

BILL ANALYSIS

Senate Research Center
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C.S.S.B. 509
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State Affairs
3/20/2017
Committee Report (Substituted)

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Recently, some public retirement systems' investment practices have been scrutinized.

S.B. 509 requires a public retirement system to have an independent firm evaluate the retirement system's investment practices and performance.

S.B. 509 increases transparency, strengthens oversight, and prevents retirement systems from self-inflicted investment catastrophes that jeopardize their members' benefits. Furthermore, by reporting this information to the State Pension Review Board (PRB), it enables PRB to: (1) conduct better investment analysis of systems; (2) provide assistance to systems; (3) provide comparative investment strategy data among peer systems; and (4) help foster informed decision making. (Original Author's / Sponsor's Statement of Intent)

C.S.S.B. 509 amends current law relating to the evaluation and reporting of investment practices and performance of certain public retirement systems.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 801.209(a), Government Code, to require the State Pension Review Board (PRB), for each public retirement system (PRS), to post on PRB's Internet website, or on a publicly available website that is linked to PRB's website, the most recent data from reports received under Section 802.109, among certain other sections.

SECTION 2. Amends Section 802.103(a), Government Code, as follows:

(a) Requires the PRS's annual report to include, among certain other information, a listing, by asset class, of all direct and indirect commissions and fees paid by the PRS during the PRS's previous fiscal year for the sale, purchase, or management of PRS assets, and the names of investment managers engaged by PRS. Deletes existing text providing an exception under Subsection (c) (repealed). Makes nonsubstantive changes.

SECTION 3. Amends Subchapter B, Chapter 802, Government Code, by adding Section 802.109, as follows:

Sec. 802.109. INVESTMENT PRACTICES AND PERFORMANCE REPORTS. (a) Requires that a PRS, except as provided by Subsection (d), select an independent firm with substantial experience in evaluating institutional investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the PRS's investment practices and performance and make recommendations for improving the PRS's investment policies, procedures, and practices. Requires each evaluation to include an analysis of any investment policy or strategic investment plan adopted by the PRS and the PRS's compliance with that policy or plan, a detailed review of the PRS's investment asset allocation that includes certain information, a review of the appropriateness of

investment fees and commissions paid by the PRS, a review of the PRS's governance processes related to certain investment activities, and a review of the PRS's investment manager selection and monitoring process.

(b) Authorizes the governing body of a PRS to determine additional specific areas to be evaluated and to select particular asset classes on which to focus, but requires that the first evaluation be a comprehensive analysis of the PRS's investment program that covers all asset classes.

(c) Requires a PRS to conduct the evaluation once every three years, if the PRS has total assets the book value of which, as of the last day of the last fiscal year considered in an evaluation, was at least \$100 million; or once every six years, if the PRS has total assets the book value of which as of the last day of the last fiscal year considered in an evaluation was at least \$30 million and less than \$100 million.

(d) Provides that a PRS is not required to conduct the evaluation described by Subsection (a) if the PRS has total assets the book value of which, as of the last day of the preceding fiscal year, was less than \$30 million.

(e) Requires that a report of an evaluation be filed with the governing body of the PRS not later than December 1 of each year in which the PRS is evaluated.

(f) Requires the governing body of a PRS, not later than the 31st day after the date the governing body receives a report of an evaluation under this section, to submit the report to PRB.

(g) Requires a PRS to pay the costs of each evaluation.

(h) Requires PRB, not later than February 1 of each year, to submit an investment performance report to the governor, lieutenant governor, speaker of the house of representatives, and the legislative committees having principal jurisdiction over legislation governing PRSs. Requires that the report compile and summarize the information received under this section by PRB during the preceding calendar year.

(i) Provides that a report of an evaluation by the Teacher Retirement System of Texas (TRS) and an investment report that includes TRS under this section satisfies the requirements of Section 825.512 (Investment Practices and Performance Reports).

SECTION 4. Requires that a report of the first evaluation of a PRS, as required by Section 802.109, Government Code, as added by this Act, notwithstanding Section 802.109(c), Government Code, as added by this Act, be filed with the governing body of the PRS not later than January 1, 2018.

SECTION 5. Effective date: upon passage or September 1, 2017.