

## TEXAS PENSION PLANS

### **Texas pension funds don't measure up to low-cost index fund** \*see footnote

November 25, 2018, By Scott Burns

All but a handful of the local public pension funds in Texas have the same problem. They picked the wrong monkeys to manage their money. The result is underperformance. In many cases it means serious underfunding of workers' retirements.

My measuring stick was a simple, utterly conventional and low-cost index fund, the Vanguard Balanced Index fund Admiral shares, a fund that invests 60 percent of its money in the total domestic stock market and 40 percent in the total domestic bond market.

That's pretty vanilla. It's also dirt cheap. The Admiral shares, which require a minimum investment of \$3,000, have an annual expense ratio of 0.07 percent. That means it would cost \$7 to manage \$10,000 for a year. It's a fraction of what it costs for individuals and most institutions to have "active" money management.

Our pension funds, on the other hand, invest in a variety of ways, pay higher fees and make direct investments in real estate. Many also make "alternative investments," which are expensive to manage and hard to measure. What they most certainly do is provide compensation levels for their managers that few police officers or firefighters will ever see.

At least 93.75 percent of funds failed to beat a traditional, basic index fund over their 10-year measuring period.

Why at least? Because the pension funds report their performance gross before fees. And since three of the funds beat the index fund by only 0.12 percent to 0.40 percent, it's quite likely that when you figure in fees, only one actually beat the index fund. That would be a fail rate of 98.75 percent.

### **[Dallas Morning News](#)**

#### **Houston council hires law firm to advise city on Prop B legal questions**

November 28, 2018, By Jasper Scherer

Houston city council on Wednesday approved Mayor Sylvester Turner's request to hire an outside law firm to provide the city with legal advice related to the firefighter pay parity measure approved by voters earlier this month, but not before cutting the contract's potential cost in half.

Following a testy discussion that lasted nearly 80 minutes, council gave the green light on a 9-7 vote for a contract worth up to \$500,000 with Norton Rose Fulbright, a global firm with ties to the political action committee that backed the campaign to oppose Proposition B.

The ballot item, approved by voters on Nov. 6, grants Houston firefighters equal pay to police officers of corresponding status.

The firm is likely to help Turner's administration address what has become a core question in the post-election debate over Prop B: whether state law in the form of a collective bargaining contract preempts the city charter. Council on Wednesday also adopted the pay parity item as a charter amendment, a procedural formality.

### **[Houston Chronicle](#)**

*PRB Annotation:*

**\*The return numbers referenced in the article are net of fees and are incorrectly labeled as "gross of fees" due to an error on the Texas Comptroller's Public Pension Search Tool. The error has been fixed on the Public Pension Search Tool.**

# TEXAS ECONOMIC INDICATORS

## **How The Dallas Housing Market Could Be A ‘Canary In The Coal Mine’ For The Economy**

November 27, 2018, By Shelly Brisbin

Before the great recession, we were warned. Then, the home-price bubble – which many people mistakenly thought of as a piggy bank that would magically balloon to infinity all on its own – suddenly popped. The rest was history, and the experience provided a hard lesson in economic panic. Fast forward to today: After years of recovery and rising home prices, there are signs that the go-go housing market isn’t booming anymore. Are we headed toward another bust? As the Wall Street Journal reports, the “canary in the coal mine” is right here in Texas.

Laura Kusisto, who reports on the U.S. housing market for the Journal, says the publication chose to look at trends in Dallas. The city’s housing market didn’t experience a gigantic boom or a corresponding bust ten years ago, when other communities were struggling. But today, that’s all changed.

“Home prices now have grown about 50 percent in Dallas since the last peak,” Kusisto says. “So, that gives you kind of a flavor for just how red hot this market has been.”

Kusisto says that rapid rise could be a danger sign. Low mortgage rates have masked the true cost of home ownership

But she says that in Dallas, high-end homebuilders might struggle to sell homes, even if the overall market avoids disaster.

### [Texas Standard](#)

## **Suburbs of the suburbs lead North Texas' fastest growing cities**

November 29, 2018, By Taylor Tompkins

The fastest-growing cities in North Texas are pushing farther to the outskirts of the region.

The Dallas Business Journal looked at cities with more than 10,000 people in the latest U.S. Census Bureau estimates and calculated the change in population between 2013 and 2017.

Over the past five years, the outer-lying areas, or suburbs, have grown as much as one and half times their original size. The cities with the largest growth tend to trend north, though there a few outliers.

Prosper led the charge, growing from just over 13,000 residents in 2013 to more than 20,000 in 2017. Made trendy in part by former Dallas Cowboy Deion Sanders, Prosper has grown more than 56 percent in just the past five years. And it doesn’t look like the city is likely to slow down soon. The school district received top marks in the most recent grades from the TEA and subdivisions there are built complete with blue lagoons that are available to residents only.

Little Elm grew just above 40 percent from 2013 to 2017, with an estimated population of more than 33,000 in 2017. The town, which rests just off the shores of Lake Lewisville, has homes with a median price of \$269,000, according to the Texas A&M Real Estate Center.

### [Dallas Business Journal](#)

# NATIONAL PENSION, INVESTMENTS & LEGAL

## **City fire, police pension costs expected to outpace property taxes again**

November 18, 2018, By Crystal Thomas

For the second year, the city of Springfield’s property taxes revenues are expected to fall short of what the city needs to fund police and fire pensions in the upcoming budget cycle.

Springfield City Council members will vote Tuesday on an ordinance that would maintain the same property tax rate of .9385 cents per \$100 of a property's assessed value. The city rate, which has not been raised since the late 1980s, used to produce enough property taxes to cover police, fire and Illinois Municipal Retirement Fund pension obligations, as well as some operational costs for Lincoln Library.

But for the next budget cycle, police and fire pension costs have squeezed out any other expenses and will exceed what the city expects to collect in property taxes by about \$661,000, according to city budget director Bill McCarty. The rest needed to cover the pension payments would come out of the city's general fund, which is used to pay for daily operations, as well as the city's other pension and debt obligations.

## [State Journal-Register](#)

### **SFERS Board Cuts Rate of Return to 7.4%**

November 26, 2018, By Randy Diamond

The board of the \$24.5 billion San Francisco Employees' Retirement System (SFERS) has approved a small reduction to its expected rate of return to 7.4% from 7.5%, retaining the system's status as having the most optimistic return projections of any public pension plan in California.

The return assumption comes as the pension system's general investment consultant, NEPC, forecasts that the plan's investment returns will see a lower 6.9% annualized investment return over the next five to seven years. On a 30-year basis, NEPC is more optimistic, predicting an annualized return of 8%.

The largest US pension plans, the \$361.1 billion California Public Employees' Retirement System (CalPERS) and the \$320 billion California State Teachers' Retirement System (CalSTRS), each have dropped their assumed rate of return to 7% from 7.5%.

## [Chief Investment Officer](#)

### **House proposes ambitious tax package with retirement provisions**

November 27, 2018, By Hazel Bradford

A legislative tax package with several retirement savings ideas promoted in both the House and Senate was introduced late Monday by House Republicans.

One part of the 297-page tax package is the proposed Retirement, Savings and Other Tax Relief Act of 2018. It builds on the Family Savings Act passed by the House in September and incorporates several provisions from the Senate's proposed Retirement Enhancement and Savings Act of 2018, which has not been voted on.

The latest House proposal in the tax package would make it easier for smaller employers to join open multiple employer plans, ease non-discrimination testing rules for plan sponsors, raise to 15% a 10% safe harbor cap on default contributions for automatic enrollment and escalation in defined contribution plans, and would give employers up until the due date of their tax return to adopt a qualified retirement plan for the previous year.

The proposal also includes a fiduciary safe harbor for selecting annuity providers, and for plan sponsors to provide participants with an illustration of how current savings would translate into a lifetime income stream.

## [Pensions & Investments](#)

*PRB Annotation:*

**\*The return numbers referenced in the article are net of fees and are incorrectly labeled as "gross of fees" due to an error on the Texas Comptroller's Public Pension Search Tool. The error has been fixed on the Public Pension Search Tool.**

*The information contained in the PRB Weekly Clips is for informational purposes only and does not represent the views, positions or opinions of the Texas Pension Review Board.*