



Weekly Clips, December 15, 2017
Texas Pension Review Board
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PRB PLANS

Another Blow To TRS-Care: Retired Teachers Are Leaving The System In Droves

December 11, 2017, By Jill Ament

Earlier this year there were fears that the 32-year-old health care system that covers hundreds of thousands of retired teachers was approaching a death spiral. The Teacher's Retirement System's TRS-Care was expected to experience a shortfall in excess of \$1 billion.

Lawmakers came to the rescue with an infusion of cash – a temporary patch intended to shrink the system's deficit to \$700 million. But now, the Austin American-Statesman reports on another threat to the program – retired teachers are leaving it in droves.

KUT

Texas Employees looks to commit up to \$1.45 billion to private equity this fiscal year

December 14, 2017, By Christine Williamson

Texas Employees' Retirement System, Austin, aims to commit up to \$1.45 billion to private equity strategies in the fiscal year ending Aug. 31, 2018.

Trustees of the \$27.8 billion fund accepted the recommendation of investment staff to commit a total of between \$600 million and \$1.45 billion to private equity, excluding co-investments and funds of funds, during a meeting Tuesday.

Pensions & Investments

TEXAS ECONOMIC INDICATORS

Climate change to affect city and state credit ratings

December 12, 2017, By Express-News Editorial Board

Cities and states, take note. Climate inaction could lower your credit rating. A recent report from Moody's explains how the rating agency will assess climate change risk for states and cities. Risk indicators include economic activity along the coast, potential for hurricane and other extreme-weather damage, and the number of homes in a floodplain.

Moody's didn't identify cities in its report, but Texas is one of the states deemed most vulnerable to climate change. Not surprising since Texas has tremendous economic activity along the Gulf Coast and is prone to all sorts of extreme weather across the state.

My San Antonio

Dallas' Innovative Economy Could Compete With Silicon Valley

December 14, 2017, By Michael Cox and Richard Alm

In recent decades, DFW has proved its ability to innovate and evolve. Since the Oil Bust of the 1980s, North Texas has diversified greatly, becoming less dependent on energy and allied businesses. When oil prices cratered in 2014, DFW had enough healthy sectors to keep growing and adding jobs.

At least 60 percent of DFW's \$512 billion economy is in five innovation-intensive sectors: finance, manufacturing, professional and business services, education and health care, and information. Innovation has also been reviving traditional sectors. For example, hydraulic fracturing (fracking) got its start in the Barnett Shale formation north and west of Fort Worth.

Dallas Magazine

Perryman: The Long-Term Economic Forecast for Texas

December 14, 2017, By M. Ray Perryman

With all of the key ingredients for economic success, the state is well positioned for expansion in business activity and the prosperity that goes with it for decades to come. However, continued economic performance hinges on adapting to the underlying changes in the population and workforce.

Recently, the Texas economy has also seen notable job growth, adding 316,100 jobs over the past year. The state's seasonally adjusted unemployment rate has fallen to 3.9 percent, the lowest unemployment rate in four decades. Texas has been a growth leader in the nation and, indeed, the world for a number of years. The state weathered the Great Recession and ensuing real estate crisis better than most parts of the United States, survived a major downturn in oil prices and activity, and was adding jobs at a notable pace even before the energy sector (a major export sector) began its recovery. The strength and diversity of the economy will clearly help in dealing with challenges on the horizon.

Rio Grande Guardian

LEGAL PROCEEDINGS, LAWS & REGULATIONS

Representatives introduce electronic disclosure bill for retirement plan information

December 12, 2017, By Hazel Bradford

Bipartisan legislation allowing for electronic disclosure of retirement plan information was introduced Monday by Rep. Jared Polis, D-Colo..

It was unveiled with 28 co-sponsors, including 15 Democrats and 13 Republicans.

The proposed Receiving Electronic Statements to Improve Retiree Earnings (RETIRE) Act would automatically enroll plan participants in electronic delivery. It would require employers to make retirement information easily accessible online, and have protections for employees who prefer to receive paper documents and can opt out.

Pensions & Investments

Tax Reform: House and Senate Have Agreement in Principle on Tax Reform

December 13, 2017, By Ivan H. Golden and Allison K. Pfeifle

U.S. House and Senate Republicans have reached a deal that reconciles the differences between the House and Senate tax reform plans, paving the way for a final vote next week and final passage of tax reform by Christmas. The deal will reduce the top individual income tax rate to 37 percent (from 39.6 percent) and reduce the corporate income tax rate to 21 percent (from 35 percent). Full details of the agreement were not immediately available; however, the tax reform plan is certain to make profound changes to the tax code that will affect all U.S. taxpayers. This article describes some of the key provisions of the House and Senate bills that are likely to be included in some form in the final legislation, and how they will affect individuals and businesses in 2017 and beyond.

[National Law Review](#)

Department of Labor Extends Transition Period for Prohibited Transaction Exemptions Related to Its ERISA Fiduciary Rule

December 13, 2017, By Kenneth A. Hoogstra, Jon D. Finch and Katelyn A. Pellitteri

On November 29, 2017, the Department of Labor (the "DOL") extended the Transition Period for certain prohibited transaction exemptions related to its Fiduciary Rule under the Employee Retirement Income Security Act of 1974 ("ERISA"), including the Best Interest Contract Exemption ("BIC Exemption"), the Exemption for Principal Transactions in Certain Assets Between Investment Advice Fiduciaries and Employee Benefit Plans and IRAs ("PTE Exemption"), and amendments to Prohibited Transaction Exemption 84-24 ("PTE 84-24"). The Transition Period, which was set to end January 1, 2018, will now end eighteen months later on July 1, 2019.

Under Section 3(21)(A)(ii) of ERISA, a person is a fiduciary "with respect to a plan to the extent... he renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of such plan..." For regulatory purposes, the DOL established a five-part test in 1975 to determine whether a person is a fiduciary under ERISA. In the more than 40 years since the DOL established that test, the world of retirement plans has changed dramatically.

[National Law Review](#)

NATIONAL ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

Investors Told to Brace for Steepest Rate Hikes Since 2006

December 10, 2017, By David Goodman

Wall Street economists are telling investors to brace for the biggest tightening of monetary policy in more than a decade.

With the world economy heading into its strongest period since 2011, Citigroup Inc. and JPMorgan Chase & Co. predict average interest rates across advanced economies will climb to at least 1 percent next year in what would be the largest increase since 2006.

As for the quantitative easing that marks its 10th anniversary in the U.S. next year, Bloomberg Economics predicts net asset purchases by the main central banks will fall to a monthly \$18 billion at the end of 2018, from \$126 billion in September, and turn negative during the first half of 2019.

[Bloomberg](#)

US economy is at risk of overheating if rate rises fail to filter

December 10, 2017, By Andrew Wilson

The US Federal Reserve is widely expected to raise interest rates this week by 0.25pc, its third such move in 2017. This will be another step on the US's road to monetary policy normalisation. The new year will see a change in leadership at the Fed, and strong economic conditions are part of the challenge for the central bank.

We anticipate that global economic growth will continue in 2018 – albeit at a reduced pace. This would make the US expansion the second longest on record, within sight of the record-long growth in the Nineties. Indeed, we are a month from the S&P 500 breaking a 66-year record of the longest stretch without a dip of at least 5pc.

[The Telegraph](#)

Gov. Matt Bevin says he might not call special session on pension reform

December 11, 2017, By Associated Press

FRANKFORT, Ky. (AP) — Kentucky's Republican governor acknowledged for the first time Monday that he might not call a special session of the state legislature to overhaul one of the country's worst-funded public pension systems.

Matt Bevin has said repeatedly he would call the legislature back before the end of the year to vote on his proposal. But his plan has garnered significant opposition from state workers, with a handful of public school boards voting to give teachers the day off to travel to the Capitol to protest should Bevin call a special session.

[Courier Journal](#)

Dollar gives up gains on doubts about passage of tax bill

December 12, 2017, By Karen Brettell

NEW YORK (Reuters) - The U.S. dollar gave up earlier gains on Thursday after two lawmakers were reported to seek changes to proposed legislation to overhaul the U.S. tax code in order to garner their support.

U.S. Republican Senator Mike Lee has not decided whether to support a Republican tax bill and wants changes to the child tax credit, an aide to the lawmaker said on Thursday. Both Lee and Republican Senator Marco Rubio want more of the proposed child tax credit to be refundable, Conn Carroll, Lee's communications director said, adding Lee is "undecided on the tax bill as currently written."

[Reuters](#)

Retiree benefit bills get final passage in Michigan Legislature

December 12, 2017, By Kathleen Gray

LANSING — The Legislature gave final approval Tuesday to a watered down version of bills that are designed to ensure municipalities fully fund retiree pension and health care plans.

The final version of the bills, now headed to Gov. Rick Snyder for his signature, merely requires more frequent and detailed reporting to the state of retiree benefit plans in cities, townships, villages and counties. Snyder's spokeswoman Anna Heaton said the Governor still needs to review the final versions, "but he supports the bills as passed."

[Detroit Free Press](#)

Fed raises rates, keeps forecast for 3 hikes in 2018

December 13, 2017, By Paul Davidson

With a notable upgrade to its economic outlook for 2018, the Federal Reserve agreed to raise its key interest rate Wednesday and maintained its forecast for three hikes next year despite sluggish inflation.

As widely expected, the Fed's policymaking committee lifted its benchmark short-term rate by a quarter percentage point to a range of 1.25% to 1.5%. It marked the central bank's third such rate increase this year and a vote of confidence in an economy that has perked up in recent months. Still, it was just the fifth hike since the recovery from the Great Recession began in 2009.

[USA Today](#)

Fed Raises Interest Rates Again As Economy Rolls On

December 13, 2017, By Example

For the third time this year and the fifth time since the financial crisis, the Federal Reserve has increased interest rates another quarter of a point.

Fed policymakers on Wednesday announced an increase in the benchmark federal funds rate to a range of 1.25 percent to 1.5 percent, the third increase in the key rate this year. The move — which will mean higher rates on consumer loans, some mortgages, credit cards and other loans — indicates the central bank is confident in the strength of the economy and ready to push rates to more normal levels.

[Texas Public Radio](#)

U.S.-China Trade Relations Heat Up Post Trump Visit

December 13, 2017, By Robert S. Wang

By official accounts, President Trump's November visit to China went off well with positive atmospherics, including an unprecedented (for a foreign leader) dinner inside the Forbidden City and the signing of over \$250 billion of commercial deals and two-way investment agreements. On the other hand, most western analysts have quickly pointed out that much of this was symbolism since most of the commercial deals were already or projected to be in the pipeline and many of the agreements were in the form of memoranda or letters of intent yet to be finalized. More importantly, they noted that there was no commitment on the part of China to undertake major policy and structural reforms that would significantly open up market access or improve the foreign investment environment in the country.

[The National Law Review](#)

The Finance 202: Wall Street may not get absolutely everything it wants in GOP tax package

December 14, 2017, By Tory Newmyer

We now know the top lines of the tax agreement House and Senate Republicans have hashed out. Chief among them for big companies, the top corporate rate will drop from 35 percent to 21 percent — a tick higher than the 20 percent proposed by the versions of the bill that passed both chambers — and it will take effect next year. That cut forms the core of the bill, and it amounts to a major win for business.

But details critical to the fates of certain industries remain unknown to them. As tax negotiators have twisted the dials on various provisions to ensure the cost of the package doesn't top \$1.5 trillion, the fine print threaten to eat into the benefit of the rate reduction many are by now all but taking for granted.

[Washington Post](#)

Atlanta passes ordinance to consolidate 3 city pension fund boards

December 14, 2017, By Rob Kozlowski

Atlanta's City Council passed an ordinance Wednesday to consolidate the city's three pension fund boards, although it will likely be challenged.

Mayor Kasim Reed's office in a news release announcing the passage of the ordinance cited the consolidation of the boards of the Atlanta General Employees' Pension Fund, Atlanta Firefighters' Pension Fund and Atlanta Police Officers' Pension Fund as the result of a recommendation by a city Blue Ribbon Commission on Waste & Efficiency in Government in 2014.

Pensions & Investments

Callan: More U.S. asset owners incorporating ESG factors into investment decisions

December 14, 2017, By Meghan Kilroy

A growing number of U.S. asset owners have incorporated environmental, social and governance factors into their investment decisions since 2013, said Callan Associates' fifth annual ESG survey, released Thursday.

Across all plan types, 37% of survey respondents reported incorporating ESG factors into their investment decision-making, up from 22% in 2013, the year the survey was first conducted. On the flip side, 60% of funds said they did not incorporate ESG factors in 2017 and 3% said they were unsure.

Pension & Investments

Fees Rise for Underfunded Pensions

December 14, 2017, By Katherine Chiglinsky and Brandon Kochodin

The largest pension plans held by S&P 500 companies face a \$348 billion funding gap. As a result, they're paying higher annual fees to the U.S. Pension Benefit Guaranty Corp., the government agency that backstops plans.

"There's increased awareness that an underfunded plan imposes risk on employees, it imposes risk on shareholders, and it's getting more expensive," says Olivia Mitchell, a professor at the University of Pennsylvania's Wharton School and executive director of the Pension Research Council.

Bloomberg

Investors weighing if industrial real estate's hot streak to continue

December 14, 2017, By Arleen Jacobius

Many investors and managers believe the rise in popularity of online shopping has been a boon for the industrial real estate sector, though some insiders now are starting to wonder if too much capital is moving into the space.

For the near term, the industrial sector still has a sunny outlook, according to a recent review by real estate research firm Green Street Advisors LLC. Demand for industrial properties should exceed supply in 2017 and 2018, and property values are up 1% from last year.

Pensions & Investments

Debt-Hungry Pension Seen Having Fewer Bonds Under Tax Bill

December 15, 2017, By Katherine Chiglinsky and Claire Boston

The tax overhaul may cause a snag for debt-hungry pension funds.

Now being refined by the House and Senate, the legislation will likely encourage companies to bring earnings that have been parked overseas back to the U.S. With all that extra cash, firms may borrow less, reducing the supply of investment-grade bonds by as much as 17 percent next year, according to Bank of America Corp. estimates.

[Bloomberg](#)

America's Inequity Machine Is Sending the Dow Soaring

December 15, 2017, By Craig Torres and Jordan Yadoo

The Great Recession is a speck in the rear-view mirror for America's financial markets. They've advanced far beyond pre-crisis levels. In fact, Goldman Sachs says you can go back a century before 2008, and still not find a "bull market in everything" like today's.

If the real economy had roared back the same way, Donald Trump might not be president. Instead, it's been a grind. While unemployment is near a two-decade low, wages have grown slowly by past standards. They're nowhere near keeping pace with the asset-price surge.

[Bloomberg](#)

WORLDWIDE ECONOMIC, PENSION, INVESTMENT & BANKING INFORMATION

Indian economy set for higher growth trajectory, says Arun Jaitley

December 10, 2017, By PTI

Union Finance Minister Arun Jaitley has said the Indian economy is set for a higher growth trajectory on the back of a slew of structural reforms.

He said the NDA government would now focus on large-scale investment in the infrastructure sector and rural areas. "I think we should be looking forward to a much higher growth trajectory (for India) in the days to come."

[Business Today](#)

UN: Global economy is growing at 3 percent_ best since 2011

December 11, 2017, By Edith Lederer

UNITED NATIONS – The global economy is growing by about 3 percent — its highest rate since 2011 and a significant acceleration from last year, the United Nations said Monday.

In its annual economic report and forecast, the U.N. said the upturn stems predominantly from faster growth in all major developed economies, with east and south Asia remaining "the world's most dynamic regions." Compared to 2016, when global growth was just 2.4 percent, "growth strengthened in almost two-thirds of countries worldwide in 2017," the report said.

[Miami Herald](#)

How China's Debt Curbs Could Start Weighing on the Economy

December 11, 2017, By Bloomberg News

China's sweeping deleveraging push is poised to inflict more pain next year. Authorities tightening funding in financial markets and reining in excessive borrowing will likely deal a blow to investment in infrastructure and property, while soaring corporate funding costs may damp business expansion.

That could add to headwinds facing an economy expected to grow at the slowest pace in more than a quarter century next year, complicating the balancing act for policy makers who want to defuse the country's debt bomb without derailing the expansion.

Bloomberg

DEUTSCHE BANK: A major financial crisis is almost twice as likely in China as anywhere else in the world

December 11, 2017, By Will Martin

LONDON – The probability of a financial crisis starting in China is almost twice as high as in any other major global economy, according to new research from analysts at Deutsche Bank.

Writing in a note titled "How much risk in China?" — Deutsche Bank's chief economist for the Asia Pacific region, Dr Michael Spencer, warned that the probability of a crisis in the world's second largest economy was as much as 13%.

Business Insider

U.S., EU, Japan slam market distortion in swipe at China

December 12, 2017, By Eliana Raszewski, Luc Cohen

BUENOS AIRES (Reuters) - The United States, European Union and Japan vowed on Tuesday to work together to fight market-distorting trade practices and policies that have fueled excess production capacity, naming several key features of China's economic system.

In a joint statement that did not single out China or any other country, the three economic powers said they would work within the World Trade Organization and other multilateral groups to eliminate unfair competitive conditions caused by subsidies, state-owned enterprises, "forced" technology transfer and local content requirements.

Reuters

South Korea bans its banks from dealing in bitcoin

December 13, 2017, By AFP

SEOUL: South Korea today banned its financial institutions from dealing in virtual currencies such as Bitcoin, as the cryptocurrency soars in a bubble fueled by retail speculators, many of them from the country. The hyper-wired country has emerged as a hotbed for cryptocurrency trading, accounting for some 20 per cent of global Bitcoin transactions -- about 10 times its share of the world economy.

About one million South Koreans, many of them small-time investors, are estimated to own Bitcoins, and demand is so high that prices for the unit are around 20 percent higher than in the US, its biggest market.

The Economic Times

European Economy Powers Ahead Thanks to Record Pace in German Manufacturing

December 14, 2017, By Martin Baccardax

Eurozone economic activity surged to its fastest pace in nearly seven years this month, according to a private survey published Thursday, while Germany's key manufacturing sector sped to its fastest pace on record amid the ongoing Euroboom recovery that is driving gains in the world's biggest trading bloc.

IHS Markit's Composite PMI reading for December was estimated at 58.0, up from a reading of 57.5 in November and the highest in 82 months. Service sector activity leaped to an 80-month high of 56.5 while the pace of factory activity hit the highest rate in nearly 18 years. The gains, which close out the final quarter of the year, suggest an annualised GDP growth rate of just of 3%.

The Street

European occupational pension funds face significant deficits, stress test reveals

December 14, 2017, By Paulina Pielichata

European occupational defined benefit funds and hybrid plans have insufficient assets to cover their liabilities, according to the 2017 stress test conducted by the European Insurance and Occupational Pensions Authority, a European Union regulator.

EIOPA said Wednesday that 25% of 195 sponsoring employers known in Europe as European Institutions for Occupational Retirement Provisions, or IORPs, which participated in the stress test collectively lack €349 billion (\$411 billion) and might not meet their obligations. EIOPA also calculated this shortfall could be as much as €702 billion in adverse market conditions.

Pensions & Investments

Clashes rage as Argentine lawmakers suspend pension debate

December 14, 2017, By Almudena Calatrava

Police firing tear gas and rubber bullets clashed with stick-wielding protesters throwing rocks outside Congress on Thursday, leading lawmakers to suspend debate on reining in Argentina's pensions.

Union leaders and social activists opposing the proposal said the legislation would cut pension and retirement payments as well as aid for some of poor families starting in March.

ABC News

Swedish Pension Group proposes raising state retirement age

December 14, 2017, By Sophie Baker

Sweden's cross-party working group on the country's retirement system wants to raise the state retirement age.

The Pension Group, which consists of representatives of the country's political parties, said it reached the agreement on Thursday. A statement on the government's website said it is important for pensions to change in line with the outside world, and there is a need for development and modernization of the system.

Pensions & Investments

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