

SUBJECT: Permissible investment products for employees of political subdivisions

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Tillery, Woolley, Crownover, Salinas, Rangel
0 nays
4 absent — George, Goodman, Telford, Williams

WITNESSES: For — Lisa K. Hargrove, City of Houston; *Registered but did not testify:*
Shanna Igo, Texas Municipal League; Kwame Walker, City of Dallas
Against — None

BACKGROUND: Government Code, sec. 609.101(3) defines a qualified “investment product” for deferred compensation plans for employees of political subdivisions as including a life insurance policy, fixed or variable rate annuity, mutual fund, certificate of deposit, money market account, and passbook savings account.

DIGEST: CSHB 3333 would amend “investment product” to include stocks, bonds, obligations, and any other investment product not prohibited under the U.S. Internal Revenue Code, sec. 457 or 401(k).
This bill would take effect September 1, 2001.

SUPPORTERS SAY: CSHB 3333 would clarify the types of investment products that employees of political subdivisions could invest in through their deferred compensation plans. The Texas Constitution, Art. 11, sec. 3 prohibits governmental entities from buying stocks, bonds, and other investment products. For a time, the money in deferred compensation plans of government entities was viewed as belonging to those entities. However, the federal government clarified a few years ago that this money belongs to the employees and is held in trust for them. Thus, employees are not prohibited from buying these investment products, and state law should be amended to reflect this. State employees already can investment in these products through their deferred compensation plans.

The deferred compensation industry has evolved in such a way that the current definition of “investment product” is outdated. CSHB 3333 would allow municipalities and other government entities to allow their employees who participate in deferred compensation plans to invest in stocks and other investment products. Employees have become more sophisticated in investing and want the option to buy stocks, bonds, and other investment products.

CSHB 3333 would ensure that the statutory definition of “investment product” remains up-to-date by tying it to the Internal Revenue Code. Any changes made in the federal code would apply to state law, keeping the two codes in congruity.

OPPONENTS
SAY:

No apparent opposition.

NOTES:

The committee substitute modified the language of the filed version to conform to the Texas Legislative Council style and format.