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AT DEADLINE

Energy grants on offer

Details on how private finance can participate in a federal $14 billion National Clean Investment Fund to boost affordable clean technology projects were released July 14 by the Environmental Protection Agency.

In the notice of funding opportunities, the EPA said it will award grants to two or three national non-profit financing entities "to create national clean financing institutions capable of partnering with the private sector to provide accessible, affordable financing for tens of thousands of clean technology projects nationwide."

The competition is open until Oct. 12, with selections to be announced in March 2024.

The National Clean Investment Fund, created in the Inflation Reduction Act along with the $6 billion Clean Communities Investment Accelerator program, focuses on the low-carbon transition in low-income communities.

The competitions are part of EPA's $27 billion Greenhouse Gas Reduction Fund program, which includes a $7 billion solar competition to spur adoption of clean distributed solar energy.

San Francisco commits

San Francisco City & County Employees' Retirement System disclosed new private credit, real estate and absolute return commitments and investments totaling $280 million in a report from CEO/CIO Alison Romano included with materials for its upcoming July 20 board meeting.

Within private credit, the $33.5 billion pension fund committed $75 million each to specialty finance fund Castlelake Aviation V Stable Yield and Cerberus Levered Loan Opportunities Fund V, a direct lending fund managed by Cerberus Capital Management. SFERS previously committed $75 million each to Castlelake Aviation IV Stable Yield and Cerberus Levered Loan Opportunities Fund IV, both in 2020.As of June 30, the pension fund's actual allocation to private credit was 9.2%; the target is 10%.

Within real estate, the pension fund committed $55 million to value-added real estate fund CapRock Partners Industrial Value-Add Fund IV.

And within absolute return, the pension fund made direct hedge fund investments of $50 million in Torus Feeder 2, a quantitative hedge fund, and $25 million in Prism Feeder 2, a global macro fund, both managed by Qube Research & Technologies.

Dimensional seeks relief

Dimensional Fund Advisors, the industry's largest active ETF issuer, filed an application with the Securities and Exchange Commission seeking exemptive relief that would allow it to offer ETF share classes of its U.S. mutual funds.

Those mutual funds represent about $400 billion in investor assets, Dimensional said in a news release July 13. Dimensional currently offers 31 ETFs, all of which are active transparent ETFs, with assets under management totaling about $95 billion, a Dimensional spokesman said.

In its application, Dimensional said it believes the ability of a fund to offer both mutual fund shares and ETF shares could be beneficial to the fund and to shareholders of each type of class.

Black swan feared

Institutional investors in the U.S. are bracing for an imminent black swan event — an unpredictable event that has potentially severe consequences — due to fears that recent turmoil in the regional banking sector was only a prelude to a larger financial crisis, according to the latest quarterly "Equities Sentiment Report" by CoreData Research.

Specifically, almost 4 in 10 investors (38%) believe the Federal Reserve's support for lenders has uplifted market confidence only temporarily and that a more widespread financial crisis may be imminent amid a climate of persistent inflation and high interest rates.

In addition, some 59% of surveyed institutional investors think that a tail-risk event has an above-average chance of occurring over the next three months, a CoreData spokesman confirmed in an email.

Roughly half (47%) of respondents think the regional banking crisis from earlier this year may impede economic growth, while some two-thirds (65%) expect interest rates and inflation to remain elevated over the next year.

Moreover, 45% believe that U.S. sovereign debt levels pose a major challenge for the economy in the medium term.

Money market fixes OK'd

The Securities and Exchange Commission on July 12 adopted a host of rule amendments aimed at shoring up the money market fund industry.

The amendments, adopted in a 3-2 vote with the SEC's two Republican commissioners dissenting, will increase money market funds' minimum daily and weekly liquid asset requirements to 25% and 50%, respectively, from 10% and 30%.

The amendments are designed to provide a more substantial buffer to better equip money market funds to manage significant and rapid investor redemptions in stressed market conditions while maintaining funds' flexibility to invest in diverse assets during normal market conditions, SEC staff said.

COLAs

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funding and preserving retirees' purchasing power.

For the one-time payment strategy, legislators and plan trustees say, "We can provide something that helps the retirees and limit the plan risk in the future," Mr. Aubry said.

Nationally, the overall estimated funding ratio of the 100 largest U.S. public pension plans improved slightly to 74.8% as of April 30 from 74.5% a month earlier, according to the Milliman 100 Public Pension Funding index. Much of the COLA strategy variations occur in so-called ad hoc plans, which give legislatures and some pension plan boards an opportunity each year to assess or change benefits.

An August 2022 survey by the Center for Retirement Research of 220 state and local plans covering 90% of public plan assets showed 24% used an ad hoc approach for setting COLAs. The most frequent COLA strategies were those linked to the consumer price index (35%) and those with a fixed number (29%).

North Carolina

North Carolina Teachers' and State Employees' Retirement System, Raleigh, with a funded ratio of 90%, is an example of how an ad hoc system shifts between COLAs and one-time payments.

"At times, the General Assembly may determine that there are not enough budgetary funds available to cover the full liability that the retirement system takes on when a COLA is granted," says the website of the $83.3 billion pension plan. "Instead, the General Assembly may choose to grant a one-time benefit supplement instead of a reoccurring increase."

The one-time benefit, the website adds, "is typically paid all at once and does not affect any future months' payments." Retirees received a one-time payment of 4% of their annual pensions in 2022, thanks to a provision in the state budget law enacted last year. A 2021 budget law provided a 2% one-time payment to retirees in that year.

The last COLA for retirees was a 1% increase that took effect July 1, 2017. Before that, retirees received 1% COLAs in 2012 and 2014, according to pension system records.

For the $11.1 billion New Hampshire Retirement System, Concord, the legislature decides whether the system gets a COLA, a one-time supplemental payment or nothing for a fiscal year.

"This is by far the most common inquiry or complaint we receive from our retired members," spokesman Marty Karlon wrote in an email.

There was no COLA between 2011 and 2019. There were one-time supplemental payments for certain members in 2011, 2012 and 2018.

A law enacted this year, which took effect July 1, provided a $500 one-time payment to retirees or beneficiaries meeting certain requirements. Last year, another law provided a $500 one-time payment to retirees or beneficiaries using different criteria.

"While the retirement system understands and appreciates our retirees' concern about cost-of-living adjustments, this is not an issue where NHRS has discretion," said the pension system's website, which has a link to contact state legislators.

NHRS also explained that historically COLAs have been affected by the dot-com crash of 2000-2001, the Great Recession and previous legislative decisions that contributed to the system's underfunding. The actuarial funded ratio is now 65.6%. The last COLA was 1.5% in 2020 for certain members.

System health

One example where pension plan health trumps inflation concerns and any other enhancement of benefits is New Jersey: the state pension system hasn't had a COLA since 2011. There is little chance for a revival in the near — or far — future.

A 2011 agreement between Gov. Chris Christie, a Republican, and the Democrat-controlled legislature led to a law designed to improve the health of the $91.6 billion New Jersey Pension Fund, Trenton. Funding ratios for the three largest of the seven pension funds in the system — accounting for 99% of assets — range from 39.9% to 55%.

The law included increasing state contributions to the pension system in return for, among other things, raising employee contributions and suspending the automatic COLA until each of the separate pension funds within the pension system had an 80% funded ratio.

Public employee unions and other plaintiffs sued, saying the COLA was a "non-forfeitable right," just like pensions. The state Supreme Court in 2016 upheld the COLA suspension. The U.S. Supreme Court declined to review the case.

In recent years, legislators have introduced bills in the state Senate and General Assembly seeking to revive the COLA. The bills have never left the respective committees to which they were assigned.

"Without the annual adjustment, retirees and beneficiaries will gradually see significant reductions in their purchasing power," said one of the bills introduced last year.

Gov. Phil Murphy, a Democrat, hasn't shown any interest in reviving the COLA, even as he has secured three consecutive fiscal years of full actuarial determined contributions for the pension system, including $7.1 billion for the fiscal year that started July 1.

At a legislative budget hearing last year discussing proposed pension payments for the just-concluded fiscal year, Elizabeth Maher Muoio, the state treasurer, testified that reinstating the COLA would cost an extra $2 billion in state contributions to the pension system and $1.6 billion more in local contributions to the system for that fiscal year.

To meet the 2011 law's requirement of an 80% funded ratio for each component of the system, it will take between 17 and 27 years for state contributions, depending on each pension fund, she said.

Retirees pinched

Even if their public plans offer COLAs, retirees likely won't keep up with inflation, said Anthony Randazzo, executive director of the Equable Institute, a New York-based retirement research organization. The average public pension retiree's COLA last year was 1.83%, according to a September 2022 report.

Plans with automatic COLAs would still be hard-pressed to offset inflation in recent years because COLAs are usually capped, often at 3% or less, and subject to downward adjustments.

"Most COLAs are between 1% and 2% (and are) designed as incremental increases," he said. "The purchasing power of benefits has declined."

Mr. Randazzo noted that legislators also can approve assorted other measures for pension funding to provide some benefits while making sure the changes don't bust budgets, such as creating tiers in which new employees will get smaller pensions than long-time workers. Legislators

COLA practices vary among 2 large Ohio public plans

Same state.

Same city.

Different pension systems.

And different approaches to cost-of-living adjustments.

For the Ohio State Teachers' Retirement Systems, Columbus, the pension board's decision in May to offer a 1% cost-of-living adjustment for the fiscal year that started July 1 was criticized by members as too little in the face of high inflation.

For the Ohio Public Employees Retirement System, Columbus, the system's request in 2021 for COLA freeze for 2022 and 2023 was rejected by the state Legislature.

That means participants who retired before 2013 will continue receiving a 3% COLA and people who retired in 2013 and later will continue receiving a COLA tied to the CPI-W, the consumer price index for urban wage earners and clerical workers, and capped at 3%.

Having failed to secure enough votes in 2021, "we currently are not pursuing a freeze or any other COLA change," Michael Pramik, a spokesman for the $92.5 billion fund, whose funding ratio is 84%, wrote in an email. The pension system cannot act unilaterally to change the COLA.

When OPERS asked legislators for a two-year COLA-freeze, it told participants and retirees that the action would reduce its unfunded liability by about $3 billion from $19.4 billion at that time.

"The temporary COLA freeze is important because COLAs account for 25% of the total annual pension payments we pay to our members," OPERS said in a July 2021 message to members.

"Like others public pension funds, OPERS has experienced increasing unfunded liabilities in part because of inconsistent financial investment markets that date back to the Great Recession," OPERS said. "Investment market volatility has a significant impact on our funding."

Unlike OPERS, which needs legislators' OK, the $88.2 billion teachers' pension fund's board of trustees governs COLAs.

From the 2012 to 2107 fiscal years, it cut the annual automatic COLA to 2% from 3%, then eliminated the COLA between