

BILL ANALYSIS

C.S.H.B. 1061

By: Otto

Pensions, Investments & Financial Services
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Several years ago, the Texas Legislature enacted legislation authorizing the Teacher Retirement System of Texas (TRS) to buy and sell investments commonly used by pension funds to efficiently manage and reduce the risk of the overall investment portfolio. The list included futures contracts, options, options on futures contracts, forward contracts, and swap contracts, including swap contracts with embedded options, and any other financial instrument commonly used by institutional investors to manage institutional investment portfolios. The vast majority of public and private pension funds similar in size to TRS manage their portfolio risk through these or similar investment instruments. The legislation also authorized TRS to use external managers to manage a portion of the fund, another feature common to the vast majority of public and private pension plans.

However, the measure placed an expiration date of September 1, 2012, on this authority in order to allow the legislature to review the results. The state auditor's office recently released a report in which the state auditor concluded that TRS's external manager program, its use of derivatives, and its hedge fund portfolio are managed by the TRS investment management division in a professional manner with apparent due professional care, supporting the case for allowing these programs to continue as deemed appropriate by the TRS board of trustees in consultation with the investment management division staff and the board's external investment consultants.

C.S.H.B. 1061 postpones until September 1, 2019, the expiration date for TRS's authority to buy and sell investments used by pension funds only to efficiently manage and reduce the risk of the overall investment portfolio and for the authority to use private professional investment managers.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 1061 amends the Government Code to postpone from September 1, 2012, to September 1, 2019, the expiration date for a provision authorizing the Teacher Retirement System of Texas (TRS) board of trustees to buy and sell certain types of contracts, options, and financial instruments for the limited purpose of efficiently managing and reducing the risk of the overall investment portfolio. The bill postpones from September 1, 2012, to September 1, 2019, the date on or after which the TRS board of trustees is prohibited from contracting for the performance of investment and management services.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2011.

COMPARISON OF ORIGINAL AND SUBSTITUTE

C.S.H.B. 1061 differs from the original by postponing the expiration date for the Teacher Retirement System of Texas (TRS) board of trustees' authority to buy and sell certain types of contracts, options, and financial instruments from September 1, 2012 to September 1, 2019, whereas the original removes the expiration date altogether.

C.S.H.B. 1061 differs from the original by postponing from September 1, 2012, to September 1, 2019, the date on or after which the TRS board of trustees is prohibited from contracting for the performance of investment and management services, whereas the original removes the prohibition altogether.