

Newsmakers April 12, 2018

Pension Bridge: Texas, Idaho Systems Consider Lowering Return Assumptions

The two public pensions systems would be the latest among dozens that have lowered return expectations in the last 12 months.

The top executives of two public pension plans—the \$150 billion Texas Teachers’ Retirement System and the \$17.4 billion Public Employees’ Retirement System of Idaho—say they are considering lower return assumptions in an investment environment in which future returns are expected to be smaller.

The two public pensions systems would be the latest among dozens of retirement systems that have lowered return expectations in the last 12 months.

Texas Teachers’ Executive Director Brian Guthrie, speaking at a panel of pension plan CEOs and executive directors at the Pension Bridge Conference on April 10, said the system’s retirement board is expected to discuss whether to lower the system’s current 8% rate of return at its meeting on April 20.

He said investment staff and system consultants are recommending to the board a 7.25% annualized rate of return for the next 30 years.

Guthrie acknowledged that other plans had reduced their investment outlook while Texas Teachers’ kept to its 8% rate.

“We’re one of the holdouts with a fairly high return assumption,” he said.

Guthrie said the change is based on new modeling by investment consultants.

“We felt it was necessary based on what our investment consultants were telling us,” he said.

Guthrie said only three years ago, the investment consultants were saying that the plan could earn 7.8% or 7.9% annualized over the next 30-year period. He said that has changed quickly.

They are “now telling us that we can earn a 7.3% return over a 30-year period,” he said. “That’s concerning. Perhaps more fundamentally concerning to us is that the short-term assumptions based upon our modeling is [showing] we can earn 7.1% over the next 10 years.”

Guthrie said while return assumptions are higher after 10 years, managing the initial 10 years is the issue because the system’s capital base will be less.

“You can earn it all in the beginning, which is all good for the pension system, or you can earn it at the end, which is really bad for the pension system,” he said. “That’s the kind of situation that we find ourselves in.”

Guthrie told *CIO* he expects the board to lower the rate of return assumptions, but he said the board could choose to lower the rate to 7.5% from 8% as an alternative to the 7.25% drop.

Meanwhile, the Idaho system could lower the rate of return below its current 7%, which Executive Director Don Drum says is already one of the “lowest in the country.”

Drum, speaking at the same CEO/executive director panel, said the system’s board will likely look at the issue after the fiscal year ends June 30.

He said the rate of return could be potentially lowered to 6.5% based on consultants’ reports of lower expected future returns.

Tags: [Idaho PERS](#), [pension](#), [Pension Bridge](#), [Texas Teachers Retirement System](#)
By [Randy Diamond](#)