CCART LegeLog
vol. 10 no. 8 Clear Creek Assoc. of Retired Teachers,

March 12, 2013

The following article from the Austin American-Statesman is an excellent primer for where the ERS and TRS stand today.

Texas public pensions on sound footing

By F. Scott McCown & Chandra Villanueva
Center for Public Policy Priorities
Austin American-Statesman, 3-3-13

Texans believe in hard work that leads to a secure retirement. We provide our public servants a secure retirement through a decent pension. At the Center for Public Policy Priorities, we recently released a major report on our state's two largest pension plans, the Teacher Retirement System and the Employee Retirement System. Every pension plan must be evaluated individually, but unlike some plans, generations of conservative stewardship have made these two Texas plans national models

TRS and ERS offer defined-benefit plans. During an employee's working years, both the employee and the state contribute monthly. The plans invest those contributions. After an employee retires, the plans pay the employee a set monthly benefit out of the accumulated contributions plus the return on investments.

Texas pensions are modest and prohibit the sort of abuses you sometimes read about in other states. The average annual state employee benefit is $17,526, and the average annual teacher benefit is $22,764. **Pensions are particularly critical for teachers, since most are excluded from Social Security.**

Defined-benefit plans are different from defined-contribution plans, such as a 401(k), where an employee, and maybe the employer, set aside a certain amount in an individual retirement account. In a defined-contribution plan, when the employee retires, the employee can draw only what the return on the investment in their individual account allows. If the employee is caught in a market downturn, they may be left with little on which to live. Truth be told, defined-contribution plans are a national scandal.

Defined-benefit plans remain the sound way to provide a pension. Pooled investments, professionally managed, generate better returns, and the longevity of pooled investments protects individuals from market downturns. Employees don't need to worry about moving their investments to more conservative funds as they near retirement. And if there is a market downturn after an employee retires, the employee is not left to deal with the consequences alone. An individual employee could never save enough to ensure the same security through a defined-contribution plan.

TRS and ERS are well funded, though each system currently has a modest unfunded liability. An unfunded liability is the amount the state would have to pay if the state had to pay all earned benefits on a single day. But the state never has to pay all earned benefits on a single day. The state pays benefits only as they become due. TRS and ERS have more than 80 percent of all the money they would ever need to pay benefits. Any plan above 80 percent is considered well-funded because it gives the plan adequate time for investment returns or additional contributions to close the gap.

As the country recovers from the Great Recession, both TRS and ERS have seen their investment returns rebound and have consistently met their investment benchmarks**. If time shows that improved investment returns alone won't close the gap, the Legislature can increase contributions.**

The state can certainly afford to increase its contribution. Together, TRS and ERS contributions amount to just over two percent of our total state budget, less than the national average.

The employee system has already asked the Legislature to increase the employee contribution rate to 10 percent of payroll, the maximum constitutionally allowed. **Teacher Retirement System administrators have asked for a 0.5 percent increase in 2014 and again for 2015, bring the employee contribution rate to 7.4 percent.**

Through a combination of investment returns and contributions, we can get the systems back to full funding. ERS was funded at or above 100 percent consistently through 2002. TRS was funded at or above 90 percent from at least 1992 to 2001.

Moving to a defined-contribution plan, however, is not the way to go. For a host of reasons we explain in our report, moving to a defined-contribution system would not provide a decent pension and would actually cost the state money. While it is true that many private companies have moved from defined-benefit to defined-contribution plans, doing so has left their employees underpaid for their work and unprepared for their retirement.

The state should be a model employer and lead the way. After all, it is the state that will be left paying the social and economic costs if our senior population cannot live self-sufficiently in retirement.

Together as Texans, we can be proud that our state's two pension plans are national models, and that we provide our public servants security in retirement. We need to take the steps necessary to ensure that our public pension plans remain sound, and we need to shore up our private pension system.

HB 1383: the Key to get TRS to Actuarial Soundness

based on Tim Lee, *Inside Line*, 2-22-13, 3-8-13

With the tone of this Legislative session described by the Chronicle as “remarkably collegial” the almost 78 thousand members of the TRTA appear to be getting the retired teacher message across to most legislators. Austin’s *American Statesman* said that” members are in a position to work more constructively.”

Director Lee was in a legislator’s office with our TRTA Legislative Chairman Bill Barnes and while there, two other groups of retirees were meeting with the legislator’s staff about TRTA goals. This cooperative level of advocacy is making your voice heard!

Long-time TRTA friend and public education retiree supporter Rep. Jim Keffer has filed **HB 1383**. As of March 10 there are 34 co-authors including our own **Rep. Greg Bonnen**. Momentum appears to be building.

HB 1383 calls on the Legislature to increase the state contribution to the TRS pension fund from 6.4% per biennium to percentages that support what TRS actuaries say is necessary to help the fund reach actuarial soundness.

HB 1383 requires the state to increase its funding by 0.5% in each year of the coming biennium. That means the current FY 2014 biennium contribution would increase to 6.9% (about a $125 million increase) and to 7.4% in FY 2015 (a $250 million increase).

The pension fund received more than a 6.0% minimum contribution from the Texas Legislature in only 5 of the last 18 years. This legislation is written with our TRS retirees and all TRS active members in mind. It is an important step that would help get the pension system actuarially sound as quickly as possible.

It also addresses the issues raised by the TRS independent actuaries who assert that the TRS pension trust fund is in relatively good financial condition, and that specific funding adjustments can enhance the TRS pension fund’s overall fiscal health….

This plan begins with the recognition that minimum funding levels are not going to solve our challenges. Texas has the lowest contribution of any statewide teacher pension system that does not participate in Social Security, and it has one of the highest overall funding values. However, TRS has an unfunded liability that cannot be amortized in less than 31 years under current funding levels. Until we meet that standard, TRS will not be actuarially sound.

The Texas Senate Finance Committee this week adopted their budget recommendations for the TRS pension fund and TRS-Care. All cuts made to TRS last session have been restored in this proposed budget scenario! In addition, the Senate adopted a budget strategy increasing funding for the TRS pension trust fund by more than $103.4 million! The Senate workgroup was lead by long-time TRS supporter Senator Robert Duncan. Other members include Senators John Whitmire and Judith Zaffarini. The Senate contribution level is slightly lower and uses a different funding pattern than the version adopted in the Texas House earlier this week. The Senate version has a state contribution to TRS in FY 2014 at 6.4% and FY 2015 at 6.7%. The House version raised TRS pension funding to 6.6% in both years of the coming biennium.

More Immediate Relief to be provided for Retired Teachers with HB 103 and SB 643

based on Tim Lee, *Inside Line*, 3-1-13

TRTA is trying to help retirees get a quicker permanent pension increase with two complimentary bills. Rep. Larry Gonzales (with HB 103) and Sen. Robert Deuell (with SB 643) have filed legislation to provide retirees with a supplemental payment if the fund meets certain conditions. **This legislation could provide some financial relief to hundreds of thousands of TRS retirees, <u>even if the fund is not actuarially sound</u>**. The legislation works to accomplish two goals: protect the fund’s actuarial condition by ensuring it meets its investment return assumptions and does not fall below an 80% funded status; and provide retirees with some immediate relief.

It has been 12 years since our TRS retirees have received a real cost-of-living raise. It has been 5 years since a supplemental payment was issued in 2008. Our retirees are paying almost 300% more for gasoline and over 250% more for ground beef than they did in 2001, the time the last increase went into effect.

These bills would use excess pension fund earnings to support a supplemental payment for TRS annuitants. They would not have an adverse impact on the fund, as they maintain minimum levels of funding for the

TRS pension fund. The bills would not guarantee anything more than a one-time additional payment (keeping the overall cost very low for the system).

Quorum Report Interview: House Pensions Chair Bill Callegari

based on Tim Lee, Inside Line, 3-2-13

Harvey Kronberg's Quorum Report website [http://www.quorumreport.com/] is one of the most respected Texas political news sources today. On March 1, reporter John Reynolds interviewed the new House Pensions Committee Chairman Bill Callegari. TRTA has met with Chairman Callegari and we know that he is taking a good look at the state pension plans. In particular, we know he is very aware of the funding challenges that TRS has struggled with.

TRTA knows that 15 out of the last 18 years, the Texas Legislature chose to underfund the TRS pension fund. If the state would have maintained its 7.31 percent contribution that it reduced to 6 percent in 1995, TRS would have approximately $7 billion more in pension trust fund. It would also be actuarially sound.

Now, TRTA continues to fight against the idea that there is a pensions crisis in Texas. It is clear from this interview with Pensions Chairman Bill Callegari that this is a person who respects facts over rhetoric.

House Pensions Chairman Bill Callegari (R-Katy) sat down the first week of March with QR to talk about his steep learning curve as the new guy holding the gavel in one of the chamber's most important standing committees.

In our talk, he said, for the most part**, public pensions are in good shape and he discounts talk that they are in the type of crisis that has led towns in other states like California to declare bankruptcy.**

The systems "I've seen thus far are in reasonably good shape," Callegari said in our interview. "There's some in not so good shape. None of them I would consider in crisis at this point. But my drive is going to be to try to get them to the point where they're unquestionably not in crisis."

And he pretty convincingly put the kibosh on speculation that lawmakers might look at moving the state's employee and teacher retirement systems away from their current defined benefit plans this session.

The following are some of the comments of Pensions Chair Callegari from a much longer interview:

Q: One of the things that we constantly hear during the interim and we heard it as well in the hearing on Monday, the talk of pensions systems in crisis. Invariably you hear mention of out of state systems. Is it your perception that Texas pension systems are in crisis?

A: No, my perception is that for the most part those that I've seen thus far are in reasonably good shape. There's some in not so good shape. None of them I would consider in crisis at this point. But my drive is going to be to try to get them to the point where they're unquestionably not in crisis. And that means driving towards those key indicators – a 100 percent funding … 10 or less years amortization rate – to really make sure that we're in a very healthy position so that if we have a market crash, we're at a point where if we fall off, we don't fall off very far. What you have to realize is that it only takes one day to lose 20 or 30 percent of any kind of fund, whether it is pension or anything else. It takes years to build it back. And that's what we have to be prepared for. I would say that I don't think we're in crisis but I think we have to make sure that we start right now to be sure that we're not in crisis. And there are two ways to do this. One is by legislation. We'll do some legislation. But also just providing the leadership to tell them this is where you need to be. If you don't get there, we'll make you get there. We'll give you a chance to get there first. That's the way I tend to do things and what I want to strive for is give them the opportunity to do what they have to do. And if they don't, I think we have to look at legislation.

Q: One final question keying off again on the crisis question. Outside groups have leveraged this idea of pensions systems in crisis to advocate some very fundamental changes to the way pensions are dealt with. Moving from, again, defined benefits to defined contributions. From your perspective, do those types of reform efforts have any legs this session?

A: Well, I don't think they will this session. Some of the pensions, like the TCDRS (Texas County & District Retirement System) and TMRS, have already gone to a cash balance plan. That has some elements of both, you know, the 401(k) approach and permanent, I'm trying to think of the right word, amortized pensions. They've got kind of a two-tier system. In terms of the state ERS and TRS, I don't think we're ready to even think about doing that. You know, I think there's a real desire to try to keep those pensions as they are now, which are defined benefit processes. We just need to make sure that we beef up on the other side, the contribution side, to make sure we get there. And that they continue to be and maybe even get more conservative on the discount rates that they're using to be sure that we're tracking what's happened today. You know, you look at these things over a long term period. So you look over 30 years and the history may be good. But I'm going to encourage them to start looking more specifically at more recent years and be aware that things can change much more rapidly in today's world than it may have, you know, 30 to 40 years ago. And we just have to be very cognizant of that. And watch it both, I mean you still have to look at long term because that's the way you invest. But you've got to know what's happening in the short term so that you're using the right percentages and amortization rates.

Good News from House Budget Subcommittee

based onTim Lee, *Inside Line*, 3-1-13

The House Appropriations Subcommittee, chaired by long-time TRTA friend Rep. John Otto, received testimony from TRS, TRTA, and other interest groups. TRS testified that the pension fund's overall value has jumped from a low of $67 billion ('08) to the more recent $116 billion. However, the fund still is not actuarially sound. TRTA public testimony urged the House budget writers to put enough into the TRS fund, to make the pension fund actuarially sound and provide retirees with a much needed pension increase. TRTA also urged them to provide adequate funding for the TRS-Care health insurance program which will face serious financial shortfalls in the near future

The Sub-committee did recommend an addition of $136 million to the TRS fund and an increase in the TRS appropriation to 6.6%, the highest in 20 years! This action does not make the fund actuarially sound but it does signal momentum in our direction.

It's Garcia over Alvarado in Senate Dist. 6

With a total vote of 6% of the voters in Senate District 6 former Harris County Commissioner Sylvia Garcia (53%) defeated state Rep. Carol Alvarado (47%) for a seat in the Texas Senate in the March 2 runoff special election to replace the late Sen. Mario Gallegos, D-Houston. Both candidates pressed for greater support for education and healthcare.

Alvarado emphasized her priorities as education and health care and declaring, "I go back to Austin on Monday, and I won't skip a beat!" However, the vote canvass may delay Garcia's oath-taking for up to two weeks.

TRTA Lobby Day: March 20

Four busses from different pickup spots in the Houston area will carry 212 enthusiastic retirees to Austin and arrive at the capitol between 9 and 9:20am. **An ocean of red** will then blanket the Gallery of both the House and Senate as the session opens for the day. And yes, we are requested to wear red.

Our CCART group of 20 will leave at about **5:45am** from a spot in front of the Baybrook Barnes & Noble but parking somewhat away from the store front.

District IV is paying half the cost of the buses including bottled water and sandwiches from Jason's Deli.

And the message we carry:

1. We need a larger than 1% contribution to TRS CARE. If our premiums go up, and since we have not gotten an annuity increase, it only further reduces our spending power.
2. Make the TRS Fund actuarially sound.

Contact Your Legislators in Austin

Sen. Larry Taylor - 512-463-0111
Rep. John Davis - 512-463-0734
Rep. Greg Bonnen - 512-463-0729

You can also type "**Texas Legislature Online**" on your search engine and a host of information is available.

Correction for the February Legelog

Contrary to what was on the February Legelog Senator Larry Taylor is a member of the Education Committee and not yet its vice-chair.