



Weekly Clips, August 26, 2016
Texas Pension Review Board
P.O. Box 13498 Austin, TX 78711-3498
www.prb.state.tx.us

PRB PLANS

City Council should negotiate carefully in weighing pension fund bailout

August 19, 2016, By Staff Writer

The Dallas Police and Fire Pension System has the city over the barrel. It's asking for a billion-dollar bailout to stave off insolvency, and the city has little choice but to seriously consider forking over the cash.

The pension fund cannot be allowed to fail, because police officers and firefighters whose retirement benefits disappear will start looking for other work. We can't afford to let that happen.

But that doesn't mean that the Dallas City Council must accept the proposal put forth by the pension fund. It has proposed trimming some generous retirement perks, upping current workers' contributions to their plan from about 8.25 percent to, eventually, 12 percent. The city would see its own contributions jump to 28.5 percent of compensation as well.

[The Dallas Morning News](#)

This May Be One “Discount” That’s not So Appealing

August 23, 2016, By Richard A. Ciccarone

Earlier this month, MuniNet reported that most city pension plan funding ratios took a positive bounce based on results found in 2015 city audit reports. We cited the elimination of asset valuation multi-year smoothing, the relative improvement investment returns going into the year and a sprinkling of pension reforms as the primary reasons for improvements. That's the good news; but, there is another side of the picture that needs to be considered. The elimination of asset value smoothing means that funding ratios are much more volatile than they have been in the past. While the simple explanation for sharper movements in pension funding conditions is tied to the elimination of asset valuation smoothing, the longer term outcome for funding adequacy relies heavily on the capability of investment returns to keep up with the high bar set by hopeful discount rates (i.e. investment return) embedded into most public pension plans.

Since public pension asset valuations reported in a government's Comprehensive Annual Financial Report (CAFR) often apply to the pension plan's measurement period that took place in the previous fiscal year, many FY 2016 audits will be capturing into their equations the results of the weak stock and bond market that transpired in 2015. So, it should come as no surprise public pension funding ratios will likely be down when next year's funding ratios are compiled.

[MuniNet Guide](#)

Texas Employees eyes \$750 million in private equity commitments for next fiscal year

August 23, 2016, By Christine Williamson

Texas Employees Retirement System, Austin, approved a tactical investment plan for fiscal year 2017 to commit \$750 million total to between six and 10 private equity funds, including co-investments, for its \$2.5 billion private equity portfolio.

As of June 30, ERS had committed a total of \$744 million to new private equity strategies this fiscal year, meeting materials for the board's Aug. 16 meeting showed.

All of the \$24.7 billion pension fund's commitments to private equity funds (excluding co-investments) in the coming fiscal year starting Sept. 1 will be to buyout managers, said Wesley Gipson, director of private equity, in a video of the board meeting.

Pensions & Investments

City extends firefighters' pact

August 24, 2016, By Rebecca Elliott

City Council extended Houston's contract with the local firefighter's union another six months on Wednesday, even as some council members worried about forgoing possible savings by doing so.

The city failed two years ago to reach a new labor deal with the union, meaning the terms of its 2011 contract have remained in place but would have expired at the end of the year. The terms now last through next June.

Houston Chronicle

El Paso City Employees puts Franklin Templeton, Vulcan Value on watch

August 24, 2016, By Meaghan Kilroy

El Paso (Texas) City Employees Pension Fund put equity and fixed-income manager Franklin Templeton (BEN) Investments (BEN) and equity manager Vulcan Value Partners on watch for performance, said Robert Ash, pension administrator and legal adviser of the \$700 million pension fund, in an e-mail.

Franklin Templeton is on watch for an international equity strategy and a global-plus fixed income strategy. Vulcan Value Partners is on watch for an all-cap equity strategy.

Pensions & Investments

TEXAS ECONOMIC INDICATORS

Texas employers now hiring at highest rate this year

August 19, 2016

Hiring for Texas workers picked up in July as the state's economy is expected to rebound after a sluggish start to the year, according to the Federal Reserve Bank of Dallas.

Roughly 21,700 jobs were added in July, up from a revised 16,700 in June, the Dallas Fed reported Friday. The amount of jobs added in June was revised upward by almost 6,000.

Hiring has slowed compared to 2015 and is forecasted to reach a little more than half the pace of last year. But jobs were added at the highest rate yet this year in July, the Dallas Fed said.

[Dallas Business Journal](#)

Oil-rich Texas sees slight employment gains

August 22, 2016, By Daniel J. Graeber

While some sectors are still seeing obvious pressure, employment data in Texas show the economy is showing signs of improvement, a federal bank said.

A survey from the Federal Reserve Bank of Dallas found the state added a seasonally adjusted 21,700 jobs in July.

"Recent data suggest that the Texas economy has improved and that growth in the second half of the year will be much better than in the first half," Keith R. Phillips, a senior economist with the bank, said in a statement. "In July, jobs grew at their fastest pace so far this year and June growth was revised up by almost 6,000 jobs."

[UPI](#)

LEGAL PROCEEDINGS, LAWS & REGULATIONS

Morgan Stanley Sued Over 401(k) Fees, Funds

August 19, 2016, By Jacklyn Wille

A new lawsuit accuses Morgan Stanley of forcing high-fee and poorly performing in-house investment funds on the employees in its 401(k) plan (*Patterson v. Morgan Stanley*, S.D.N.Y., No. 1:16-cv-06568, complaint filed 8/19/16).

In a class action complaint filed Aug. 19, a former participant in Morgan Stanley's \$8 billion 401(k) plan contends that the company treated the plan as an opportunity to promote its own mutual fund business and maximize profits at the expense of its employees. Morgan Stanley is also accused of charging higher mutual fund fees to its own employees than it charges to outside investors.

[Bloomberg BNA](#)

New target for fiduciary lawsuits

August 22, 2016, By Robert Steyer

Nearly a dozen of the nation's best known universities are facing litigation over their 403(b) plans, accused of similar fiduciary-duty breaches that have bedeviled 401(k) plan sponsors.

In recent weeks, Duke University, Johns Hopkins University and other big-name private universities have been sued by participants represented by the St. Louis law firm of Schlichter Bogard & Denton.

Jerome Schlichter, the founding and managing partner, is well-known for suing 401(k) plans over alleged mismanagement and high fees, negotiating multimillion-dollar settlements that include \$62 million with Lockheed Martin Corp. and \$57 billion with Boeing Co., both in 2015.

[Pensions & Investments](#)

California court opens door to changing public employee pensions

August 22, 2016, By Dan Walters

California's perpetual debate over public employee pensions has always revolved about what's called the "California rule" - a series of court decisions that seemingly prohibit any changes in pension benefits once they are granted.

The debate has intensified in recent years as the California Public Employee Retirement System and other state and local pension systems grapple with multibillion-dollar "unfunded liabilities" for pension benefits and increase mandatory payments from governments to reduce them.

[The Sacramento Bee](#)

College Litigation Frenzy Highlights Perils of Choice

August 23, 2016, By Jacklyn Wille

The recent round of lawsuits against college retirement plans is noteworthy for many reasons: the prominent schools targeted, the billions of dollars at issue and the big-name law firm behind it all.

Somewhat lost in all the coverage, however, is a factor just as significant as the flashy names and big dollars: the idea that a retirement plan sponsor can face legal liability for giving plan participants too many choices.

Each of the colleges sued this month, from Yale to Johns Hopkins to Northwestern, is accused of including too many investment options in the retirement plans they offer to employees. According to the complaints filed by Schlichter Bogard & Denton, the law firm leading the decadelong litigation charge against 401(k) plan fees, a reasonable number of investment options for a billion-dollar plan is about 15. Duke and Johns Hopkins are accused of having 400 and 440 funds, respectively, and the other targeted schools aren't far behind.

[Bloomberg BNA](#)

Judge scolds Bevin for 'strong arm tactics'

August 23, 2016, By Tom Loftus

Franklin Circuit Judge Phillip Shepherd on Monday temporarily restored Thomas Elliott as a member of the Kentucky Retirement Systems Board of Trustees and scolded the Bevin administration for using "lawless, strong arm tactics" to block Elliott from participating in a board meeting in May.

But in the same 20-page order, Shepherd allowed to stand - again, temporarily - sweeping changes including new transparency requirements that Bevin ordered for the Kentucky Retirement Systems last spring.

[Courier-Journal](#)

Bevin will appeal block of pension board chair's removal

August 23, 2016, By Brad Bowman

Gov. Matt Bevin will appeal Franklin Circuit Judge Phillip Shepherd's ruling reinstating the former chair of the Kentucky Retirement Systems Board of Trustees, according to his attorney Steve Pitt.

Pitt appeared in Franklin Circuit Court Tuesday for a pretrial conference over Bevin's June executive order abolishing the University of Louisville's board.

After the hearing, Pitt said the governor would appeal former KRS Board of Trustees Chair Tommy Elliott's appointment back to the new board. Bevin removed Elliott by executive order in April and threatened to have Kentucky State Troopers arrest him at a KRS meeting in May.

[The State Journal](#)

California Aims Retirement Plan at Those Whose Jobs Offer None

August 25, 2016, By Mary Williams Walsh

California is preparing to create a mandatory state-run retirement plan for an estimated six million workers at companies that do not now offer any retirement benefits.

The move could make California the first state to require companies to take part in such a system. Colorado was considering the idea but decided against it in May, and New Jersey and Washington have opted instead for programs with very limited state involvement. But Connecticut, Oregon, Maryland and Illinois are moving forward with their own state-run retirement programs and are looking to California as an example.

[The New York Times](#)

Puerto Rico's Pensions: \$2 Billion in Assets, \$45 Billion in Liabilities

August 25, 2016, By Nick Timiraos

San Juan, Puerto Rico- One of the thorniest tasks awaiting a seven-member board charged by Washington with cleaning up Puerto Rico's debt crisis is deciding how to balance a \$70 billion debt load with nearly \$43 billion in unfunded pension liabilities.

The issue is coming to a head now because the White House is set to name as soon as next week the members of that oversight board, drawn from lists of candidates submitted by congressional leaders in both parties.

[The Wall Street Journal](#)

Labor Department finalizes rules for state-run private-sector retirement programs

August 25, 2016, By Hazel Bradford

The Department of Labor issued final rules Thursday that clear the way for states to set up payroll deduction IRA accounts for private-sector workers who do not have access to workplace retirement savings programs. DOL officials also proposed a rule that would allow many other governmental entities to offer their own programs.

The final rules, by clarifying that such programs would not be covered by ERISA, remove the hesitation that some states have expressed about being pre-empted by federal regulators. So far, eight states - California, Connecticut, Illinois, Maryland, New Jersey, Oregon, Massachusetts, and Washington - have passed laws to create state-administered retirement savings programs for private-sector workers. %t just gives a big boost to state activity overall,+ said John Scott, director of Pew Charitable Trusts retirement savings project, in an interview.

[Pensions & Investments](#)

NATIONAL ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

Between a rock and a hard place

August 22, 2016, By Randy Diamond

As public pension plans disclose a second consecutive fiscal year of lackluster returns, amid projections of diminished investment earnings for the next decade, more public asset owners will have little choice but to lower rate of return expectations, consultants and analysts said.

U.S. public pension plans earned a median return of 1.07% in the fiscal year ended June 30, according to the Wilshire Trust Universe Comparison Service, worse than the median 3.43% in the prior fiscal year. It is the second year in a row that returns were nearly flat and well below the yearly 7.5% return target of many plans.

Pensions & Investments

Connecticut Treasurer Calls for Re-Evaluation of Pension Returns

August 22, 2016, By Martin Z. Braun

Connecticut Treasurer Denise Nappier said the 0.35 percent return posted by the state's \$29 billion retirement system in the year that ended in June underscores the need to adopt more realistic investment assumptions.

The teachers' and state employees' funds, Connecticut's two biggest pensions, target an 8 percent annual return. Such retirement plans are being forced to re-evaluate projected investment gains that determine how much money taxpayers need to put into them, given record-low bond yields, slow economic growth and declining stock prices.

Bloomberg

Va. retirement panel to take hard look at high-fee alternative investments

August 22, 2016, By Michael Martz

House Speaker William J. Howell says a new state commission will take a hard look at the fees the Virginia Retirement System pays to outside managers of an increasingly broad array of investments, as the state considers whether to lower its expectation for market returns to pay long-term pension liabilities.

"We're spending millions and millions of dollars on investments. I'd like to know if we're getting our money's worth," Howell, R-Stafford, told the Virginia Commission on Retirement Security & Pension Reform, which met Monday for the second time since its creation this year at his urging.

Richmond Times-Dispatch

Illinois Officials: Pension Change Could Be 'Devastating'

August 24, 2016, By The Associated Press

Gov. Bruce Rauner's administration says a pending move by Illinois' largest public-pension fund would increase the state's required payment by hundreds of millions of dollars, potentially leading to higher taxes or massive cuts to education and social services already suffering amid a budget crisis.

The board of the Teachers Retirement System, which serves more than 400,000 teachers outside of Chicago, is scheduled to vote Friday on whether to lower its expected rate of return on investments. A

reduction would trigger a larger contribution from the state, where the Republican governor and Democrat-led Legislature have gone more than a year without agreeing on how to close a multibillion-dollar budget hole or address a \$111 billion unfunded pension liability.

[The New York Times](#)

Time for a Pension Protection Act of 2016/17

August 25, 2016, By Robert Powell

Ten years ago . on Aug. 17, 2006 . President George W. Bush signed into law the Pension Protection Act of 2006 (PPA). It was, according to a recent post by former Sen. Kent Conrad (D-N.D.) and James B. Lockhart III, the co-chairs of the Bipartisan Policy Center's Commission on Retirement Security and Personal Savings, the last major piece of retirement security legislation enacted in the U.S.

And it was a good thing. It was a major step forward and has helped millions of Americans save for their own retirement,+Conrad and Lockhart wrote. Read President Bush Signs H.R. 4, the Pension Protection Act of 2006.

[Market Watch](#)

Jobless Claims in U.S. Decline to Lowest Level in Five Weeks

August 25, 2016, By Patricia Laya

The number of Americans filing applications for unemployment benefits fell to the lowest level in five weeks, another sign of endurance in the labor market.

Jobless claims dropped by 1,000 to 261,000 in the week ended Aug. 20, a report from the Labor Department showed on Thursday. The median forecast in a Bloomberg survey of economists was for 265,000.

[Bloomberg](#)

The Week in Public Finance: Pensions' Funding Gap, An Assault on Fees and More

August 26, 2016, By Liz Farmer

A new analysis of state public pension plans this week shows that only 1 in 3 states are actually on a path to reduce their unfunded liabilities.

The report, by the Pew Charitable Trusts, used a new metric called net amortization, which essentially measures whether a pension plan's accounting assumptions and payment schedule are holding up over time. Only 15 states are achieving positive amortization, according to Pew. In other words, they're

following contribution policies that are sufficient to pay down pension debt. The remaining 35 states are facing negative amortization, or are following contribution policies that allow the funding gap to continue to grow.

[Governing](#)

WORLDWIDE ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

Canada quietly treads radical path on pensions

August 24, 2016, By Mary Childs and John Authers

Half a decade ago, the top brass of New York City's comptroller's office hopped on a plane to learn from a Canadian pension plan. Then-mayor Michael Bloomberg and comptroller John Liu sent their deputies to study the model of their northern neighbors in an effort to develop a reform plan for the city's five separate pensions.

When it comes to investing retirees' funds, the Canadian model means building strong in-house teams and empowering them to make unorthodox decisions.

Financial Times

UK IFA ordered to pay client over Arch Cru pension transfer

August 24, 2016, By Monira Matin

UK-based IFA firm Tenet must compensate a client for advising him to transfer his pension into the doomed high-risk Arch Cru fund, which lost investors up to £361m (\$462m, "408m).

According to a ruling by the Financial Ombudsman Service (Fos), advisers at the firm persuaded a client to transfer his pension in 2006 from Standard Life to Transact. Investments in his Transact pension consisted of the ill-fated Arch Cru portfolio fund, which went into liquidation in 2011

International-Adviser

World's biggest pension fund blames \$52 billion quarterly loss on Brexit

August 26, 2016, By Leo Lewis

The world's largest pension fund has blamed a \$52 billion quarterly investment loss on the UK's surprise Brexit vote in June to leave the European Union.

The massive paper losses suffered by Japan's Government Pension Investment Fund (GPIF) in the April to June quarter of 2016 almost matched the \$50 billion losses it recorded in the 2015-16 financial year - its worst year since the global financial crisis.

CNBC

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