

HB 1585

HOUSE COMMITTEE ON PENSIONS, INVESTMENTS & FINANCIAL SERVICES

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Hearing Date: March 24, 2021 8:00 AM

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Steven Gassenberger

Reason Foundation

Houston, TX

Chairman Anchia, members of the committee, thank you for the opportunity to offer a brief analysis of House Bill 1585.

My name is Steven Gassenberger, and I serve as a policy analyst with the Pension Integrity Project at Reason Foundation based in Houston.

Building on Sunset Commission staff recommendation 3.3 and HB 1585, it is our opinion that TRS and its membership, as well as every other state sponsored public pension member and system in Texas, would benefit from two annual reports regarding the system's alternative investment holdings. According to the Sunset Commission staff report, TRS has increased its alternative investments from 20% of the fund in fiscal year 2009 to 46% in fiscal year 2019. Because general partners often charge high fees, it is likely that this shift to alternative investments has increased TRS' investment costs.

A Private Equity Portfolio Performance report would make public specific information regarding the private equity holdings of TRS for third-party monitoring and evaluation. The report takes the form of a simple six column table populated with the following data points per holding:

1. Name of Each Investment Vehicle
2. Date of Each Investment
3. Amount of Capital Committed
4. Amount of Capital Contributed
5. Amount of Capital Distributed
6. Internal Rate of Return (Annualized Return Estimate on Capital Invested)

This level of transparency is provided by other similar sized public pension systems in similar sized states, such as California State Teachers' Retirement System (CalSTRS). CalSTRS' publishes a report which can be found at [www.calstrs.com](http://www.calstrs.com), that list these data points in a stakeholder friendly format. CalSTRS' private equity performance report, including the internal rate of return, is maintained internally by CalSTRS and published annually.

An Investment Cost Report directly addresses the issue on opaque fee reporting associated with alternative assets by directly outlining the fees and another expenses a pension system incurs in the process of managing its portfolio. Again, CalSTRS offers a model, producing a report showing investment costs by type and asset category. An example report can be found at [resources.calstrs.com](http://resources.calstrs.com). Reporting this ratio analysis to show cost effectiveness of the total fund, asset classes and strategies over time provides a quantitative metric to compare costs against the returns generated from those costs.

The benefits of TRS members are paid from net returns and not from gross returns. Since increased investment costs reduce net returns, fees and expenses should be consistently monitored and managers held accountable for the effectiveness of investments relative to the overall growth and resiliency of TRS as a long-term provider of pension benefits to Texas educators. Please find our full comments and additional analysis at [reason.org/texas-pensions](http://reason.org/texas-pensions).

Craig Campbell

TRTA

Austin, TX

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Retired teachers very much support this Legislation which requires that an ombudsman improving communications with the administration of TRS.

Craig Campbell

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Austin, TX

Retirees desperately need a COLA. Nearly one-third of retirees receive less than \$1000 a month.