INSIDE LINE By Tim Lee

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Momentum Building

But No Good Answers From Social Security

TRTA is working to get an answer to the question being asked by many State legislators and Texas Congressional members, and that is "Why is Social Security doing this to Texas education retirees?" As has been reported by TRTA, the Social Security Administration (SSA) is further reducing a retiree's Social Security benefit because of a one-time additional payment provided to TRS annuitants this past January.

Just this past week, TRTA testified in a joint meeting of the State Senate Finance Committee and the Senate State Affairs Committee that it is still unclear how SSA can take a position to further reduce a retiree's Social Security benefit due to the 13th month check. Senators attending the hearing made it clear that they want to help resolve this situation, and will do what they can to bring additional pressure on SSA to reverse this decision. So far, Lt. Governor David Dewhurst, Senator Robert Duncan, Representative Vicki Truitt, and Representative Ruth Jones McClendon have all authored letters to the Texas Congressional Delegation urging their action to help resolve this situation. TRTA has met with other Texas State Legislative leaders as many more are preparing similar letters on this issue.

On the Congressional front, Congressman Lloyd Doggett has worked successfully to secure ALL the Texas Democratic Congressional Delegation as cosigners of a letter he wrote last week to the SSA. That letter is attached on this email and is now posted to the TRTA web site.

Thousands of Texas education retirees affected by this Government Pension Offset (GPO), and many of those retirees may have already suffered a complete offset of any Social Security benefit they may have otherwise received if not for the GPO. TRTA is working to completely repeal the GPO. There are, though, hundreds or even thousands of TRS annuitants whose pension does not completely offset their spousal or auxiliary benefit. Those retirees are now going to be penalized again, and it seems, without any true justification from the SSA.

TRTA is working diligently to ensure that this issue is resolved and is receiving bipartisan support from the Texas Legislature and unanimous support from the Texas Congressional Democratic Caucus. If you are represented by a member of the Texas Congressional Republican Caucus, please contact them and urge them to contact SSA and ask why retirees are being penalized for receiving this one-time 13th check. SSA has not provided any evidence that one-time payments have ever offset any other retiree's Social Security check that has already been reduced by the

GPO. This is not a partisan issue, it is a matter of what is right and wrong, and something can be done to reverse this bad decision by SSA, but it will take the Texas Congressional delegation to step in and stand up for public education retirees in Texas.

Joint Committee Hearing News

As mentioned earlier in this article, the Senate Finance Committee and the Senate State Affairs Committee met earlier this week. The focus of the hearing was to consider their charge "to study the feasibility and advisability of establishing an investment policy that is consistent across all state trust funds."

The meeting offered valuable insight on an issue that some lawmakers may attempt to advance next session, and that is the use of State pension dollars to invest in public infrastructure projects. TRTA strongly supports the practice of the TRS Board of Trustees determining the best investments for the pension fund, not the State Legislature. The proposal seemed rather reminiscent of the State Emerging Technology Fund and the "opportunities" that fund created for TRS and the other state pension funds. Though all of these types of investments may be something the TRS Board of Trustees does want to have in their asset allocation, it is their fiduciary obligation to invest the trust fund assets in the best interest of the members of that fund.

This premise was backed up by the state Attorney General's office and by testimony from Mr. Ronnie Jung, TRS Executive Director. Senator Steve Ogden, Chairman of the Senate Finance Committee, suggested that plans may be developed to push legislation or even a Constitutional amendment to move TRS in the direction of investing in State infrastructure programs. Senator Tommy Williams was unclear why legislation or a Constitutional amendment may be needed to allow TRS to invest in infrastructure and Mr. Jung verified that TRS already has the ability to add infrastructure investments to their asset allocation.

The idea behind this type of legislation may be to limit TRS investments in infrastructure to Texas only programs. TRTA would not likely support legislation that would limit how the TRS Board of Trustees may choose to invest the trust fund's assets.

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PLANS TO OPEN TOLL ROAD INVESTMENTS TO STATE PENSION FUNDS GET PUSH IN SENATE FINANCE

Chairman Steve Ogden said using pension funds to invest in Texas roads a win-win but other Senators sound cautionary notes; Senators also cautioned that funds' focus on high rates of return need to be balanced with risk management.

A joint Senate panel tossed around today a novel way of paying for more roads – getting pension funds to invest in new projects. And to give the discussion an added twist, Senators were also asked to consider creating a new quasi-public entity that would funnel pension fund money from Texas and elsewhere into new road projects.

Senate Finance Chairman **Steve Ogden** (**R-Bryan**) told members of his committee and the **Senate State Affairs** Committee that he's been thinking such a proposal since last session. He said that he was impressed by the private sector's willingness to throw several billion dollars at the state for the right to build new toll roads.

Such willingness points to the private sector's belief that there is a lucrative rate of return inherent in such projects. So why shouldn't the state's pensioners share in that return, Ogden wondered. He added that bringing in pension fund money in lieu of foreign capital would sidestep some of the biggest political arguments about allowing private money to finance new roads.

Ogden said he envisioned the day when Texans would see billboards announcing that the tolls collected on such and such a highway were going to the benefit of the state's retired teachers.

Today's discussion should best be thought of as a preliminary discussion. No serious proposals were made although Ogden said that he hoped that the conversation would lead to action of some sort next session.

On hand to help flesh out Ogden's ideas were a couple of representatives from ***UBS Investment Bank*** and ***Citigroup*** who said that thinking of public infrastructure as a vehicle for investment is still a new field but one that is getting a lot of attention. In foreign countries like China, Spain or Chile, such private investment is already an accepted practice. In Australia and Canada, retirement funds for public employees already invest widely in toll road projects. But in this country, the discussion is just beginning.

Pension funds would have several different options available to them: from investing indirectly through investment funds that have infrastructure projects in their portfolio to directly investing in road projects.

Citigroup's **Ron Marino** laid out the most "outside the box" scenario when he suggested that the state create a quasi-public company that could funnel pension fund money from Texas and from other states like New Jersey and California to capitalize new road projects in Texas.

Some major hurdles would have to be surpassed before the state could go that route, as some today pointed out. One of the bigger obstacles is the fact that toll road projects don't provide rates of return immediately. The roads don't start generating revenue until they are built, which doesn't happen until well into the project's lifetime.

Another obstacle would be over who controls the rates on the toll roads. Marino suggested that lawmakers would have to give up all control over the setting of toll rates – something that would appear highly unlikely given that lawmakers have already shown some hesitancy on committing the states to toll projects.

Sens. **Robert Duncan** (**R-Lubbock**) and **Tommy Williams** (**R-The Woodlands**) seemed skeptical of the idea. Duncan, for one, wondered what was wrong with continuing to build roads with tax-exempt government bonds. Williams said he was concerned that a state-created public company would pursue progressively riskier projects. He envisioned the state eventually having to bail out such an entity.

"We don't have the luxury of printing money here in Texas," he said.

The joint Senate panel also heard testimony today questioning the emphasis on rates of return in the state's various trust funds. **Martin McCaulay**, an actuary with the ***Pension Review Board***, said that he thought that the funds should make investment decisions more with an eye to managing risk than to realizing a certain rate of return.

He added that too much of an emphasis on making a rate of return leads to funds managers "chasing the rate," which leads to higher levels of risk. He argued that the higher volatility encountered trying to achieve the highest rates of return actually make those rates impossible to realize.

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Other News from the Hearing

The TRS pension fund is not immune to the markets ups and downs, and Mr. Brit Harris, TRS Chief Investment Officer, testified that the pension fund's total value now stands at about $108 billion. Mr. Harris reported that the additional investment authorities granted by the legislature last session have allowed the Board of Trustees to make investment decisions that have helped improve the pension fund's overall performance. For the year, the pension fund is down about 3.9 percent. If TRS was still following its investment guidelines from a year ago, the fund's performance would be down 5.9 percent.

Concluding Comments

TRTA is following all of these issues very closely and will update you more on their development. TRTA will attend a House Pensions and Investments hearing next week and report on that committee's interim work. Thank you for all you do to support TRTA.