

Texas Teachers considering lowering rate of return; pension funds discuss compensation – conference

BY ARLEEN JACOBIOUS · APRIL 11, 2018 10:40 AM · UPDATED 4:25 PM



The [Texas Teacher Retirement System](#) board is expected to be asked to lower the pension fund's assumed rate of return to 7.25% from 8% as early as its April 19 meeting, said Brian Guthrie, executive director of the \$151 billion Austin-based plan.

"I'm not sure what the board is going to do," Mr. Guthrie said on Tuesday, speaking on a panel at the Pension Bridge conference in San Francisco.

It's an important decision for retirees because there is a better chance they could receive a cost-of-living adjustment if the pension fund does not lower the assumed rate of return, he said.

"We had a strong year last year" earning 13%, he said as part of an executive director/CEO roundtable.

Retirees are asking why the pension plan would consider lowering the assumed rate of return now when it had such a good year last year and has had very few years in the past where it did not earn at least 8%, Mr. Guthrie said.

"We are not looking behind. We are looking ahead," he said.

Consultants are saying there will be lower returns in the future, he said. With the current asset allocation, the pension plan is expected to return 7.14% over the next 10 years and 7.34% over the next 30 years, he added.

Another topic discussed on the panel was investment staff compensation.

R. Dean Kenderdine, executive director of the \$51.9 billion [Maryland State Retirement & Pension System](#), Baltimore, said a [bill passed](#) the state Legislature that would give the board the authority to set compensation as well as create new positions.

Before the bill passed, the pension plan board only had the ability to set the compensation of the chief investment officer, said Mr. Kenderdine.

"Our real goal here is to enjoy a higher degree of stability on the investment team," Mr. Kenderdine said.

Don Drum, executive director of the \$15.9 billion [Idaho Public Employee Retirement System](#), Boise, said the state Legislature turned down pension plan officials seeking funding to hire a new CIO should Bob Maynard, its current CIO, retire.

Mr. Maynard has no plans to retire, Mr. Drum said. So, the Legislature said to come back when the pension fund is recruiting for a CIO.

Paul Matson, executive director of the [Arizona State Retirement System](#), Phoenix, said the \$38.8 billion pension system has an incentive compensation plan giving investment officials up to 25% of base pay based on several performance measures, including the performance of the portfolio the person is responsible for and the total fund performance. However, salary ranges are constrained.

Texas Teachers' Mr. Guthrie said the pension fund's biggest issue is that the state Legislature that controls its budget doesn't want it to add positions.

However, the pension plan is embarking on what pension plan officials call "building the fleet" in which they will be bringing more of its alternative investment management in-house.

"That will require us to double the size of our investment team over the next five to seven years. Asking for 120 people will create some sticker shock," Mr. Guthrie said. "We will be grappling with that a lot in the next legislative session."