Retirement News Highlights

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Hogan administration agrees to new contract with largest state workers’ union; union calls wage increases ‘insufficient’

By Christine Condon
Baltimore Sun
January 1, 2022

Gov. Larry Hogan’s administration reached a deal Saturday night on a contract with the American Federation of State, County and Municipal Employees Maryland Council 3 — the largest state workers’ union in Maryland — just before an end-of-year deadline.

The new contract will provide step wage increases for eligible workers in the upcoming fiscal year, starting July 1, according to a news release from the AFSCME.

The size of the increase is different for different workers covered by the union, but they average about 2.4%, said Stuart Katzenberg, director of collective bargaining and growth for the union.

The union represents about 30,000 public employees, including correctional officers, state hospital workers and higher education workers.

In a statement, union president Patrick Moran called the wage increases inadequate, faulting the Hogan administration’s bargaining strategy.

“While today’s agreement guarantees some increases to our members, the increases are insufficient and do not keep pace with inflation,” Moran wrote. “Maryland still has a long way to go towards addressing the under-resourcing and understaffing our state agencies are facing.”

The union cited data provided to it by the state, indicating that Maryland had a total of nearly 11,000 vacant or eliminated positions as of November. Under the new agreement, about 2% of the state budget surplus will go toward recruiting and retaining state workers, according to the release.

Hogan’s spokesperson Michael Ricci touted recent raises for state workers in a statement Sunday evening.

“As promised, the state continues to devote a portion of the record budget surplus to enhancements for state employees—including nearly 10% in cumulative salary increases over two years,” Ricci wrote. He referred to a Spending Affordability Committee report showing the state has raised pay at a higher rate than the federal government and Maryland’s largest counties over the past five years.

The contract, which covers the next fiscal year, will be the last negotiated under Hogan who leaves office Jan. 18.

Democratic Gov.-elect Wes Moore’s administration will take over the next round of negotiations, which would affect the 2025 fiscal year and beyond, Katzenberg said.

“We’re looking forward to working with the Moore administration and leaders in the General Assembly who we hope will get serious about providing the resources state workers have earned and deserve,” Moran said in his statement.

In early 2022, the union negotiated for about 12% in raises for the workforce before July 2023 — including 7% in cost-of-living adjustments, two step increases and a $1,000 bonus — according to a news release from AFSCME.

In 2021, the union had expressed concerns with the way Hogan earmarked the state’s $2.5 billion surplus.

Hogan announced in October 2021 that he planned to send about $500 million into Maryland’s emergency savings fund, and use the rest to deliver tax cuts for retirees, targeted assistance for struggling Marylanders and an unspecified boost for state workers. AFSCME called for the funds to be put toward raises and new hires, citing staff shortages in key Maryland agencies.

In the union’s statement Saturday, secretary-treasurer Cherrish Vick said Hogan has “hollowed out” the state workforce and failed to increase wages as needed.

“The paltry pay and benefits Maryland gives its state workers just cannot compare to what Marylanders could receive if they went to work in a surrounding state, the private sector, or even in a local or county position. Add on the stress and impossible workloads and it’s no wonder people leave their state jobs,” said Vick, who works as a caseworker at the Prince George’s County Department of Human Services.

The vacancies have changed job requirements for certain Maryland workers, said Rayneika Robinson, a Division of Parole and Probation agent and an AFSCME bargaining team member.

“Because the State can’t and won’t hire anyone, I am forced to take on administrative duties that prevent me from being out in the field. I am spending more than a week every month doing these administrative tasks and covering for these vacant positions,” Robinson said in a statement.

Baltimore Sun reporters Sam Janesch, Lorraine Mirabella and Cassidy Jensen contributed to this article.

FOR THE RECORD

A previous version of this article contained an outdated number of employees whom the American Federation of State, County and Municipal Employees Maryland Council 3 represents. The Sun regrets the error.

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Consultants Suggest More Fixed Income, Alts and Active Mgmt in '23

Investment consultants are advising their institutional clients to prepare for long-term inflation by upping their exposure to fixed income, alternative investments and active managers in 2023.

By Sam Heller
FUNDfire
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With rising inflation and interest rates as well as the continuing war in Ukraine, market prospects remain uncertain, consultants say. The past six months have been about defending against these changes, but as they become more of an entrenched reality, the focus has shifted to creating resilient portfolios, said John Delaney, a senior investment director and portfolio manager at Willis Towers Watson.

"Building more diversified and resilient portfolios is going to be even more important than it has been, as we don't necessarily have the easy monetary environment that we've seen prior to 2022," Delaney said.

Fixed Income

With so much uncertainty going into 2023, consultants from Mercer, WTW, AON and NEPC all said that the fixed income market looks more enticing than it has in over a decade.

Even just 12 months ago, increasing fixed income allocations would not have been a move most would have recommended, NEPC Director of Asset Allocation Phillip Nelson said.

"We've really seen a pretty significant pivot in that space where you're being properly compensated now to hold those exposures," he said. "For investors that need a greater level of liquidity, especially in times of market stress, we think holding treasuries is a really prudent thing."

The last 15 years have seen relatively low interest rates, but the shift in the last few months has improved risk-adjusted returns.

Nelson said that NEPC is advising its clients to focus mostly on Treasury bonds for fixed income.

WTW's Delaney and Samantha Davidson, a senior partner and U.S. investment solutions business leader at Mercer, both said that the widening credit gap means that high-quality corporate credit bonds are the smartest investments in the fixed income market currently.

Alternative Investments

Consultants are also directing their clients to consider increasing their exposure to real assets and other alternative investments expected to do well in an inflationary environment.

"One thing that we're looking to do, again, is build portfolios that react in a world where inflation is just volatile, and more uncertain," said Aon Partner Jas Thandi. "Which means that the desirable portfolios, where you want to have more exposure to things that do well in different inflationary environments, are uncorrelated to other parts of the portfolio."

He pointed to real estate and alternative energy as two of the best asset classes to combat inflation.

With higher mortgage rates, home purchases have become out of reach for many, and single-family house rentals have increased. Thus, single-family homes have become an attractive investment, Delaney said. Senior housing and college housing will also be strong investments for next year as well, Thandi said.

Exposure related to the energy transition remains safe, as being a strong investor in this area means getting support from both the private sector and government, Delaney said, pointing to strong wind and solar projects as opportunities.

Mercer is pushing its clients to invest in natural resource equities, such as oil, gas, mining materials, timber and agriculture, according to Mercer's Davidson.

As the energy transition continues, investing in metal mines presents great opportunities as well, either through passive or active exposure, she added.

Mercer is also advocating for hedge funds as a way to add protection as a diversifier, something that the consultant had not recommended previously. Many Mercer clients have not allocated to hedge funds in a long time, but this is likely to change, Davidson said.

"Hedge funds, which have admittedly not been top of mind for investors, really serve their role this year," Davidson said. "Looking to hedge funds to add protection as a diversifier is something that we continue to advocate."

WTW is also recommending its clients consider hedge funds in 2023, as the firm argues the role of active management is becoming more important.

Active Management

Other consultants are also playing up the roles of active managers this year.

In the past 10 years, passive managers have been more successful, but if the market remains uncertain, active management will be smarter, said Aon's Thandi.

"The implementation of what asset classes you want will become very important as we move into this phase," he said.

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Giant State Pension Funds Brace for Brutal 2023

The governors of California, Chicago and New Jersey have already seen their respective states' pension funds get slammed in 2022 and the New Year may bring greater heartache.
By Peter Ortiz
FUNDfire
January 3, 2023

Some of the country's biggest state pension funds are preparing for an even worse beating in the upcoming year than the turmoil they have gone through in 2022, Politico reports.

Govs. Gavin Newsom of California, J.B. Pritzker of Illinois and Phil Murphy of New Jersey have funneled billions of dollars into their states' respective pension systems to help cushion blows from volatile markets, Politico reports. All three also are seen as potential future candidates for president and have promoted themselves as stalwart fiscal stewards, making it more imperative for each to keep their retirement systems on sound footing.

"There's going to be acute fiscal pain and pressure the more you ignore the cost," Leonard Gilroy, a senior managing director of the Reason Foundation's Pension Integrity Project, which counsels state governments on pension plans, told Politico. "If you're not paying it down, you're chasing it."

Newsom, Pritzker and Murphy have all taken action to make up for predecessors who left their pension systems ill-equipped to handle the kind of market volatility that has transpired this year.

"When we arrived on the scene, New Jersey's pension system had either been ignored or underfunded by administrations on both sides of the aisle for more than 20 years," Murphy told Politico in a statement.

Murphy also said that he is "fully committed" to another year of keeping his state's retirement system capable of paying its obligations.

Rising interest rates and big drops in the stock market took a toll on pension investment portfolios this year. The California Public Employees' Retirement System, for example, bled nearly $30 billion, while New Jersey and Illinois also recorded losses in the fiscal year. Nearly all state and local pension systems realized losses.

Calpers CEO Marcie Frost foresees "a challenging road ahead as major economies around the world continue to slow and market volatility grows," a statement provided to Politico noted. "We understand these low-returning environments can put pressure on our employer partners and local government budgets."

Illinois' last two budgets included full pension payments and an additional $500 million allocation that will help the state better deal with rough markets in the future, Pritzker spokesperson Alex Gough told Politico.

But a prolonged market downturn next year likely imperils Chicago's public pension system more than other major cities', Bloomberg reported.

Following years of under-payments, the city's four pension funds have amassed an unfunded liability of $33.7 billion, more than double Chicago's annual budget. While funding ratios for U.S. state and local pensions average around 70%, Chicago's is only about 25%, according to data from Boston College's Center for Retirement Research.

The continued volatility around inflation, central bank policy, and other macro factors are perfect conditions for active management, NEPC's Nelson said.

"We're always leery of making a blanket statement in active management, but some of the conditions that maybe were present pre-financial crisis that benefited active managers, we're seeing more of those conditions," he said. "That should allow for high conviction, really great Alpha generators to do well."

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