FINCB8471 Public Pensions and Retirement Security in the U.S.
Fall B Term 2022

Kravis 880 -- Monday, 2:00-5:15pm

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Course Description

U.S. public pensions are some of the largest institutional investors in the world, both affecting financial markets and influencing the global asset management industry as a whole. Public pensions are also an important leg of the “three-legged stool” of retirement security in this country – Social Security, pension (public and private), and personal savings. This course is designed to introduce students to the public pension system in our country. The course will review public pension history, the current marketplace, and the role public pensions play in the overall retirement security in the U.S. The course will address the current challenges that public pensions face, specifically the well-publicized funding crisis. Public pension design (defined benefit, defined contribution, hybrid), and the actuarial concepts on which it is based, will be discussed and evaluated as both the cause of and potential solution to the pension crisis. The class will discuss public pension governance structures and the emerging body of governance research, touching upon investment infrastructure and expanding models of delegated authority. In addition, the course will focus on public pension investment policy and investment portfolios.
including the move into alternatives, private markets, and ESG investments as pension look for more investment return.

Students pursuing careers in asset management (portfolio management, client service, or business development) or investment consulting should be interested in this course to better understanding how the largest clients in these sectors are managed and operated. Students interested in the role public pensions play in retirement security in this country today, and how these organizations will evolve to address the challenges they face, should be interested in this course. Finally, students interested in the growing influence of public pensions and their part in “institutionalizing” newer investment strategies (activism, alternatives, private markets, and ESG) would benefit from this course as well.

Course Pre-requisites

**B8306: Capital Markets & Investments** (B8306) is a pre-requisite for this course.

Course Format

The course will be a combination lectures, case studies, and guest speakers/panels. Assigned reading will combine textbook, case studies, and current research material. Most classes will (1) review the core material through lecture, (2) discuss a prepared case study, and (3) hear from a guest speaker or panels of guests on the day’s topic. Guest speakers and panelists will be public pension professionals and those who work with public pensions. Interacting with these guest speakers will be a great networking opportunity for students interested in pursuing careers in asset management, investment consulting, and public pension investment management.

Recommended Course Material


4. “Saving Public Pensions: Rhode Island Pension Reform,” by Andrew Ang (Columbia Caseworks ID#120313)


8. Selected research, white papers, and articles

**Method of Evaluation**

The course grade will be based on class participation, case presentation, and a final exam. The components of the grade are as follows:

- **Class Participation**: 30%
- **Case Presentation**: 20%
- **Final Exam**: 50%

**Class Participation**: Class attendance is mandatory. Students will be graded on attendance, thoughtful participation in class, and overall contribution to the collective class learning experience. **A primary driver of class participation will be the number and quality of questions asked during the class and of the guest speakers in particular**. Successful participation also includes: (1) being on-time to class and upon return from breaks, (2) being particularly respectful and prepared with thoughtful questions when guest speakers are present, and (3) not using electronic devices, in particular, phones during class time. Laptops may be used for taking notes but nothing else, unless instructed. Students are responsible for material covered during classes they may have missed. Missing three sessions (50% of the classes) will lead to an incomplete grade for the class. Students may audit the course with instructor’s permission.
**Case Presentation:** There will be 5 cases discussed during the course. Students will be separated into five groups and each group will be assigned one of the cases. Each group presentation will form the basis of the class discussion of the case. The case presentation grade (20%) will be based on the group presentation.

**Final Exam:** The final exam will take place according to the official exam schedule. It will be an open book, take home exam testing knowledge of the concepts taught in class. The exam should at most take four hours to complete. Either the TA or the instructor will hold a review session based on general course material and specific student questions.
**Class Schedule**
The course will consist of 6 weekly classes up to 3 hours each. Guest speakers list will be finalized before class. Core reading is assigned from *U.S. Public Pension Handbook: A Comprehensive Guide for Trustees and Investment Staff* (hereinafter “Pension Handbook”). In addition, assigned material based on current events may be added during the course, as relevant.

1. **Class One (Monday October 24, 2022)**
   a. Overview: Public Pensions and Retirement Security in the U.S.
      i. Introduction
         1. Why We Care About Public Pensions
         2. What is a Pension
         3. Basics of Pension Design
      ii. History of Public Pensions
         1. Military Roots
         2. Early Challenges
         3. Early State and Local Development
         4. 20\textsuperscript{th} Development
      iii. Public Pension Marketplace
         1. Global Pension Marketplace
         2. U.S. Pension Marketplace
         3. Pension Revenue and Expenditure
         4. Funding
      iv. Retirement Security
         1. What Does It Mean?
         2. Public Pension Role
   b. Required Reading:
      i. *Pension Handbook*, Ch. 1-2, 16
      ii. “Selected Articles:
         1. Global Pension Assets Study” Willis Tower Watson (2020)
         2. “Pension Markets in Focus” OECD (2020)
   iii. Case: None

c. Suggested Reading: None

d. **Guest Speakers**: Ashley K. Dunning, Partner and Co-Chair of the Public Pension & Investments Group at Nossaman LLP; Stephanie Ivy Sanford, Co-Head of Americas Institutional Client Business, Goldman Sachs Asset Management; Tony Johnson, Principal & Director of the Midwest Consulting, RVK, Inc.; Ray Joseph, Chief Investment Officer, Los Angeles Fire & Police Pensions (former); O’Kelly Williams, Partner, Holland & Knight, (former) Chair, Board of Trustees, Virginia Retirement System

2. **Class Two (Monday October 31, 2022)**
   a. Public Pension Designs
      i. Defined Benefit
      ii. Defined Contribution
      iii. Hybrid Designs
      iv. Pension Design Risks
      v. Federal System

   b. Actuarial Valuation Concepts
      i. Basic Concepts
      ii. Demographic Assumptions
      iii. Economic Assumptions
      iv. Actuarial Cost Concepts
      v. GASB Changes

   c. Required Reading:
      i. **Pension Handbook**, Ch. 3-5
      ii. Selected Articles:
      1. “Public Pension Funding Study,” Milliman (2021)

   d. Suggested Reading:
i. **State and Local Pensions**, by Alicia Munnell (Brookings Institute Press 2012), Ch. 3 “The Discount Rate and Other Accounting and Funding Issues” and Ch. 7 “Do Defined Contribution Plans have a Role in the Public Sector”


iii. “Risk Sharing Alternatives for Pension Plan Designs,” by Anna M. Rappaport and Andrew Peterson in *Reimagining Pensions*

e. Guest Speakers: Andrew Palmer, Chief Investment Officer, Maryland State Retirement and Pension System; Larry Johansen, Director of Investments (ret.), New Hampshire Retirement System; Jeremy Wolfson, Chief Investment Officer, Los Angeles Department of Water and Power

3. **Class Three (Monday November 14, 2022)**

   a. Public Pension Governance
      
      i. Common Governance Structures
      
      ii. Common Committee Structure
      
      iii. Board Composition
      
      iv. Governance Research Review
      
   b. Fiduciary Responsibility
      
      i. What/Who Is a Fiduciary?
      
      ii. Sources of Fiduciary Responsibility
      
      iii. Primary Duties
      
      iv. Trustee Liability
      
   c. Required Reading:
      
      i. *Pension Handbook*, Ch. 11-13
      
      
   d. Suggested Reading:
      

e. **Guest Speaker**: Brad Lander, Comptroller, New York City

4. **Class Four (Monday November 21, 2022)**

a. **Overview: Public Pension Portfolio**
   
i. **Investment Policy**
   
   1. Purpose
   
   2. Common Elements

   ii. **Asset Allocation Policy**
   
   1. Why Important
   
   2. How It Is Set

   iii. **Pension Revenue**
   
   1. Investment Returns
   
   2. Contribution Policy

b. **Required Reading:**

   i. [Pension Handbook](#), Ch. 6-10


c. **Suggested Reading:**


d. **Guest Speakers:** Angela Miller-May, Chief Investment Officer, Illinois Municipal Retirement Fund; Kim Lew, President and Chief Executive Officer, Columbia Investment Management Company; Bryan Lewis, Chief Investment Officer, U.S. Steel; Molly Murphy, Chief Investment Officer, Orange County Employees Retirement System

5. **Class Five (Monday November 28, 2022)**

a. **Overview: Public Pension Reform**

   i. **Historical Perspective and State Overview**
   
   ii. **Reducing Pension Costs**
   
      1. Benefit Reductions
      2. Pension Design Shifts
   
   iii. **Increasing Pension Revenue**
   
      1. Contribution Policy
      2. Portfolio Shifts
      3. Alternatives and Private Markets
   
   iv. **Investment Infrastructure**
   
      1. Public Pension Staff
      2. Delegated Authority
      3. Infrastructure Trends
   
   v. **Are Pension Reforms Effective?**

b. **Required Reading:**

   i. **Pension Handbook:** Ch. 14, 15
   
   ii. **Pension Fund Management:** Ch. 6
   
   iii. **Selected Articles:**
   

c. **Case:** “Saving Public Pensions: Rhode Island Pension Reform,” by Andrew Ang (Columbia Caseworks ID#120313)
d. Suggested Reading: None

e. **2022 Guest Speakers**: Shawn Wooden, Treasurer, State of Connecticut; Anastasia Titarchuk, Chief Investment Officer, New York State Common Retirement Fund; Shoaib Khan, Chief Investment Officer, New Jersey Division of Investment

6. **Class Six (Monday December 5, 2022)**

a. Pension Reform & Evolution
   
i. Elements of U.S. Pension Evolution
      1. Prudent Investor Rule and Delegation
      2. U.S. Evolutionary Drivers
   
ii. Canadian Pension Model
      1. Canadian Retirement System
      2. Canadian Pension Evolution
   
iii. Final Exam Review

b. Required Reading:
   
i. *Pension Handbook*, review previously assigned Ch. 14-15
   
ii. Selected Articles:
   

c. Suggested Reading: none

d. **Guest Speakers**: Jimmy Yan, Director of ESG, Office of the New York City Comptroller; Steve Edmundson, Chief Investment Officer, Nevada Public Employees’ Retirement System (tentative); Dipesh Mehta, Deputy Executive Director, Illinois State Board of Investment