SUBJECT: Requiring outside audits of public retirement systems every five years

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 4 ayes — Truitt, Burnam, Macias, Rodriguez

0 nays

3 absent — Villarreal, McClendon, Keffer

WITNESSES: For — None

Against — None

On — Kevin Deiters, Office of the Fire Fighters Pension Commissioner, Texas Emergency Services Retirement System; Virginia "Ginger" Smith, Pension Review Board

DIGEST: CSHB 2664 would require a qualified independent actuary to audit the actuarial valuations, studies, and reports of public retirement systems every five years. The bill would not apply to the Employees Retirement System, the Teacher Retirement System, the Texas County and District Retirement System, the Texas Municipal Retirement System, or the Judicial Retirement System of Texas Plan Two.

Before issuing a final report, the actuary would have to discuss the preliminary findings of the audit with the retirement system, which would have to maintain a copy of the final audit at its main office for public inspection and submit copies to the Texas Association of Public Retirement Systems (TEXPERS) and the State Pension Review Board no later than 30 days after the day the final audit report was accepted by the retirement system.

The first audit would have to be conducted by September 1, 2008, and would have to include an audit of each actuarial valuation, study, and report of the public retirement system that was prepared for that system in the preceding five years.

The bill would take effect September 1, 2007.

SUPPORTERS SAY:

CSHB 2664 would help shore up the state's public pension system by requiring regular outside audits of all but the largest plans by a qualified independent actuary. This would provide another layer of information that TEXPERS and the State Pension Review Board could use to evaluate the health of the plan.

Currently, the quality of actuarial assessments, peer review, and other methods of determining the health of the state's smaller and medium-sized pension funds varies from plan to plan. Requiring every plan to have an outside audit every five years would bring more consistency to the overall system and would provide regulators with the tools they need to determine whether a particular plan may be in trouble.

The bill would not cause significant hardship because most plans already conduct some sort of regular audit or peer review to evaluate the condition of the plan. Requiring an outside audit by an independent actuary would improve the quality and consistency of information available to state regulators responsible for oversight of these plans.

OPPONENTS SAY:

Public retirement systems already are required conduct regular audits and other "spot checks" to evaluate the health of their plan. Requiring a regular outside audit would impose an additional expense and reporting requirement on small systems that already may be conducting some form of audit.

NOTES:

The author plans to offer a floor amendment that would:

- limit the requirements in the bill to funds that have assets of $100 million or more;
- require sponsoring governmental entities to pay for the outside audit;
- require private information to remain private;
- require communication between the system and the auditor at the beginning as well as the end of the audit;
- require that the results of the audit be presented at an open meeting of the system board; and
- specify that only the most recent actuarial assessment would be audited.

The committee substitute exempted the large retirement systems from the audit requirement and removed rulemaking authority from TEXPERS.