

- SUBJECT:** Evaluating the performance of public retirement systems
- COMMITTEE:** Pensions, Investments and Financial Services — committee substitute recommended
- VOTE:** 7 ayes — Anchia, Parker, Muñoz, Perez, Rogers, Stephenson, Vo
- 0 nays
- 2 absent — Capriglione, Slawson
- SENATE VOTE:** On final passage, April 19 — 31-0, on Local and Uncontested Calendar
- WITNESSES:** For — None
- Against — None
- On — Anumeha Kumar, Pension Review Board; (*Registered, but did not testify*): Brian Guthrie, Teacher Retirement System of Texas)
- BACKGROUND:** Government Code sec. 802.109 requires a public retirement system to select an independent firm with substantial experience in evaluating institutional investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices.
- Interested parties have called for greater transparency and oversight of the relationship between the state's public retirement systems and the independent investment firms responsible for evaluating their investment practices and performance. Some also have suggested that the Pension Review Board should establish a program to evaluate and grade public retirement systems in Texas.
- DIGEST:** CSSB 1372 would amend the requirements for an evaluation of a public

retirement system's policies, practices, and performance by an independent firm so that the evaluation had to include:

- a summary of the independent firm's experience in evaluating institutional investment practices and performance and a statement that the firm's experience met the required experience;
- a statement indicating the nature of any existing relationship between the independent firm and the public retirement system and confirming that the firm and any related entity were not involved in directly or indirectly managing the investments of the system;
- a list of the types of remuneration received by the independent firm from sources other than the public retirement system for services provided to the system; and
- a statement identifying any potential conflict of interest or any appearance of a conflict of interest that could impact the analysis included in the evaluation due to an existing relationship between the independent firm and the public retirement system or any current or former member of the governing board of the system; and
- an explanation of the firm's determination regarding whether to include a recommendation for certain evaluated matters.

**Preliminary evaluation report.** By the 30th day after the date an independent firm completed an evaluation of a public retirement system, the firm would be required to:

- submit to the retirement system for purposes of discussion and clarification a substantially completed preliminary draft of the evaluation report; and
- request in writing that the system, within 30 days of receiving the draft, submit to the firm a description of any action taken or expected to be taken in response to a recommendation in the evaluation and any written response of the system that the system wanted to accompany the final evaluation report.

**Final evaluation report.** The independent firm would be required to file

the final evaluation report, including the evaluation results and any response received from the public retirement system, with the governing body of the system not earlier than the 31st day after the date on which the preliminary draft was submitted to the system and not later than the 60th day after the date the preliminary draft was submitted to the system or May 1 in the year following the year in which the system was evaluated, whichever was later.

A governmental entity that was the employer of active members of an evaluated public retirement system could pay all or part of the costs of the evaluation. The public retirement system would be required to pay any remaining unpaid costs.

**Grading program.** The bill would require the Pension Review Board (PRB) by rule to establish a grading program by which the board evaluated each public retirement system and assigned a numerical grade to the system based on the system's performance in carrying out the system's duties under Texas law, including the system's procedures and capacity for satisfying accrued obligations.

The grading program established by PRB would have to include the adoption of a rating schedule for use in the evaluation and grading of each public retirement system. The rating schedule would have to be based on a point system that measured, in accordance with PRB's funding guidelines and nationally accepted standards for the operation of a public retirement system, a system's funding, investment program, and governance by using certain metrics.

The rating schedule adopted by PRB would have to account for a public retirement system's efforts to measure and reduce financial and other risks to the system by implementing practices such as stress testing, scenario analysis, and asset-liability studies.

**Other provisions.** The bill would exempt a defined contribution plan and a retirement system plan organized under the Texas Local Fire Fighters Retirement Act for an all-volunteer fire department from the bill's

provisions related to the grading program.

The bill would take effect September 1, 2021, and would apply only to an evaluation commenced on or after that date.