

# HOUSE BILL ANALYSIS

## HB 2210

---

---

**Brief Description:** Delaring monthly unit valuations for certain portfolios and funds managed by the state investment board.

### Brief Summary of Bill

- Directs the State Investment Board to declare monthly unit values for the TRS Plan 2 and 3 combined pension funds and the SERS Plan 2 and 3 combined pension funds.

### Background

Members of the Teachers' Retirement System Plan 3 (TRS 3) have two options for investing their defined contribution accounts: They can elect to self-direct their investments among various options provided by the State Investment Board (SIB) or they can elect to have their accounts invested by the SIB. If they elect to have the SIB handle the investment, their accounts are invested in the same portfolio as the TRS combined plan 2 and 3 fund - the fund that is used to pay for the defined benefit retirement allowances for TRS 2 and TRS 3 retirees. This is also the default investment option for any TRS 3 member who does not affirmatively select an investment option. When the School Employees' Retirement System Plan 3 (SERS 3) is implemented in September 2000, SERS 3 members will have the same basic investment options - self directing their investments, or having the SIB invest their accounts with the SERS combined plan 2 and 3 fund.

The SIB invests the state retirement funds in several different kinds of assets. Some of the assets are "appraised assets", which means that their current market value can only be estimated, based on appraisals. These would include investments in venture capital, leveraged buy-outs, private real estate, and private equity placements. This, in effect, makes it impossible for the SIB to calculate a precise value for the TRS combined plan 2 and 3 fund - either for annual reporting or for the purposes of determining a member's account balance when the member wishes to transfer money out of the SIB fund.

TRS 3 members are permitted to transfer the investment of the accounts back and forth between the SIB and self-directed investment options. When they do so, their funds are transferred based on the most recent SIB estimated value of the TRS combined plan 2 and 3 fund. The estimated value is sometimes adjusted later by the SIB based on new information.

Some concerns have been raised that TRS 3 members may not understand that the investment returns credited to their accounts by the SIB are based on estimated values.

### **Summary**

The SIB shall declare monthly unit values for the TRS combined plan 2 and 3 fund and the SERS combined plan 2 and 3 fund. The declared values shall be an approximation of the portfolio or fund values and shall be based on the SIB's internal procedures. Both the declared values and the internal procedures shall be at the sole discretion of the SIB. The board may delegate its powers and duties to the SIB executive director. The rate of investment return credited to TRS 3 and SERS 3 member accounts will be based on the SIB's declared unit values.

The SIB, and its officers, employees and members, are not liable for the SIB's declared monthly unit values, the rates of return credited by DRS to member accounts, or for any other exercise of powers or duties under the statute that establishes the investment options for TRS 3 and SERS 3 members.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Fiscal Note:** Requested on February 23, 1999.

**Appropriation:** None.