CORE FACTS

Investment Return Assumption

July 2022

TRS
TEACHER RETIREMENT SYSTEM OF TEXAS

Why was the investment return assumption changed?

TRS is required by law to conduct an experience study at least once every five years. Additionally, TRS' Pension Funding Policy provides that an experience study will be conducted every four years. The purpose of such a study is to examine changing patterns of retirement behaviors, plan provisions, and investment returns, and whether adjustments are needed. The 2022 experience study found that while most assumptions have remained accurate, the investment return assumption is at the upper end of the range of expected returns. **In July, TRS' Board of Trustees reviewed the results of the study and voted to approve a recommendation to lower the investment return assumption from 7.25% to 7.00%.**

Why is the investment return assumption so important?

This assumption is used to predict what percentage of future benefit payments will be covered by investment returns and what percentage requires member, employer, and state contributions.

Didn't the fund have strong returns in 2021?

The pension fund returned a historic 24.80% in fiscal year 2021. While in some years TRS earns its targeted return or more, in other years returns run lower. And past returns don't always reflect future returns. When setting its return assumption, TRS uses expert projections that incorporate expectations about the future. Lowering the rate to 7.00% hedges against future risk for the fund.

How would lowering the investment return assumption impact the likelihood of a COLA during the next legislative session?

State law provides that the Legislature may only consider issuing benefit enhancements if the fund is actuarially sound and remains actuarially sound after issuing an enhancement. The fund is expected to remain actuarially sound as of the end of fiscal year 2022 due to the use of deferred investment gains from the previous fiscal year.

Will my monthly annuity payment change?

No, your annuity payment will not change because of this decision.

Didn't trustees already lower the return assumption in 2018?

After using a return assumption of 8.00% for more than 30 years, discussions around 2017's experience study led trustees to lower the rate from 8.00% to 7.25%. Now, four years later, both short and long-term projected returns are trending lower. Nationwide, the average public plan return assumption is 6.94%. Lowering the return assumption to 7.00% is supported by the actuary to strengthen the long-term health of the fund.

Economic Outlooks

The 2022 experience study examined 12 different economic outlooks from independent sources. The data showed the average expected return ranged from 6.28% to 7.11%.

Will lowering the return assumption make it easier for investment staff to earn incentive compensation?

No, incentive compensation is based on how well investment staff produce a positive investment return as well as beat a benchmark return.

What's next?

The actuary will consider the new rate of return beginning with the 2022 actuarial valuation. That valuation will be presented at the December board meeting. TRS webcasts all board meetings and archives them on TRS' website.

Largest National Public Pension Plans

System	RA
TRS*	**7.00%**
CalSTRS	7.00%
NY City Retirement	7.00%
Washington SRS	7.00%
NY State Teachers	6.95%
Ohio PERS	6.90%
CalPERS	6.80%
Florida SBA	6.80%
Wisconsin RS	6.80%
North Carolina Retirement	6.50%
NY State Retirement	5.90%

Source: NASRA, July 2022
*as of July 15, 2022