

From: [Elizabeth Jones](#)
To: [Janet Wood](#)
Subject: FW: Public Input Form for Agencies Under Review (Public/After Publication)
Date: Friday, December 18, 2020 4:49:34 PM

From: sunset@sunset.texas.gov On Behalf Of Texas Sunset Commission
Sent: Friday, December 18, 2020 4:48:17 PM (UTC-06:00) Central Time (US & Canada)
To: Sunset Advisory Commission
Subject: Public Input Form for Agencies Under Review (Public/After Publication)

Agency: TEACHER RETIREMENT SYSTEM TEXAS

First Name: Craig

Last Name: Campbell

Title: Retired

Organization you are affiliated with: Retired

Email:

City: Austin

State: Texas

Your Comments About the Staff Report, Including Recommendations Supported or
Opposed: The Staff Report did not do a comparison with Social Security alone which would be helpful to short-term
employees.

Any Alternative or New Recommendations on This Agency: Require school districts to participate in Social
Security.

My Comment Will Be Made Public: I agree

From: [Elizabeth Jones](#)
To: [Janet Wood](#)
Subject: FW: Public Input Form for Agencies Under Review (Public/After Publication)
Date: Friday, December 18, 2020 4:36:59 PM

From: sunset@sunset.texas.gov On Behalf Of Texas Sunset Commission
Sent: Friday, December 18, 2020 4:36:08 PM (UTC-06:00) Central Time (US & Canada)
To: Sunset Advisory Commission
Subject: Public Input Form for Agencies Under Review (Public/After Publication)

Agency: TEACHER RETIREMENT SYSTEM TEXAS

First Name: Craig

Last Name: Campbell

Title: retired

Organization you are affiliated with: retired

Email:

City: Austin

State: Texas

Your Comments About the Staff Report, Including Recommendations Supported or Opposed: The Staff Report did not look at the excessive staff bonuses, the so-called building the fleet plan, the impact of the lack of a COLA for decades, alternative investment strategies, Scott Burns' criticisms, regional offices in Educational Service Centers, investments with unethical stock companies, and so forth.

Any Alternative or New Recommendations on This Agency: HB 625, HB 672, HB 577, and SB 106 already in the 87th Legislature. Ombudsman for Members.

Expand El Paso Pilot to include, Rio Grande Valley, Houston, and Dallas.

Develop COLAs that provide the biggest bump to lower pensions. We should not have pensioners below the poverty level.

My Comment Will Be Made Public: I agree

My name is Craig Campbell. I spoke to the TRS Board in their “open mike” section of the meeting on September 18 in which citizens are allowed five minutes to express an opinion about TRS. It seems ironic that this is considered democratic when a bill is before the legislature citizens are allowed to comment on specific proposals and language of drafted laws, but here where the government is supposed to be closer to the constituents effected by their actions.

Testifying about specific proposals to be acted is removed from the individual actions to be taken because of the removal from the specifics of those actions. When a proposal for action is made constituents should be able to testify and question the wisdom of each specific proposal. Sunset should review this practice which is used by many agencies and works against transparency in government.

Board Members and Staff are precluded by rule from replying to anything said at the meeting. So, I ended my comments on the 19th with this plea, “I realize that there will be no comments or reply to me today, but I would very much appreciate a reply from any TRS Employee, TRS Member, or Board Member. My email is . Thank you for your time today.”

In my remarks, I mentioned four items and received a reply to them in writing which was appreciated.

“1. At the April and July meetings, people spoke to the board about a firm which TRS is heavily invested in. This was Leonard Green and Associates which they described as a corporate raider sucking the value out of struggling hospitals leaving workers unemployed and not investing in improvements, but paying large dividends to keep stock prices up. This was reported in the *Wall Street Journal* and other media. When asked a TRS spokesperson whether TRS cared about the ethics of companies they invested in, we were told that TRS does. Has any statement of reply been made to the people who complained or to the members of TRS to ensure us that this is the case?”

The reply.

Leonard Green & Partners, L.P. (“LGP”)

TRS began investing with LGP in 2007. LGP invests with companies providing services in consumer, business, and healthcare services, as well as retail, distribution, and industrials in the form of traditional buyouts, going-private transactions, recapitalizations, growth equity, and selective public equity and debt positions. Prospect Medical Holdings, Inc is a portion of LGP’s overall portfolio which is in excess of 35 different companies. Dividends paid by Leonard Green portfolio companies have been passed through to TRS and other limited partners. The Board has received public comments expressing concerns over the hospital chain Prospect Medical Holdings, specifically patient and personnel safety reports at Prospect Medical’s Manchester Memorial Hospital and Rockville General Hospital in Eastern Connecticut. The TRS Board of Trustees is required to act as fiduciaries in the investment of the pension trust fund’s assets. Texas law requires that TRS use the ‘prudent person’ standard when making investment decisions. Generally, the prudence of an investment is determined by taking into consideration the

investment of all assets of the pension trust fund, not solely the prudence of a subset of a single investment. Consistent with Texas law, TRS carefully evaluates and monitors the prudence of all investments to ensure that they best serve the pension trust fund's investment goals, which include 1) controlling risk through proper diversification of asset classes and 2) establishing and achieving long-term risk and return expectations to fund member benefits. TRS will continue to monitor the situation at Prospect Medical Holdings.

“2. Recently a column by Scott Burns criticized the investment practices of TRS. What is your reaction to his criticism? Has TRS responded to this criticism? When I asked this of a TRS spokesperson recently at meeting with TRTA Members, I was told because TRS is different than regular investors, so Burns critique wasn't valid and because this columnist has too much ink it was best not to reply. Sounded to me like disrespect toward ordinary people and TRS members who are obviously not smart enough to distinguish between differing circumstances.

“It is hard to trust TRS when they don't respond to legitimate professional questions. Teachers have taught critical thinking for a living, so make your case, your arguments, and put up your evidence. Not engaging in an honest and respectful conversation about approaches is unacceptable.”

The reply

Scott Burns- Dallas Morning News column ‘*The TRS pension fund has an army of investment managers. How is that working out for teachers*’ published on July 25, 2020.

As I mentioned above, TRS is responsible for prudently investing and managing the best possible asset allocation in the most cost-effective way for our members. It is important to note the TRS Pension Trust Fund is built with a long-term view and constructed to last through multiple market cycles.

The article correctly refers to TRS earning a return of 5.2% (net of all fees) for the fiscal year ending August 31, 2019. As author Scott Burns states, that performance compares favorably with other pension funds in Texas and across the U.S. Over an appropriate long-term horizon, the TRS Pension Trust Fund return is above the assumed rate of (targeted) return. For example, TRS has returned 9.2% after fees over the past ten years. In FY 2019, TRS paid \$11.4 billion to more than 434,000 retirees and beneficiaries.

TRS' long-term investment strategy is centered on a broad diversification of assets so the portfolio can weather volatile market conditions such as those recently brought on during the COVID-19 pandemic. Creating a mix of public and private, U.S. and international assets, and active and passive asset management gives the pension fund this diversification while preserving the flexibility to quickly capitalize on changing conditions.

Mr. Burns' article correctly points out that an undiversified portfolio of US stocks and bonds outperformed TRS during this time period of 1, 3, 5 and 10 years. The prudent actions for a public pension to achieve long term sustainability – over a 20- to 30-year period — involve diversification across multiple asset classes.

More specifically, the article focuses on one portfolio, Vanguard's Balanced Index Fund Admiral Shares (ticker: VBIAX). This portfolio allocates to two asset classes – 60% US Equity and 40% US Bonds. In contrast, TRS has a 13-asset class portfolio, and we remain committed to the benefits of diversification.

Comparison to portfolios with 60% Equity / 40% Bonds is a long-established practice for measuring the performance of pension funds. However, comparisons will typically consider portfolios that are more diverse than a 100% US allocation. Vanguard offers a 60% US + International Equity / 40% US + International Bond portfolio (ticker: VSMGX), and this portfolio offers a more diversified comparator for pensions. It is also a more appropriate comparator for the TRS allocation to both U.S. and international.

Period As of 8/31/2019	TRS	Vanguard Life Strategy Moderate Growth Fund by Vanguard (VSMGX) – Global 60/40 Portfolio
1-Year	5.2%	4.0%
3-Year	8.6%	7.2%
5-Year	6.5%	5.6%
10-Year	9.2%	8.1%

Source: TRS (State Street Bank) and Bloomberg

The United States equity market outperformed the rest of the world during the 1960s, 1990s, and 2010s. However, during the 1950s, 1970s, 1980s, and 2000s other international markets outperformed.

TRS remains committed to the benefits of diversification since the U.S. may not again be the top performing equity market during the 2020s. The diversified portfolio the investment management team at TRS created makes up what the TRS pension trust fund pays out to keep the fund solvent for generations of TRS members to come. Additionally, over 62% of TRS Pension Trust Fund revenue comes from investment returns.

For further reference:

02/2020 TRS Board of Trustees [February 2020 Meeting](#)

PDF Pages 176-185 describe TRS' commitment to diversification over the long term.

“3. It is easy for members to think that TRS is playing with their money for their own enrichment, The Indeed Tower Fiasco so that TRS could attract the “best kind” of people with special skills.

“In looking at the compensation for the Comptroller's Office for 2019, the highest paid employee in Texas State Government, outside of the University Systems, is a TRS Investment Employee making up \$733,296 which is three-quarters of a million dollars for doing their job and playing with other people's money. Three of the top five were from TRS, 19 of the top 39 compensations were from TRS, and those salaries ranged from \$386 thousand to \$733 thousand. In 2019, TRS returns were less than ERS returns and yet TRS pays more in bonuses than ERS.

“Teachers do their job every day and they don’t get six-figure bonuses. Teachers deal with the children of Texas who are much more complicated and important than working with hedge fund managers who are trying to manipulate the stock market and its numbers hoping to get lucky. They deal with the children of Texas. To me something is out of whack with our values because I don’t believe “Greed is Good.” I believe teachers and children are good!”

The reply

“Indeed Tower Lease

TRS opened its doors 83 years ago and since then, we’ve operated in seven different facilities. We outgrew our current space for the first time over a decade ago and had to move our investment team out of the headquarters and into leased space in a nearby office building, 816 Congress, where the lease expires in 2021. At the time of the Indeed Tower lease decision, there was no further space available at 816 Congress. TRS arrived at the decision to lease space at Indeed Tower after due diligence consideration of many factors from cost to other confidential information, and it emerged as the most prudent choice that met our projected space needs. In February 2020, after considerable input from TRS members, the TRS Board of Trustees voted to direct TRS not to move the Investment Management Division (IMD) into Indeed Tower and to sublease the space.

While we are currently in the middle of a pandemic, we continue to conduct thorough due diligence on a generational solution for TRS facilities to serve our members and prudently manage their funds to provide a secure retirement. The long-term facility planning solution must prove favorable and prudent to the trust fund and its members. We will continue to keep our members and the legislature informed.”

“4. Current projections for TRS-Care suggest the program will have a surplus. While sounding good on the surface, this is difficult to hear because TRS retirees have suffered huge increases in out of pocket costs. Tens of thousands of TRS retirees fear we would lose access to our health care. As many as 40,000 people left the program.

“Now we hear there is a \$3 billion surplus and I have to ask how do you plan to use this surplus to lower retiree costs?

We are suffering through a pandemic and many of us know that we are just one health crisis away from financial ruin and/or death. Yet TRS-Care is holding \$3 billion in cash reserve.

“How will you use this reserve fund? It should lower the burden on retirees.

I think TRS should have a discussion with TRS members about why this surplus exists and tell us directly if you are charging us too much for the plan's operation.

“In closing, I attended a Senate Finance Committee hearing last Spring. There was an attempt to explain how the wheeling and dealing for the Indeed Tower was a good thing. Senators appeared to be shocked and told of receiving letters

from retired teachers questioning these actions, Senator Whitmire asked, “Were there any adults in the room?” We are still wondering.

“There needs to be an adult in the room someone who will speak for the 1.6 million members of TRS. We need at least one ombudsman elected by members of TRS in the room, looking out for the members of TRS.”

The reply

“TRS-Care Fund balance

TRS is estimating that TRS-Care will have a positive balance of \$3 billion by 2023 and will not need to request additional funding for TRS-Care in the upcoming legislative session. A number of factors contribute to that projection. First, as a result of the legislative health care changes in 2017, approximately 30,000 participants and their health care claim costs left the TRS-Care program. As a result, TRS-Care is experiencing improved claims. Secondly, during the 2019 86th legislative session, the Legislature appropriated \$231 million to keep TRS-Care premiums at the same rates established in 2018. The TRS Board of Trustees also recently voted on one of the largest health care procurements ever undertaken in TRS history. This decision puts all of the TRS health care funds in a better position with an estimated savings amount of \$454 million dollars specifically for TRS-Care. Together with the elimination of a federally-required health insurer fee (tax) that TRS-Care was required to pay every year, the TRS-Care program will have a positive balance. Please be advised that any positive balance may quickly turn into a deficit as TRS-Care program spends \$1.5-\$2 billion a year on health care claims and health care funding continues to be based on a percentage of active member payroll.

The TRS health care team works diligently to manage the health care plans and help our participants better use their benefits, including when additional funds are available. Originally, health care premiums were expected to increase each year for our retirees, but we are able to maintain 2018 rates going into the 2021 plan year, which is not typical of a health care plan. To continue to help TRS-Care participants who are not eligible for Medicare save money on the costs of their prescriptions, TRS will continue to waive the cost for certain generic preventive medications used to prevent chronic conditions like high blood pressure and high cholesterol. Another benefit TRS-Care was able to provide for our retirees not yet eligible for Medicare involves deductibles. Beginning in 2021, a retiree under the TRS-Care Standard Plan who turns 65 in the middle of the plan year will not need to meet the new deductible under the TRS-Care Medicare Advantage plan. Lastly, while no one could predict the onset of a global pandemic, with the savings TRS-Care is experiencing, TRS-Care was able to enhance benefits related to COVID-19. Both TRS-Care Standard and TRS-Care Medicare Advantage plans cover diagnostic testing and inpatient care related to COVID-19 at 100% through the end of the year. The plans are also waiving costs for all telemedicine visits and will continue to evaluate the need for additional benefits related to COVID-19 during this unprecedented time.

Other concerns

You also expressed concerns on compensation for investment professionals and a need for an ombudsman. Our mission is to improve the retirement security of Texas educators and make a positive difference in members' lives. While the trust is funded by employer and employee contributions, nearly two-thirds of the fund's revenue comes from investment returns. The IMD must responsibly manage a growing and increasingly complex trust fund currently valued at more than \$160 billion. An important fact to know is that the total administrative costs, including salaries, lease costs and all other operating expenses, paid from the pension trust fund equals less than 0.13% of the total trust fund value of \$160 billion. There is no question that compensation in the financial industry is high; correspondingly, the responsibility associated with making decisions on a \$160 billion portfolio is huge. TRS must provide a world class investment team for our members and while we cannot compete with the salaries and

bonuses earned in the private sector, our investment professionals are charged with one of the most important missions in the financial sector.

Similar to an ombudsman, TRS responds to concerns and complaints through Compact with Texans. State law requires agencies to establish procedures for responding to formal complaints from the public and the people it serves. At TRS, member communications, including both complaints and concerns, are received and responded to by a knowledgeable representative. TRS is committed to achieving the highest levels of customer satisfaction by delivering services consistent with our mission and in a manner that actively encourages honesty, integrity, and ethical behavior among our employees. The Compact with Texans describes TRS' services, principles and process for filing complaints and requesting public information.

You can find more information on Compact with Texans below:

https://www.trs.texas.gov/Pages/about_compact_with_texans.aspx

Mr. Campbell, I hope I have provided you with answers you were seeking and we truly appreciate your input and endless service to TRS members! If I can address anything further, please do not hesitate to contact me directly. I would be happy to visit over the phone if you find that to be a better use of your time. Take care!"

Merita Zoga
Director of Governmental Relations
Teacher Retirement System of Texas
(512) 542-6857 | Merita.Zoga@trs.texas.gov

Responding to individual complaints like the Compact is not sufficient. Being in the room when policy decisions made is necessary for transparency and trust to be established. A voice to play devil's advocate and to be sure that the interests of the teachers and retirees is necessary.

When we observe the misdeeds of some of these corporate raiders. Assurances that they care about the behavior of companies that they invest in who may be ethically challenged is not very comforting. The use of "the prudent person standard" in their reply to my comments about Monitor Medical suggests that maximizing profits is the only standard. There should be something more than greed as the bottom line, such as, contributing to the common good. I realize that this considered to be naïve, but it should be considered since that has been the reason that teachers spent their life pursuing.

Sunset looked at the excessive rental agreement around the Indeed Tower, but did not look at the excessive bonuses paid to its employees. The Indeed Tower annual rental agreements amounts to \$5.8 million. They will be considering bonuses for their investment managers who were to be housed in *Indeed Tower*. Last year 38 people received bonuses over \$100,000 ranging from \$101,000 to \$358,000 over their base pay totaling \$6,287,487 which is more than the \$5,844,000 *Indeed Tower* Lease.

Should we treat state employees as hedge fund managers? If a large institutional investor puts a billion dollars into a company, it has an impact on the stock value of that company's stock. When the stock goes up, does one person really deserve a personal

bonus. As Scott Burns has pointed out using simple index funds following the market gets a better return. When the tide rises all boats rise.

Sunset and the Legislature should look at these excessive bonuses for people doing their jobs. Teachers don't get bonuses for how rich their students become. There many former Texas students who have become wealthy. Should their teachers receive a bonus for that? One may say that this is a ridiculous analogy, but how do we justify huge bonuses for people participating in the financial-industrial-complex?

The Sunset Commission is only going to have invited testimony. The Sunset Commission should invite Scott Burns to testify.

The need for a COLA has dramatic impact upon retirees. It is interesting to note that Oklahoma provided a COLA for their retired teachers in May. An example of how important a COLA is illustrated by the following. If one takes the COLA rate used by Social Security which is based on a formula based on the cost-of-living index, one can see that retirees are losing a substantial amount of money. For example, if one were receiving \$1,000 a month in 2005 (the last year of a TRS COLA) through the magic of compounding, the monthly payment would be \$1367 in 2020. Over that 15-year period that would amount to a loss of \$44,197.