TEXAS PENSION REVIEW BOARD

Preliminary Legislative Recommendations for Investment Practices and Performance Evaluations

Texas Government Code §802.109 requires Texas public retirement systems with at least $30 million in assets to complete an Investment Practices and Performance Evaluation (IPPE). The Pension Review Board (PRB) has provided guidance to assist systems with compliance of related requirements.

The following two preliminary recommendations focus on clarifying and simplifying the statutory requirements related to retirement system applicability and timeline of the IPPE reports. Currently, Sections 802.109(d), (e-1), (f), (g), Texas Government Code provide input on the applicability and expected timeline for submission that these recommendations aim to improve. Stakeholders are encouraged to provide feedback or suggestions on these two preliminary recommendations.

Preliminary Recommendation One

Goal: Clarify how often IPPE reports should be completed by retirement systems, the expected due dates of the reports, and change to reporting cycles for simplification.

Update to statute: Adjust language for reporting timeline to a cycle-based approach that has a three-year and six-year reporting period based on applicability. Additionally, clarify as follows, "If a retirement system's asset size increases in a fiscal year to above one of the specified thresholds, they will complete the evaluation by the next cycle's due date."

1) For systems already reporting, this change would not impact current expectations.
2) The update would provide additional clarification on how to handle reporting expectations as retirement system assets grow over time and their requirements change.

Preliminary Recommendation Two

Goal: Clarify the criteria for retirement system applicability by adjusting the language that references the total assets of the preceding fiscal year.

Update to statute: Adjust applicability language to include additional criteria that prevents normal asset fluctuations between years from obscuring reporting expectations. Below are three options to improve the current statute with simplified examples for demonstration of current expectations.

Option A: Add language so that the applicability for a three-year or six-year reporting requirement will still use the preceding fiscal year's assets to determine the reporting requirement; however, once the assets rise above the specified asset threshold, only when both the assets and the total pension liability (TPL) decrease below the asset threshold will the reporting requirement be lowered or no longer applicable. In practice this would keep systems near the asset thresholds in a more frequent reporting requirement unless they are at or above fully funded status.

Statute	Assets 2024	TPL 2024	Assets 2025	TPL 2025	Requirement
Current	$105 mil	$190 mil	$120 mil	$185 mil	3 years
Current	$105 mil	$190 mil	$98 mil	$185 mil	6 years
Option A	$105 mil	$190 mil	$98 mil	$185mil	3 years

Option B: Adjust language so that instead of using the preceding fiscal year, look at a longer time period, such as the preceding three fiscal years to determine applicability.

Statute	Assets 2024	Assets 2025	Assets 2026	Assets 2027	Requirement
Current	$105 mil	$106 mil	$101 mil	$105 mil	3 years
Current	$105 mil	$106 mil	$101 mil	$98 mil	6 years
Option B	$105 mil	$106 mil	$101 mil	$98 mil	3 years

Option C: Adjust language so that the applicability based on assets is treated as a high-water mark. This means a retirement system once above the $30 million or $100 million asset threshold in a preceding fiscal year must follow the higher asset size requirement.

Statute	Assets 2024	Assets 2025	Assets 2026	High-water mark	Requirement
Current	$98 mil	$106 mil	$101mil	$106 mil	3 years
Current	$98 mil	$106 mil	$98 mil	$106 mil	6 years
Option C	$98 mil	$106 mil	$98 mil	$106 mil	3 years