Public Pensions and Retirement Security in the U.S.
FINCB8471-1
Fall 2021
W 2:00PM-5:15PM

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Office Hours: Available by appointment
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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. Each class 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 local professionals 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 (to be finalized)**

5. “Saving Public Pensions: Rhode Island Pension Reform” (Columbia Caseworks, 2013)
7. “Asset Allocation at Cook County Pension Fund” (Harvard Business School, revised 2019)
10. “CalSTRS takes on Gun Violence” (Harvard Business School, revised 2011)
11. “Role of Hedge Funds in Institutional Portfolio: Florida Retirement System” (Yale School of Management 2016)
12. Selected research, white papers, and articles (TBD)

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

Class Participation  20%
Cases    50%
Final Exam   30%

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. Successful participation 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, (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 missed. Classes may be videotaped for later viewing. Missing three sessions (50% of the classes) will lead to an incomplete grade for the class.
Cases: There will be 5 cases. Each case is accompanied by a set of questions to be answered in a formal document, written by the group (size TBD). This document must be handed in at the beginning of the class in which the case is discussed. No late assignments are accepted. The total grade for each group will be based on the best four cases; the worst case will not count towards final grade.

Final Exam: The final exam will take place according to the official exam schedule. It will be an open book, written exam, which will primarily test knowledge of the concepts taught in class. The exam should at most take three 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. The class schedule is preliminary and subject to change. 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
   a. Overview: Public Pensions and Retirement Security in the U.S.
      i. Structure of Retirement Security in U.S.
         1. Social Security
         2. Public and Private Pensions
         3. Personal Savings
      ii. History of Public Pensions
      iii. Public Pension Marketplace
   b. Required Reading:
      i. Pension Handbook, Ch. 1-2, 16
      ii. Selected Articles: TBD
      iii. Case: TBD
   c. Suggested Reading: TBD
   d. Guest Speaker or Panel: TBD

2. Class Two
   a. Overview: Pension Design and Actuarial Valuation Concepts
      i. Defined Benefit Model
      ii. Actuarial Valuation Concepts
      iii. Defined Contribution
      iv. Hybrid Designs
   b. Required Reading:
      i. Pension Handbook, Ch. 3-5
      ii. Selected Articles: TBD
      iii. Case: TBD
   c. Suggested Reading: TBD
   d. Guest Speaker or Panel: TBD
3. Class Three
   a. Overview: Public Pension Investment Policy and Portfolio
      i. Pension Revenue
         1. Investment Returns
         2. Contribution Policy
      ii. Investment Policy
      iii. Asset Allocation Policy
      iv. Pension Portfolio
   b. Required Reading:
      i. Pension Handbook, Ch. 6-10
      ii. Selected Articles: TBD
      iii. Case: TBD
   c. Suggested Reading: TBD
   d. Guest Speaker or Panel: TBD

4. Class Four
   a. Overview: Governance Part I
      i. Common Governance Structures
      ii. Governance Research Review
   b. Required Reading:
      i. Pension Handbook, Ch. 11-15
      ii. Selected Articles: TBD
      iii. Case: TBD
   c. Suggested Reading: TBD
   d. Guest Panel: TBD
5. **Class Five**
   a. Overview: Governance Part II
      i. Fiduciary Responsibility
      ii. Delegation and Pension Evolution
      iii. Investment Governance Models
         1. Asset Managers
         2. Consultants
         3. OCIO
         4. Other Service Providers
   b. Required Reading:
      i. *Pension Handbook*, Ch. 13-15
      ii. Selected Articles: TBD
      iii. Case: TBD
   c. Suggested Reading: TBD
   d. Guest Speaker or Panel: TBD

6. **Class Six**
   a. Overview: Public Pension Reform
      i. Funding Challenge
      ii. Pension Reform
      iii. How Effective?
   b. Required Reading:
      i. *Pension Handbook*: n/a
      ii. Selected Articles: TBD
      iii. Case: TBD
   c. Suggested Reading: TBD
   d. Guest Speaker or Panel: TBD