

Governor Abbott Appoints Controversial and Outspoken Public Pension Critic Chairman of State Pension Review Board

Tim Lee, *Inside Line*, 12-2-15,
Chuck Lindell, *Austin-American Statesman*, 12-3-15

On December 1 Texas Governor Gregg Abbott announced the names of three appointments to the State Pension Review Board, and named Josh McGee of the Laura and John Arnold Foundation (LJAF) the board's new chairman. As many of our members are aware, the Laura and John Arnold Foundation is the leading organization in the nation attacking public pension funds. Josh McGee serves as Vice-President of the LJAF and "leads the organization's nationwide efforts to improve retirement security."

The Texas Pension Review Board is "mandated to oversee all Texas public retirement systems, both state and local, in regard to their actuarial soundness and compliance with state law."

The Board is composed of seven members. The Governor, with the advice and consent of the Senate, appoints seven members with the following qualifications or experience: three persons with experience in the field of securities investment, pension administration, or pension law; one actuary; one person with experience in governmental finance; a contributing member of a public retirement system; and one person receiving benefits from a public retirement system.

Other advocacy groups such as those representing police officers and firefighters are also raising serious objections over this named appointee, including the Combined Law Enforcement Association of Texas (CLEAT) which published a scathing criticism on McGee's appointment in this Dallas Morning last week.

In an editorial column published last month in the *Houston Chronicle*, McGee [using the negative experience of Chicago] argued that the City of Houston, not the state, should control public workers' pensions. The public, he said, should demand that Houston pay for benefits workers have earned. Chuck Lindell in last week's *Austin American-Statesman*, quoted Tim Lee saying that the

appointment was "shocking...; the worst possible choice to be chairman of the Pension Review Board. We look at this and say, 'How in the world did he get on the radar of Gov. Abbott?' Our members tend to like the governor. That's what's so surprising."

The following is from Chuck Lindell's Statesman article of last week. Boldface is my own.

McGee's appointment will require Senate approval during the next legislative session, which begins in January 2017, and Lee predicted strong opposition. "The guy, in my view, is nothing but an advocate for eliminating the plans that our public workers have," Lee said. "Our members know their senators personally. They are going to be very vocal and very disappointed."

An Abbott spokesman declined to comment on the opposition, choosing to let the announcement of McGee's appointment to speak for itself. That announcement noted that McGee is a vice president for the... Arnold Foundation — a private organization... that presses for reforms in criminal justice, education and pension systems. Abbott's office said that McGee also is a senior fellow at the Manhattan Institute, a free-market advocacy organization that favors welfare reform, tort reform and supply-side tax policies.

McGee wasn't available for comment, said Leila Walsh, spokeswoman for the Arnold Foundation, who provided links to reports in which McGee has called for governments to keep their pension promises while adopting comprehensive, sustainable reforms. "I think compensation packages need to be fair. I think compensation that has been earned should be paid. I don't think that you can renege on compensation," McGee told the state House Pensions Committee in a public hearing last April.

McGee also has warned of a looming crisis with underfunded pensions, pressing for solutions that shift systems away from defined benefits based on average salary. [The CLEAT Director] Wilkison said he believed McGee was unqualified for the review board because he is an advocate "who's already decided which side of the argument he's on" by favoring a shift toward privatization and away from defined benefits that offer certainty for retirees. "In Texas, the police plans are very well funded," Wilkison said, adding that pensions are part of a government's promise to provide retirement certainty to officers who are "willing to face death and violence on every shift."

TRS Fund loses Actuarial Soundness

Tim Lee, *Inside Line*, 11-13-15

The Teacher Retirement System of Texas (TRS) released its annual valuation of the pension trust fund November 12. **The nation's sixth largest pension fund presently has \$128.5 billion held in trust for over 350,000 Texas public education retirees and 1,000,000 pre-retirees. This figure is down from \$132.7 billion August 2014. Additionally, TRS reported that the fund earned a return of -0.3% for FY 2015.**

The period of time to amortize the fund's unfunded liabilities has grown from 29.8 years in 2013 to 33.3 years. This means that at this moment in time, the pension fund is not actuarially sound by state law. In order to meet this threshold, the fund must be able to pay off all unfunded liabilities within a 31-year time period.

Many of our members may be wondering what happened. The pension fund was considered actuarially sound in 2013, allowing for a cost-of-living increase for 200,000 TRS retirees. Now, despite having a funded ratio of 80.2%, the fund is not capable of providing a COLA to retirees at this time.

As you may recall, in 2013 TRS predicted that the unfunded liabilities would continue to grow before starting to decrease again and move towards full funding. This present downturn is expected and following a stable path, although some factors are contributing to this growth in unfunded liabilities more quickly than originally anticipated.

This includes slower than expected investment returns for FY 2015, and the adoption of a new mortality assumption. This new assumption reflects the increased life expectancy of all TRS members, including current active school personnel. **It is also important to note that the very volatile markets of 2015 have shifted investment returns wildly, from a 16% overall investment return in 2014 to a -0.3% this year.**

TRS, in its actuarial assessment, must also take into account changing rates of inflation and the decrease in payroll growth for active personnel. Essentially, these factors, combined with the ones mentioned above, increased the funding period by five years. However, certain provisions established in SB 1458 will have a positive benefit on the fund in a few more years.

The figures provided last month assume that the state

will continue to provide the level of funding to the system as established with the passage of Senate Bill 1458 in 2013 during the 83rd Legislative Session. That means **TRS expects the state contribution rate to be 6.8% of active educator payroll, the school district rate to be 1.5%, and the active employee rate to be 7.7%. TRS also assumes an overall annual investment return of 8%.**

TRS discussed the probability of future COLAs for retirees.

Tim Lee, *Inside Line*, 11-13-15

Although this will depend upon many factors, the bottom line is that there must be an increase in revenue to the fund to support a raise in benefits.

The revenue could come from increased contributions or higher investment returns, for example. **Overall, all it would take is a 1% increase in contributions to get the TRS pension fund back to being actuarially sound by state law.** While it is too early to predict what the Legislature might do to help retirees during the 85th Legislative Session in 2017, it is not too early for TRTA members to begin preparing! November's news was not what TRTA or its members had hoped for, but it is not the end of the line, nor is it a reflection of the fund's overall performance or its future.

Our friends in the Texas Legislature are interested in finding ways to help retirees, as is evidenced by the attendance of Representative Phil Stephenson (R, District 85) at the valuation meeting, who asked many questions about the fund's value and its impact on retirees. TRTA would like to thank all of the legislative staff members who attended yesterday's meeting.

Your pension fund is still one of the strongest in the nation. The TRS pension fund has a pathway to solvency that is being followed, and will lead to 100% full funding and actuarial soundness. TRS works diligently every day to achieve this goal for all of its participants. The fund is being managed appropriately, with the utmost concern for the retirement security of all TRS retirees and pre-retirees.

Together, TRTA and its members have worked for years with legislators on both sides of the aisle to provide TRS retirees with a stable, reliable, lifetime retirement income. TRTA will continue advocating for the TRS pension fund and imploring the Legislature to support our hardworking school personnel.

TRS-Care Update

Based on Tim Lee, *Inside Line*, 11-13-15

The latest news about TRS-Care, as expected, is not good. As you know, this legislative session, TRTA members fought to receive \$768 million in extra funding to help shore up the fund temporarily and prevent skyrocketing premium increases. Essentially, we received a two-year reprieve that kept TRS-Care afloat and protected participants' pocketbooks; but **TRS-Care continues to deteriorate financially at an alarming rate. TRTA members will have to fight again in 2017 to protect the health insurance program.**

TRS-Care's projected 2018 funding shortfall is more than \$700 million. This figure will grow to an astounding \$1.7 billion by FY 2019 if nothing is done to protect the program and its participants! By 2020, this shortfall will rise to \$2.9 billion!

We know that the \$768 million provided by the Legislature was a tremendous boon to TRS-Care and a huge win for TRTA members, but we also know that it was not intended to be a permanent solution. Now, we must protect the program for the long term, because it is vital to our retirees' well-being and financial security! TRS-Care's enrollment is expected to grow from its current 251,758 participants to 259,578 by 2016. We have more lives every day that need to be covered by TRS-Care!

This issue is important, and we need and value your participation in every step of this process! The next step is engaging with the TRS-Care Study Group that was established by the Legislature through Senate Bill 1940.

In November TRTA began reviewing the interim charges issued by Speaker of the Texas House, Joe Straus. These recently created charges include asking legislators to consider downturns in the market and how current retirees who may be in financial need may be able to have some relief.

Lt. Gov. Names Senate Members for TRS-Care Interim Study

Based on Tim Lee, *Inside Line*, 11-13-15

2016 is a non-legislative year, but this is when the interim study group [made up of 6 legislators] will meet and make decisions about the future of TRS-Care .

This TRS-Care interim group, TRTA, our members and all stakeholders impacted by TRS-Care need to be involved and work together to save this program

for all current and future public education retirees. As we approach the holiday season, it is easy to become less involved in legislative activity and more focused on family and friends. TRTA will continue to monitor the progress of the TRS-Care study group and report any news to our members immediately.

All six members of the TRS-Care Study group have now been named: three chosen by Speaker Joe Straus back in September and three chosen by Lt. Governor Dan Patrick in November.

In the November Legelog you can find a profile of the three House members:

- 1. Representative Dan Flynn, R-Van Co-Chair** who said at our last TRTA state convention, "TRS is one of the most actuarially sound systems in the world.";
- 2. Representative Trent Ashby R-Lufkin** who at our convention encouraged retirees to contact as many legislators as possible to get our legislation passed.
- 3. Representative Justin Rodriguez D-San Antonio** who has developed a great working relationship with the TRTA local units in his district.

On November 13 the three Senate members were named by Lt. Governor Dan Patrick. They are:

- 4. Senator Joan Huffman R-Houston Co-Chair**
- 5. Senator Jane Nelson R-Flower Mound** and
- 6. Senator Craig Estes R-Wichita Falls**

Last February as TRTA and the retired educators of Texas began the legislative battle to shore up TRS-Care for two more years **State Affairs Chair Joan Huffman** declared, "Give us a chance to work this out.... I think everyone is very sympathetic to retired teachers, and very sympathetic to the fixed income they live on. I think it's something we can solve, and we're going to try to do it without putting it on the backs of retirees." By session's end Sen. Huffman and her committee had helped save TRS-Care for two more years. [Jim Malewitz, Ft. Worth Star-Telegram, 2-11-15] From her Senate website I found the following information:

Sen. Huffman's District represents a convoluted area representing portions of Bellaire, Sugarland, Missouri City, West Columbia, Angleton, Lake Jackson and Freeport. Senator Huffman was first elected to the Texas Senate in 2008 and now she currently serves as Chairwoman of the Senate

Committee on State Affairs, Vice Chairwoman of the Senate Committee on Criminal Justice, and as a member of the Senate Committee on Finance. She was also named a "Patient Care Champion" by the Harris County Medical Society, earned the TEXPAC "Patient Protection Award" from the Texas Medical Association, both for back-to-back legislative sessions....

Senate Finance Chair Jane Nelson is a former teacher who has two daughters who are currently teachers. She served two terms on the State Board of Education before joining the Texas Senate. In a press release November 13 Sen. Nelson said, "The rising cost of health care is a major challenge facing state governments all over the country, and we need to look for innovative ways to keep up with those costs so that we can provide the best possible benefits to our educators, who provide an invaluable service to our state,"

From Jane Nelson's Senate website:
State Senator Jane Nelson represents District 12, which includes portions of Denton, Lewisville, Grapevine and northern Tarrant county. Senator Nelson, the first woman in Texas legislative history to chair a standing budget-writing committee, serves as Chairman of the Senate Finance Committee, which shapes the state budget and crafts fiscal policy for Texas. As chair of Finance, Senator Nelson also serves as a member of the Legislative Budget Board, a body of five Senate and five House representatives that sets the constitutional spending limit and develops the draft appropriations bill. Before becoming chair of Finance, Senator Nelson was the longest-serving chair of the Senate Health and Human Services Committee, where she remains a member. She is the highest ranking Republican in the Senate.

She has been named a Fighter for Free Enterprise by Texas Association of Business; "Texas' Best Medicine" by the Texas Medical Association; Most Conservative by Young Conservatives of Texas; and a Champion for Texas Children by Texas CASA.

Senator Craig Estes represents the 30th Senatorial District: a triangular dist. cornered by Wichita Falls, Sherman and Stevenville skirting just north of the Dallas-Ft. Worth metroplex.

From Sen. Craig Estes Senate website:
He has served in the Texas Senate 2001 The Texas Senate selected Senator Estes to serve as president pro tempore during the 83rd Interim.

Senator Estes currently serves as the Vice Chair of the Natural Resources Committee and as a member of the Senate Committees on State Affairs, and Health and Human Services.

According to *The Texas Tribune* Sen. Estes' campaign top contributors have been various members of the Walton family, \$180,000, Texans for Lawsuit Reform PAC: \$103,473, Bob Perry: \$90,000 and Texas Oil & Gas PAC: \$84,500.

Dennis Paul, Dr. Bonnen, Ed Thompson and Wayne Faircloth will run in March '16 Republican Primary

Representatives Greg Bonnen (Dist. 24), Dennis Paul (Dist.129) Ed Thompson (Dist. 29) and Wayne Faircloth (Dist. 23) have officially refiled for State Representative on the Republican Primary Ballot for the March 1, 2016 election. Senator Taylor is not up for re-election until 2018.

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