

SUBJECT: PRB monitoring and bond funding of certain public retirement systems

COMMITTEE: Pensions, Investments and Financial Services — favorable, without amendment

VOTE: 5 ayes — Truitt, Creighton, Legler, Nash, Orr

2 nays — Anchia, Veasey

2 absent — C. Anderson, Hernandez Luna

SENATE VOTE: On final passage, April 13 — 31-0

WITNESSES: For — None

Against — (*Registered, but did not testify*: Mike Higgins, Texas State Association of Firefighters; T.J. Patterson, City of Fort Worth)

On — Christopher Hanson, Pension Review Board

DIGEST: SB 1612 would require the Pension Review Board (PRB) to prepare an annual report about the investments of public retirement systems that administer defined benefit plans and have at least \$100 million in total assets. The bill would establish the required contents of these reports and require that the reports be posted on the PRB website each year. The public retirement systems included in the report would have a review and comment period prior to the report's posting. A report to the Legislature or the governor would have to identify any public retirement system that did not provide the required or requested information for the report and any response from such a retirement system.

The bill would allow the PRB to require a public retirement system with at least \$100 million in assets to conduct an actuarial experience study and provide that study to the PRB. The PRB could not require such a study more often than every five years. The bill would remove a prohibition against PRB enforcement of a rule on certain reporting requirements for a PRB review if compliance with that rule would cause a public retirement system to incur a major expense.

The bill also would repeal Local Government Code, ch. 107, thereby revoking a municipality's authority to issue obligation bonds to fund any or all of a pension fund's unfunded liability. The bill would specify that the repeal would not affect the validity of an obligation already issued or diminish or impair the right of an obligation holder.

The bill would take effect September 1, 2011.

**SUPPORTERS  
SAY:**

SB 1612 would ensure the PRB could detect potential problems in the investments of public retirement systems before they became disastrous. The need for strengthened oversight is evident given recent crises in the financial markets. Nationwide, workers have lost substantial savings and had to delay retirements due to insufficient oversight of financial investments. SB 1612 would improve the PRB's ability to assist public retirement systems and help protect Texans' retirement plans.

The bill also would facilitate informed decision-making by state and local policymakers. The annual reports on these systems' investments, which would include rates of return, solvency and cash flow projections, and levels of compliance with internal investment strategies, would allow stakeholders to assess both the absolute success of a given public retirement system and make an apples-to-apples comparison of the retirement system relative to others, prior to making or changing policy.

The bill would improve the transparency of public retirement systems by publishing the proposed reports on the PRB website. These systems hold public funds, so their investment decisions and outcomes should be accessible for public review. Concerns about impaired competition for investments due to the online report posting are unfounded. Private mutual funds post their portfolios online and remain fully able to compete for investments. Eliminating pension obligation bonds, which simply cost-shift debt from one budget column to another, also would increase transparency of a system's operations.

**OPPONENTS  
SAY:**

By requiring public retirement systems' investment portfolios to be posted online in an annual report, SB 1612 would make competition for good investments less dynamic. The bill further would weaken cities' ability to manage their retirement systems efficiently by eliminating the tool of pension obligation bonds.