



ADVOCACY | RESEARCH | EDUCATION  
National Conference on Public Employee Retirement Systems  
*The Voice for Public Pensions*

# 2018 Public Safety Conference

October 28 – 31



## NCPERS Accredited Fiduciary (NAF) Program

October 27 – 28

Paris Hotel  
Las Vegas, NV

Early-Bird Deadline October 5

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## 2018 Conferences

### September

#### Public Pension Funding Forum

September 10 – 12  
Cambridge, MA

### October

#### NCPERS Accredited Fiduciary Program (All modules)

October 27 – 28  
Las Vegas, NV

#### Public Safety Conference

October 27 – 31  
Las Vegas, NV

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# PERSIST

The Voice for Public Pensions

Fall 2018 | Volume 31 | Number 4



## Message from the President



Daniel Fortuna  
NCPERS President

**N**CPERS hosted our fifth Public Pension Funding Forum (Funding Forum or PPF) September 16 – 18, 2018, in Boston, Massachusetts. This program, attended by 140 attendees, focused on the obstacles that stand in the way of closing the public pension funding gap and explore new solutions to overcome such obstacles.

The Funding Forum was over two days, beginning with a 2017 program overview and research update on September 16. September 17 began with a session on the current pension landscape and trends with Bridget Early, executive director of the National Public Pension Coalition, and Alex Brown, research manager at the National Association of State Retirement Administrators. You can view their Facebook Live session [here](#). The second session of the day was a discussion on state and local revenue options to address pension funding with Matt Gardner from the Institute on Tax and Economic Policy and Susan Kennedy with the Alabama Education Association. Gene Kalwarski from Cheiron and Sandy Matheson, executive director of the Maine Public Employees Retirement System led a discussion on stress testing as a tool to strength public pensions.

After lunch, the afternoon session began with a presentation from researcher Tom Sgouros from Brown University on a critique of current public pension accounting and a preview of an upcoming research on said topic that NCPERS commissioned. William Forna from Pension Trustee Advisors and Mark Hovey, former executive director of the San Diego City Employees Retirement System, discussed what attendees can do about pension reforms gone haywire. The afternoon continued with a presentation from Marcie Frost, CEO of CalPERS and Michael Curto from Squire Patton Boggs on their approaches to addressing pension funding issues. You can view their Facebook Live session [here](#). The last session of the day was from Diane Oakley, executive director of the National Institute on Retirement Security, Jean- Pierre Aubry from Boston College, and Joshua Franzel from the Center for State and Local Government Excellence, was a discussion on if public pension cuts are hurting systems’ ability to recruit workers.

The agenda for the second day of the forum was equally informative. The first session on September 18 was a presentation on what can be done about the politics of assaults on pensions, led by Robert

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# Helping Clients Invest with Purpose

By Bob Parise

Over the past 20 years we've seen interest in, and the questions around, diversity and inclusion increase in frequency and complexity among our clients – and especially within the public funds segment.

Questions range from: 'What is the ownership of your firm?' and 'How diverse are your teams?' to 'How diverse are the managers and service providers you choose?'

At Northern Trust Asset Management, we believe investing ultimately serves a greater purpose – and should be done intentionally and efficiently. Our Minority Owned Brokerage Program is a prime example of this philosophy, and one of the many ways we help our clients invest in line with their values.

In 2007, we launched the program to formalize our long-standing commitment to diversity and inclusion. We set out to do something we felt other asset management firms weren't doing enough of: meaningfully increasing the use of minority-owned brokerage firms. The program provides our clients with access to a diverse and talented pool of professionals within a community that is all-too-often under-represented. In addition to filling that void, the program enables us to live our values.



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Since its launch, we've found the program has been of particular interest to institutional plan sponsors and not-for-profits who are seeking ways to invest their pension, defined contribution plan or

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## Blazing the Trail

As a global investment manager entrusted with nearly \$946 billion\* of investor assets, Northern Trust Asset Management has a long history of supporting diversity and inclusion in the financial services industry. Recent honors include:

- **Best Employers for Diversity** – [Forbes, 2018 - Ranked #1](#)
- **Gender Equality Index Member** – *Bloomberg*, 2018
- **Top 50 Company for Executive Women** – *National Association for Female Executives (NAFE)*, 2017-Seventh Consecutive Year
- **Top 50 Companies for Latinas to Work for in the U.S.** – *Latina Style Magazine*, 2017
- **Best Places to Work for LGBT Equality** – *Corporate Equality Index*, 2017 - Eighth Consecutive Year

**Bob Parise** is Practice Lead, Public Funds & Taft-Hartley Plans at Northern Trust Asset Management and is a member of the Business Leadership Council. In his role, Bob collaborates across sales and client relationship management to establish business strategy and lead the delivery of investment solutions, including equity, fixed income and alternative asset classes, for these institutional segments.

Bob has more than 24 years of financial industry experience, including serving as co-head of the Americas defined benefit business for J.P. Morgan Asset Management, where he was responsible for new business development and relationship management across a group of corporate, public and Taft-Hartley defined benefit and defined contribution retirement plans. Bob earned a Bachelor of Business, Finance degree from Western Illinois University and an M.B.A. from DePaul University. He holds Series 3, 7, 24, and 63 licenses.



# An Interview on Cybersecurity with Brian Bartow, General Counsel and Chief Compliance Officer of the California State Teachers' Retirement System

By Suzanne M. Dugan

**S**pend some time with Brian Bartow and you'll soon learn that worrying about cybersecurity is what keeps him up at night. As the General Counsel and Chief Compliance Officer at CalSTRS, Brian is responsible for enterprise information management and security. He has even taught a law school class on the topic. Brian sat down for an interview to share his knowledge and insights about cybersecurity.



**Suzanne Dugan, Cohen Milstein:** How serious is the cybersecurity threat to pension systems?

**Brian Bartow, CalSTRS:** Except for funding, it is the number one risk we face. When you assess risk, the analysis is typically two dimensional—that is, we look at the severity of the risk and the likelihood of its occurrence. With cybersecurity risk, there is an added third dimension. In addition to severity and likelihood, we assess the velocity of the risk. If a breach happens, it's going to happen immediately, whether the breach affects one record or brings down the whole system.

**Dugan:** Is the risk increasing?

**Bartow:** Attempts to breach the system are increasing at a rapid rate. We might have had 2 or 3 attempts to redirect electronic deposits two years ago, then it jumped 30-fold last year, and we are on track to triple that this year. There is so much information now available on the dark web that malefactors can capitalize on this and create synthetic identities from which they can launch targeted attacks. This uptick was fueled by the breaches where information such as social security numbers, and health information was stolen and now can be cross-referenced with other publicly available information like name, salary and workplace. Malefactors are infinitely resourceful and very motivated. We constantly monitor data analytics so that we can identify deviations in the levels of usage of data and patterns of access, from which we develop early indicators and investigate and respond immediately.

**Dugan:** What steps should a pension plan be taking?

**Bartow:** First and foremost, the cybersecurity threat must be characterized as a fiduciary responsibility and identified as a risk so that it is brought to the board's attention. That step is critical. The board must then come up with a budgetary device recognizing that this threat constitutes an expenditure line item. Addressing the

critical risk of cybersecurity requires a commitment of resources. There's no way around that.

The next step is to perform an audit, whether internal or external, looking at the existing internal controls and reporting on cybersecurity risk. This audit should lay the framework for how to address the risks. Cyber risks can fall into various categories, such as operational, financial, and reputational. Risks may come from third parties, such as employers, vendors or contractors. A cyber plan can begin to be developed from this assessment. Systems can then be developed and implemented to address the risks. Ways to manage the risks might involve purchasing cybersecurity insurance—the cost of which has come down of late—and including contractual provisions assigning risk and responsibility or providing for indemnification.

**Dugan:** Is there any guidance regarding best practices?

**Bartow:** A number of organizations, including the AICPA, National Association of Corporate Directors, the SEC and the Center for Internet Security, have begun to develop some reports that suggest ways to manage these risks. We must appreciate that the risks are ongoing and constantly evolving so that vigilance is essential. The best deterrence is knowing your data and who is touching it, as different kinds of data create different kinds of risks. Collecting information and reviewing it regularly are essential to planning and implementation.

**Dugan:** CalSTRS is a big fund with lots of resources. What about smaller funds with less capacity and fewer resources?

**Bartow:** The risks are the same for funds of any size. The appeal of the data to bad guys is the same regardless of the amount of money under management. The steps outlined here, from getting the board's attention to prioritizing these issues to assessing these risks to developing and implementing plans, are the same. It may be that resources will affect the extent of a response but should not be a barrier to an organization identifying the issue as a priority and assessing the attendant risks. Considering the operational, financial, and reputational risks, those steps are critical to fulfilling a board's fiduciary duty. ♦

*Suzanne M. Dugan is Special Counsel and leader of Cohen Milstein's Ethics and Fiduciary Counseling Practice*

## Claims Filing in Australia: Missed Recovery Opportunities for American Investors

Many American retirement funds invest in Australian securities, and yet miss opportunities to recover losses through Australian class action settlements.

Australia enacted class action procedures more than 25 years ago, and securities class actions are now common in both its state and federal courts. Australian procedure is unique in that it allows for class actions to be brought on behalf of either opt-in or opt-out classes.

In an opt-in class action, investors must take affirmative steps to register prior to, or during the early stages of, litigation. An opt-in class typically includes all investors who purchased a specific security during the class period and entered into a litigation funding agreement by the registration deadline. In some but certainly not all opt-in cases, the class is “re-opened” prior to mediation, giving investors a second chance to participate, and to do so without entering into a litigation funding agreement.

In an opt-out class action, class members do not need to enter into a litigation funding agreement at any stage. In these cases, just like in the United States, all investors who purchased a specific security during the class period are bound by any judgment or class settlement, unless they request exclusion. In addition, class members must file a claim form setting forth eligible transactions in order to receive payment from any class settlement. However, under Australian procedure, courts typically set claim deadlines in advance of mediation, and class members must submit a claim form before any settlement is announced, rather than after.

These options make Australia a favorable jurisdiction for securities class actions. In addition, Australian legislators are considering (i) lifting the existing ban on contingency fees for lawyers, and (ii) imposing new regulations on the litigation finance industry. These reforms could make it less expensive to bring securities class actions, and might lead to more cases being filed on an opt-out basis.

One common concern is that Australia is a cost-shifting jurisdiction – meaning unsuccessful plaintiffs can be ordered to pay a portion of defense costs – but it is important to note that an investor who does not take an active role in litigation does not become liable for legal costs simply by remaining as a class member or by filing a claim form to indicate an interest in receiving compensation.

Because many custodian banks and claims filing vendors do not cover Australian settlements, investors may need to take action to ensure receipt of all available payouts. The process includes (i)



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identifying securities class actions and claims filing deadlines; (ii) reviewing transaction data to determine eligibility; (iii) submitting claim forms and supporting documents, such as account statements; (iv) corresponding with claims administrators to resolve any deficiencies or disputes; and (v) reviewing plans of distribution to ensure accurate payment amounts. Outside securities counsel may be able to assist with this process, or manage it entirely, as part of their litigation and portfolio monitoring services. ♦

**Bleichmar Fonti & Auld LLP** iBleichmar Fonti & Auld LLP focuses on plaintiff-side complex litigation, including U.S. and non-U.S. securities, antitrust, and consumer actions on behalf of institutional investors. BFA's non-U.S. case evaluation services are objective, comprehensive, and thorough, due to our long-standing professional relationships throughout the world. This is a result of our strong commitment to candid and unvarnished advice, made possible by our uniform policy to remain objective with respect to all non-U.S. actions. BFA negotiates the most beneficial funding and insurance agreements on behalf of our clients who choose to join non-U.S. actions, and advises on the relevant factors and possible risks of participating in particular litigations. If you would like to learn more about our services, please contact Javier Bleichmar, Kendra Schramm, or Erin Woods, whose contact information can be found at [www.bfalaw.com/team](http://www.bfalaw.com/team).

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## California Supreme Court Finds City of San Diego Committed Unfair Labor Practice

By Robert D. Klausner, NCPERS General Counsel

In a long-awaited decision, the California Supreme Court unanimously found that the City of San Diego committed an unfair labor practice by refusing to meet and confer over a voter initiative sponsored by the city's mayor. In 2010, a San Diego city councilman and the mayor proposed closing the city's defined benefit retirement system to new employees and replacing it with a defined contribution plan, similar to a 401(k) plan common in the private sector. The proposals were made on city letterhead and city employees worked on the process of gathering signatures needed to place the matters on the ballot. As the mayor's proposal and the council member's proposal differed, they met and agreed to a single proposal which would place all new city employees, except police officers, in a newly-created defined contribution plan and froze the amount of compensation which could be considered for pension purposes. City unions demanded to meet and confer under the public bargaining law. The city refused saying it was a "citizen" initiative.

The unions filed an unfair practice over the refusal to meet and confer. The Public Employee Relations Board agreed to hear the matter but the City sought an injunction which was granted by a trial court. On appeal, the appellate court found that the matter was within PERB's exclusive jurisdiction and vacated the stay. While the PERB case was pending, the measure appeared on the ballot and was approved by the electors. PERB ultimately found that the measure was a city initiative and that the mayor violated the labor law by refusing to meet and confer. PERB ordered the city to make employees whole for lost pension benefits for as long as the initiative remained in effect. The City appealed and an intermediate appellate court overturned PERB in April 2017. The California Supreme Court granted a petition for review from the unions and in August 2018 overturned the appeals court and reinstated the PERB decision. The Court found that deference to PERB on labor matters within its expertise was settled law and would not be overturned unless clearly erroneous. The Court also noted that under the statute, PERB's factual findings were conclusive. The Supreme Court found that the appeals court erred in rejecting the considerable evidence supporting the finding that the ballot measure was sponsored by the city and not by disconnected citizens. Lastly, the Supreme Court found that the duty to meet and confer was a central tenet of the



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public bargaining law and the appeals court erred when it took an unduly restrictive view of that duty. The case, however, is not over. The Supreme Court found that because it did not address PERB's remedy by finding no unfair labor practice, the case was remanded to the appeals court to address remedies consistent with the ruling of the Supreme Court.

*Boling v. PERB*, \_\_\_P.3d\_\_\_, 2018 WL 3654148 (Cal. 2018)

The case bears a close resemblance to a similar ruling by the Florida Supreme Court in 2017 finding the City of Miami committed an unfair labor practice in making unilateral pension and wage changes without bargaining.

See, *Headly v. City of Miami*, 215 So.3d 1 (Fla. 2017). ♦

*This article is a regular feature of PERSIST.*

**Robert D. Klausner**, a well-known lawyer specializing in public pension law throughout the United States, is General Counsel of NCPERS as well as a lecturer and law professor. While all efforts have been made to insure the accuracy of this section, the materials presented here are for the education of NCPERS members and are not intended as specific legal advice. For more information go to [www.robertdklausner.com](http://www.robertdklausner.com).



# How Companies Can Survive the New Industrial Revolution

By Dave Dowsett

A new industrial revolution fueled by data and artificial intelligence is rapidly changing the global economy and the world we live in. That's according to Dave Dowsett, Invesco's head of strategy, research and development.

"The speed of companies coming and going has advanced. Organizations must understand where the competition is coming from - that is fundamental," he says.

Financial services companies especially need to find a way to navigate disruptive technology particularly as artificial intelligence and machine learning creates new ways of doing business and engaging with customers. Doing so, however, remains a challenge for large organizations accustomed to moving slowly and avoiding risk.

To reduce the risk of missing out on the tech revolution underway, Dowsett says companies should follow these 5 suggestions for survival

- **Understand the impact of machine learning**

Artificial intelligence and machine learning can remove bias in decision-making and lead to faster and more accurate results – for financial services companies, this is a huge opportunity.

Fintech, and the firms that offer machine learning solutions to companies, are rapidly changing how financial services are structured, provisioned, and consumed.

From agriculture, to transportation, to healthcare, AI and machine learning are changing the landscape.

- **Expand your ecosystem**

Fintech companies are quickly changing how consumers interact with financial services, but they're also startups that lack a focus on enterprise-wide challenges.

"Fintech startups find a gap on the value chain and they relentlessly go after it," says Dowsett. "They aren't trying to go after enterprise problems. They're going to go after a specific solution, like payments."

Therein lies a natural fit for large organizations to partner with startups and to tap into how they think and solve problems. "The competitive advantage will not be determined by the organization alone but by the strength of the partners and ecosystems you choose," he explains.



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- **Collaborate**

According to an [Accenture survey](#), 75% of executives agree that their competitive advantage won't be determined alone but through collaboration.

Says Dowsett: "You have to collaborate now to compete, you can't just go away, think you'll build a five-year initiative, build some code behind closed doors and then come out and be the best."

Collaboration is key. This could be achieved by shifting away from traditional workplaces and into shared spaces that foster

**[CONTINUED ON PAGE 8](#)**

**Dave Dowsett** is Global Head of Strategy and Innovation for Invesco. In this role, he focuses on augmenting Invesco Technology's core roadmap with emerging financial technology in the marketplace. His role includes overseeing the identification of business needs through capabilities work, modeling strategic intelligence scenarios, and facilitating the movement of innovation and disruptive technology pipelines across the organization. Prior to joining Invesco, Mr. Dowsett lived and worked across Africa, Europe and North America, with 22 years of combined experience in applications, technology infrastructure management and digital transformation for organizations like Fidelity Investments, Unilever and Global Crossing (Level 3).

# Withholding Tax Recovery: Insourcing, Outsourcing, or Strategic Partnering?

## A Governable, Exception-Based Model for Closing the Funding Gap

By Tom Grande

Administrators of U.S. based public retirement systems face quite the conundrum. They must contend with a 70% median funding gap in an environment of low interest rates and expensive domestic equities. To navigate the landscape, trustees and administrators are increasingly turning to two strategies: insourcing asset management and shifting investment allocations abroad.

While increasing focus on foreign assets can diversify portfolios and increase returns, the shift introduces foreign taxation of foreign source investment income. However, by pursuing withholding tax recovery through a strategic partnership model, retirement systems can enjoy up to 55 bps of added portfolio returns annually while reducing operating costs and fulfilling fiduciary duties.



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### Parallel Trends: Insourcing + International Equity Allocations

While outsourcing the chief investment officer (CIO) function has been a major trend of the last 25 years, plan administrators (especially of larger systems) have begun to re-examine the paradigm. By insourcing asset management, plans can enjoy significantly lower costs—8 basis points versus 46 for external management<sup>1</sup>—while obtaining comparable performance.

Representing a parallel trend, mandates that historically allocated 10% of AUM to non-U.S. equities are now apportioning closer to 20% of AUM abroad. Unfortunately, with foreign investment comes over-withheld portfolio income. Because pensions' tax-exempt status is not automatically honored overseas, foreign tax authorities often withhold up to 35% of international interest and dividend payments. With foreign tax recovery, however, pensions can often reclaim the entire withheld amount.

### Withholding Tax Recovery: Finding a Strategic Partner

Despite the benefits of foreign withholding tax recovery, the process is difficult to administer. It requires the know how to correctly submit income data and legal documentation to tax authorities within short timeframes and keep up with constantly changing processes across dozens of markets. Because of this complexity, custodians and asset servicers rarely provide a global service. So, what are administrators to do?

It is increasingly viewed as a best practice to pursue foreign tax recovery through strategic partnerships. This model combines the governance benefits of insourcing with the convenience of outsourcing. Through API-linked reporting portals, administrators can maintain oversight while the service provider gathers documentation, files claims, aggregates reports of claim activity from multiple custodians or prime brokers, and provides audit support. This model is exception-based: when attention is required, administrators are notified of the necessary action.

Such a model is superior to complete insourcing. It eliminates the most laborious parts of the process, removing the need for a full staff in-house. It is also superior to complete outsourcing to asset servicers, as most providers are not equipped to deliver a global offering. As such, no matter how a plan might manage the insourcing of asset management or outsourcing of operational expertise, withholding tax is a specialist area that requires specialist attention. By partnering with the right strategic provider, plans can maximize governance, meet fiduciary responsibilities, and pursue a best practice for closing the funding gap. ♦

<sup>1</sup> <https://www.ft.com/content/41480ce8-b153-11e4-a830-00144feab7de>

**Tom Grande** is a Managing Director of GlobeTax's Sales team. With over 25 years of experience in the asset servicing industry, he focuses on promoting the company's services to pensions and other tax-exempts seeking to recover over-withheld taxes on foreign investments.



**MESSAGE FROM PRESIDENT THE CONTINUED FROM PAGE 1**

Kuttner from American Prospect. The next two PPF sessions were panel presentations on how to close the funding gap without dismantling public pensions. The first of the sessions was led by Dr. Christian Weller from the University of Massachusetts, Boston and Christopher Straub from Bank of America Merrill Lynch. The second of the sessions was led by David Wilson from Nuveen Asset

Management and Robb Ruhr from Analytic Investors. The final session of the forum was on pension design innovation with Dr. Peter Diamond, Nobel Laureate in Economics from MIT.

The full presentations from the forum can be viewed at [www.NCPERS.org/fundingforum](http://www.NCPERS.org/fundingforum). The 2019 Public Pension Funding Forum will be held in New York, New York on September 11-13, 2019. ♦

**HELPING CLIENTS CONTINUED FROM PAGE 2**

foundation assets in a way that mirrors their organizational values. The Minority Owned Brokerage Program provides these investors with the opportunity to express their values in a positive way.

**Raising the Bar**

Because promoting diversity and inclusion is a core value of Northern Trust Asset Management, we continually and intentionally explore ways to expand our relationships within the minority brokerage community. Most recently, we further

enhanced our Minority Owned Brokerage Program by setting a target to execute 10% of all equity security trading commissions through minority brokers for approximately 120 common and collective investment trusts (CIT) that we manage. In addition, we expanded the program to include equity research firms owned by minorities, women and people with disabilities.

We firmly believe that by providing investors with access to diverse and talented professionals via our Minority Brokerage Program, they will benefit from innovative ideas and distinctive solutions that directly align with their values and investment goals. ♦

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**NEW INDUSTRIAL REVOLUTION CONTINUED FROM PAGE 6**

collaboration, like labs and campuses that identify synergies by putting startups next to enterprise organizations.

■ **Embrace failure**

“When you want to deal with disruption, you’ve got to think big. And that’s generally quite hard for financial companies,” says Dowsett adding that large financial services organizations tend to play it safe and “increment” their way forward.

But in fintech, he says, big bets are critical – and they generally fail. “You’ve got to be prepared for that failure and have support when you do fail because if you don’t, people don’t want to do that again.”

■ **Change happens from the top**

Dealing with disruption requires top down sponsorship says Dowsett.

“You can’t bring in a consultant to innovate for you. You have to do it yourself. You have to find where your gaps are,” he says.

Dowsett recommends leaders ask people in their organization to identify where the problems lie. “You might need help on delivery but you don’t need help with consultants identifying your problems.” ♦



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