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Scott Burns: Texas pension funds don't measure up to low-cost index fund

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All but a handful of the local public pension funds in Texas have the same problem. They picked the wrong monkeys to manage their money. The result is underperformance. In many cases it means serious underfunding of workers' retirements.

That's the sorry story for most of the pension plans created to serve public employees for our cities, counties, police and fire departments. The data comes from the public pension search tool on the website for the Texas comptroller. That's where you can find a database of all the funds in Texas.

The data plainly says that the police need to police their funds more actively and the fire departments have a three-alarm pension fire to attend.

Am I indulging in cheap, journalistic hyperbole? I wish I were.

My measuring stick was a simple, utterly conventional and low-cost index fund, the Vanguard Balanced Index fund Admiral shares, a fund that invests 60 percent of its money in the total domestic stock market and 40 percent in the total domestic bond market.

That's pretty vanilla. It's also dirt cheap. The Admiral shares, which require a minimum investment of $3,000, have an annual expense ratio of 0.07 percent. That means it would cost $7 to manage $10,000 for a year. It's a fraction of what it costs for individuals and most institutions to have "active" money management.

This is the most basic, one-stop shopping form of Couch Potato investing possible. Commit the money. Forget about it.

Our pension funds, on the other hand, invest in a variety of ways, pay higher fees and make direct investments in real estate. Many also make "alternative investments," which are expensive to manage and hard to measure. What they most certainly do is provide compensation levels for their managers that few police officers or firefighters will ever see.

So, how did the 86 managers do?

I can't tell you about six of them because they don't yet have 10-year track records. But of the remaining 80 funds, a whopping 76 failed to beat the cheap and simple index fund. Four beat it, but the real number is probably lower.

In other words, at least 93.75 percent of funds failed to beat a traditional, basic index fund over their 10-year measuring period.

Why at least? Because the pension funds report their performance gross *before* fees. And since three of the funds beat the index fund by only 0.12 percent to 0.40 percent, it's quite likely that when you figure in fees, only one actually beat the index fund. That would be a fail rate of 98.75 percent.

For the other 76, it was all downhill. (See the rank-ordered performance list below.)

Ranking Texas pension funds

This table compares the performance of 86 Texas pension funds over their most recent reported 10-year performance period against the performance of Vanguard Balanced Index Fund Admiral shares over the same reporting period. The funds labeled "NA" did not have a 10-year reporting period.

Reporting period	Plan name	Gross rate of return, 10-year	Balanced Index 10-year return	10-year gap
12/31/16	El Paso Firemen & Policemen's Pension Staff Plan and Trust	NA	0.064	NA
12/31/16	Travis County ESD # 6 Firefighters' Relief & Retirement Fund	NA	0.064	NA
12/31/16	Cleburne Firemen's Relief & Retirement Fund	NA	0.064	NA
12/31/16	Colorado River Municipal Water District Defined Benefit Retirement Plan & Trust	NA	0.064	NA
9/30/17	San Antonio Metropolitan Transit Retirement Plan	NA	0.0664	NA
12/31/17	The Woodlands Firefighters' Retirement System	NA	0.0714	NA
12/31/16	Dallas Employees' Retirement Fund	0.0884	0.064	2.44
12/31/16	Amarillo Firemen's Relief & Retirement Fund	0.068	0.064	0.4
12/31/16	Harris County Hospital District Pension Plan	0.066	0.064	0.2
12/31/16	Denton Firemen's Relief & Retirement Fund	0.0652	0.064	0.12
12/31/16	San Angelo Firemen's Relief & Retirement Fund	0.0634	0.064	-0.06
12/31/17	City Public Service of San Antonio Pension Plan	0.0698	0.0714	-0.16
12/31/16	Capital MTA Retirement Plan for Bargaining Unit Employees	0.0599	0.064	-0.41
12/31/16	Plano Retirement Security Plan	0.0599	0.064	-0.41
12/31/16	El Paso Firemen's Pension Fund	0.058	0.064	-0.6
12/31/16	El Paso Police Pension Fund	0.058	0.064	-0.6
12/31/16	Capital MTA Retirement Plan for Administrative Employees	0.0568	0.064	-0.72
6/30/17	Houston Municipal Employees Pension System	0.0578	0.0655	-0.77
12/31/16	Dallas/Fort Worth Airport Board DPS Retirement Plan	0.055	0.064	-0.9
12/31/16	Dallas/Fort Worth Airport Board Retirement Plan	0.055	0.064	-0.9
6/30/17	Houston Firefighters' Relief & Retirement Fund	0.0565	0.0655	-0.9
7/31/17	Port of Houston Authority Retirement Plan	0.0615	0.0714	-0.99
8/31/17	El Paso City Employees' Pension Fund	0.0607	0.0714	-1.07
12/31/17	Corpus Christi Fire Fighters' Retirement System	0.0605	0.0714	-1.09
12/31/16	Irving Firemen's Relief & Retirement Fund	0.0528	0.064	-1.12
12/31/16	Texarkana Firemen's Relief & Retirement Fund	0.0527	0.064	-1.13
12/31/16	Wichita Falls Firemen's Relief & Retirement Fund	0.0518	0.064	-1.22
12/31/16	Port Arthur Firemen's Relief & Retirement Fund	0.0515	0.064	-1.25
6/30/17	Houston Police Officers Pension System	0.053	0.0655	-1.25
12/31/17	Lower Colorado River Authority Retirement Plan	0.057	0.0714	-1.44
12/31/16	Beaumont Firemen's Relief & Retirement Fund	0.0485	0.064	-1.55
12/31/16	Atlanta Firemen's Relief & Retirement Fund	0.0484	0.064	-1.56
9/30/17	Harlingen Firemen's Relief & Retirement Fund	0.0506	0.0664	-1.58
12/31/16	Austin Fire Fighters Relief & Retirement Fund	0.048	0.064	-1.6
12/31/16	Tyler Fire Department Relief & Retirement Fund	0.0477	0.064	-1.63
6/30/16	Nacogdoches County Hospital District Retirement Plan	0.0522	0.0692	-1.7
12/31/16	Marshall Firemen's Relief & Retirement Fund	0.0467	0.064	-1.73
12/31/16	Corpus Christi Regional Transportation Authority	0.0466	0.064	-1.74
12/31/16	Galveston Employees' Retirement Fund	0.0462	0.064	-1.78
12/31/16	Orange Firemen's Relief & Retirement Fund	0.046	0.064	-1.8
12/31/16	Houston MTA Workers Union Pension Plan	0.046	0.064	-1.8
9/30/17	Waxahachie Firemen's Relief & Retirement Fund	0.048	0.0664	-1.84
12/31/16	Dallas County Hospital District Retirement Income Plan	0.0446	0.064	-1.94
12/31/17	Austin Employees' Retirement System	0.0515	0.0714	-1.99
12/31/16	Lubbock Fire Pension Fund	0.0439	0.064	-2.01
12/31/16	Houston MTA Non-Union Pension Plan	0.043	0.064	-2.1
9/30/17	DART Employees' Defined Benefit Retirement Plan & Trust	0.0453	0.0664	-2.11
12/31/16	Big Spring Firemen's Relief & Retirement Fund	0.0426	0.064	-2.14
12/31/17	University Health System Pension Plan	0.05	0.0714	-2.14
12/31/16	Greenville Firemen's Relief & Retirement Fund	0.0423	0.064	-2.17
12/31/16	San Antonio Fire & Police Pension Fund	0.042	0.064	-2.2
12/31/17	Sweetwater Firemen's Relief & Retirement Fund	0.0491	0.0714	-2.23
9/30/17	Abilene Firemen's Relief & Retirement Fund	0.044	0.0664	-2.24
12/31/16	Galveston Wharves Pension Plan	0.0409	0.064	-2.31
2/28/17	Brazos River Authority Retirement Plan	0.0434	0.0672	-2.38
9/30/17	Northwest Texas Healthcare System Retirement Plan	0.0421	0.0664	-2.43
9/30/17	Temple Firemen's Relief & Retirement Fund	0.0417	0.0664	-2.47
9/30/17	Laredo Firefighters Retirement System	0.0415	0.0664	-2.49
12/31/16	Midland Firemen's Relief & Retirement Fund	0.0388	0.064	-2.52
12/31/16	Denison Firemen's Relief & Retirement Fund	0.0387	0.064	-2.53
9/30/16	McAllen Firemen's Relief & Retirement Fund	0.0417	0.0678	-2.61
9/30/17	Killeen Firemen's Relief & Retirement Fund	0.0401	0.0664	-2.63
12/31/16	Galveston Firefighters' Relief & Retirement Fund	0.0374	0.064	-2.66
12/31/16	Galveston Employees' Retirement Plan for Police	0.0364	0.064	-2.76
12/31/16	Guadalupe-Blanco River Authority	0.0357	0.064	-2.83
12/31/16	Texas City Firemen's Relief & Retirement Fund	0.0356	0.064	-2.84
9/30/16	Fort Worth Employees' Retirement Fund Staff Plan	0.0391	0.0678	-2.87
12/31/16	Irving Supplemental Benefit Plan	0.0341	0.064	-2.99
12/31/16	Corsicana Firemen's Relief & Retirement Fund	0.034	0.064	-3
6/30/17	Arlington Employees Deferred Income Plan	0.0353	0.0655	-3.02
6/30/18	Northeast Medical Center Hospital Retirement Plan	0.049	0.0798	-3.08
12/31/16	Lufkin Firemen's Relief & Retirement Fund	0.033	0.064	-3.1
12/31/16	University Park Firemen's Relief & Retirement Fund	0.0329	0.064	-3.11
12/31/16	Longview Firemen's Relief & Retirement Fund	0.0322	0.064	-3.18
12/31/17	Fort Worth Employees' Retirement Fund	0.0391	0.0714	-3.23
12/31/16	Conroe Fire Fighters' Retirement Fund	0.0284	0.064	-3.56
12/31/17	Brownwood Firemen's Relief & Retirement Fund	0.0352	0.0714	-3.62
12/31/16	Austin Police Retirement System	0.0259	0.064	-3.81
10/31/17	Refugio County Memorial Hospital District Retirement Plan	0.0409	0.0796	-3.87
9/30/17	Weslaco Firemen's Relief & Retirement Fund	0.0259	0.0664	-4.05
12/31/16	Paris Firefighters' Relief & Retirement Fund	0.0216	0.064	-4.24
12/31/16	Plainview Firemen's Relief & Retirement Fund	0.0195	0.064	-4.45
12/31/17	Odessa Firemen's Relief & Retirement Fund	0.0258	0.0714	-4.56
12/31/16	Dallas Police & Fire Pension System-Supplemental	0.014	0.064	-5
12/31/16	Dallas Police & Fire Pension System-Combined Plan	0.014	0.064	-5
9/30/17	San Benito Firemen's Pension Fund	0.0094	0.0664	-5.7

SOURCES: Comptroller.texas.gov/application.php/pension; Vanguard fund figures from portfoliovisualizer.com

The worst fund (San Benito Firemen's Pension Fund) trailed by an amazing 5.7 percent, annualized, per year. The Dallas Police & Fire Pension System-Combined Plan and the Dallas Police & Fire Pension System-Supplemental Plan were second worst. Both trailed by 5 percent a year, annualized.

Someone needs to talk with these folks about the monkeys they hire to parse risk and reward. With the 1.4 percent annualized return achieved by the Dallas police and fire funds, they would have done far better by going home early after putting every dime in inflation-adjusted U.S. Treasury obligations.

Of the 76 funds that trailed the comparable period index fund return before fees:

- 12 trailed the passive index fund by less than 1.0 percent a year, plus fees.
- 22 trailed by 1.0 to 1.99 percent a year, plus fees.
- 24 trailed by 2.0 to 2.99 percent a year, plus fees.
- 11 trailed by 3.0 to 3.99 percent a year, plus fees.
- 4 trailed by 4.0 to 4.99 percent a year, plus fees.
- 3 trailed by at least 5 percent a year, plus fees.

Those are wide margins of failure. The result is a large number of funds that are at least 20 percent underfunded and a whopping 19 that are less than 60 percent funded.

With pensions for private sector workers disappearing faster than beer at a tailgate party, many readers may be tempted to shrug their shoulders. It's a problem lots of people won't ever get to have.

But it isn't so. One person's underfunded pension plan is another person's higher tax rate. This is a problem we all share.

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