



Report: Converting Texas teacher pensions to 401(k) would be costly

By Kate Alexander, Austin American-Statesman, 9-2-12

Dropping the guaranteed pension benefit for Texas' future school employees would be costly, complicated and reduce benefits for retirees, according to a new study by the Teacher Retirement System of Texas. [There are] no recommendations, but it does lay out the challenges of moving away from the guaranteed pension.

The study, mandated by lawmakers last year, states that the \$110 billion teacher fund can pay the benefits it owes through 2075 but will need additional contributions from the state or members to erase a \$24 billion long-term funding liability.

That liability, however, would increase to \$36 billion if new employees were closed out of the pension and instead received a retirement benefit akin to a 401(k), as critics of public pensions recommend.

The state would then need to find some way other than member contributions to pay off that liability, said Brian Guthrie, executive director of the Teacher Retirement System.

Even so, the critics say, they will continue to press for changes to the pension system during next year's legislative session. "It will get a good look. There is a high likelihood that changes will be made," said Talmadge Heflin of the Texas Public Policy Foundation, a conservative think tank.

Lawmakers must ensure that the state's retirement offering "is a combination of the best buy for the employee and for the taxpayer," Heflin added.

Ted Melina Raab, legislative director of the Texas chapter of the American Federation of Teachers, said the facts don't support abandoning the current retirement structure but that he still expects a major fight next year.

The Teacher Retirement System and its pension plan "are very efficient and deliver modest benefits at an amazingly low cost," Melina Raab said. "Any move away from (a guaranteed pension) is one that is based on ideology and politics."

Texas' teacher pension fund is considered to be in relatively good shape, but pension crises in other states prompted Texas lawmakers to look into the sustainability of the state's major retirement funds.

Eliminating the pension benefit would mean that most future school retirees would have no guaranteed retirement income because almost none of Texas' school districts

participate in Social Security. The Austin school district is one of the few that does, however.

While the pension benefit is politically hot, the more pressing issue is the solvency of the fund that helps to pay for retiree health care. TRS-Care had been set to run out of money in 2015. But recent changes to the benefit plan could keep it afloat until 2017, when the shortfall is projected to be \$1.2 billion.

The study lays out nine possibilities for extending the life of the health care fund, which serves more than 200,000 retirees and their families. Among the possible changes are raising the contributions from the state and school districts or creating health savings accounts for certain retirees to buy plans on the open market.

"All of the options are: Who is going to pay?" said Betsey Jones, the teacher system's director of health care policy and administration.

TRTA Responds to Comments of Talmadge Heflin and the TPPF

Adapted from Tim Lee, *Inside Line*, 9-1-12

Many of you know Mr. Heflin as a former Texas State Representative. He served Texas House District 149 from 1983-2005. During that time, Mr. Heflin made contributions to the Employees Retirement System of Texas and is now eligible to draw a defined benefit retirement from the ERS.

TRTA produced this response to Mr. Heflin's and the TPPF comment in the Statesman's story:

The Best Option is maintain the Plan

Public education retirees around the state appreciate the fact that the Teacher Retirement System of Texas (TRS) pension design study accurately points out that switching to a defined contribution plan for new TRS members would cost the Texas taxpayers billions of dollars, while significantly reducing benefits for future teachers. The study was well-researched, factually presented, and supports the reality that the TRS defined benefit plan is an effective, low-cost/ high-value retirement plan. Talmadge Heflin, Director of the Center for Fiscal Policy for the Texas Public Policy Foundation (TPPF), has supported the elimination of the TRS defined benefit plan by forcing public education employees into a defined contribution or 401(k)-style plan. In yesterday's article, Heflin is quoted as saying that "lawmakers must ensure that the state's retirement offering is a combination of the best buy for the employee and for the taxpayer." TRTA believes that the TRS study shows the current TRS defined benefit plan is a combination of the best buy for employees and for the taxpayers. TRS is well-funded, has never been subject to a member or legislative funding "holiday," has a

strong record of high investment returns, operates at a low cost, provides a great value to its members, pumps over \$7 billion into the state economy every year, and is a great value for all Texans.

Surely TPPF would agree that there is no room for wasteful government mismanagement. The study indicates that “closing” the plan would do nothing to help Texas educators or taxpayers. In fact, it explodes the TRS unfunded liability by adding another \$11.7 billion!

It is our hope that TPPF will not continue to push for a defined contribution plan that is inefficient, wastes billions of taxpayer dollars, and endangers the retirement security of current and future educators.

TRTA will continue to work with the Texas Legislature to strengthen the existing TRS defined benefit plan.

Tim Lee

Executive Director

Texas Retired Teachers Association

Legislative Study Affirms Defined Benefits More Efficient And the Best TRS Model

adapted Tim Lee, Inside Line, 9-1-12

The Teacher Retirement System of Texas (TRS) released two legislatively mandated studies on the pension fund’s plan design and the retiree healthcare program, TRS-Care.

.... The Texas Legislature directed TRS to conduct a study on the impacts of potential changes to its current defined benefit pension plan. Additionally, the legislature instructed TRS to address the solvency issues with the TRS-Care health insurance program by doing a separate study.

TRTA has participated in both studies by providing public testimony and relaying the concerns of our members to TRS.

The Results:

#1 TRS is able to pay currently projected benefits through the year 2075 even without making changes to the system; however, the State and TRS need to begin addressing the \$24 billion unfunded liability the system currently holds.

You may have read in previous issues of The VOICE or the Inside Line that TRS is at a funded ratio of 83%, a healthy benchmark for public retirement funds. However, Texas statute provides that in order to provide permanent cost-of-living increases to TRS annuitants the fund must have a funding period of less than 31-years. Currently the fund has a “never” funding period (meaning that based

on current funding levels and expected investment returns, the plan will not return to solvency). As you are aware retirees have not received a permanent increase since 2001.

TRTA does want to restate how grateful we are to all members of the Texas Legislature and to all our TRTA members who worked hard to provide the supplemental payment in 2008. That benefit adjustment was the first and only supplemental payment of its kind in the 75-year history of TRS. It came at a time that retirees were very much in need and it did help hundreds of thousands of TRS members. TRTA believes another such... payment may be needed as a stop-gap measure...

#2 The value of the retirement benefit available for TRS members is 36% less than the average benefits available to members of other state teacher retirement systems.

In other words, the average monthly annuity of \$1867 for a TRS annuitant is considered modest among peer pension plans.

#3 The defined benefit plan provides benefits at a lower cost than alternative plans.

....The study of the TRS system confirms that the current DB structure is the most cost efficient for the state and for taxpayers. In fact, changing TRS to a defined contribution plan (for new hires) would immediately add \$12 billion to the plan’s unfunded liability.

#4 The majority of TRS members would do a worse job of investing in their own plan with a defined contribution component. One of the greatest benefits of having a DB plan is the ability to pool assets and have the system itself assume the risk of investing while ensuring a monthly annuity for the members.

With a defined contribution plan, that risk shifts onto the retiree, who may outlive their benefit.... Many people [in 2008] with a defined contribution plan were immediately unable to retire as the market losses eroded their... invested retirement savings. The people in TRS also saw their plan’s value erode from \$112 billion to a reported \$67 billion in February of 2009. Today, the TRS pension trust fund has reclaimed those losses through professional investing and the ability to weather difficult economic times. Your TRS trust fund is again worth over \$110 billion. In a mere 3-year period, TRS values dropped from \$112 billion to \$67 billion, and bounced back up to \$110 billion. How many people can say they have regained their market losses so efficiently?

#5 Alternative plan structures carry differing levels of risk for the state and for TRS members. In other words, defined benefit

plans shift risk away from the State, but are far riskier for the retiree.

#6 Other state retirement systems that have changed their plan structures from defined benefits to other types of plans have also had to lower benefits to see cost savings for their plans. In other words, changes to plan design are accompanied by drastic benefit cuts for future retirees.

...Cutting TRS benefits any further may severely impact a future retirement security for over 1 million active school employees.

#7 Moving new hires to a defined contribution plan or alternative plan ...would actually increase [TRS] liabilities.

Additionally, changing to a DC plan also removes a source of revenue from the fund which could no longer be used as a means to pay down the unfunded liability. The state or TRS would have to find some other revenue source to eliminate that debt.

95% of public school TRS members do not pay into Social Security, meaning that the TRS benefit is their only form of retirement security. There is also the possibility that Texas school districts would have to begin paying into Social Security if new hires were put into a defined contribution plan. This creates a new financial burden for school districts and their employees, as well.

TRS-Care facing Funding Challenges

adapted from Tim Lee, *Inside Line*, 9-1-12

TRS-Care is facing an imminent shortfall in 2014-2015 so TRS was tasked with exploring changes to sustain the program for the long-term.

Results of the Study:

- #1 A new TRS Medicare Advantage program for certain TRS members is in place.**
- #2 TRS also re-bid its existing contract for a Pharmacy Benefit Manager and added a Medicare Part D plan as an option.**
- #3 The options available for extending the life of TRS-Care are changes to benefits and eligibility, changes to retiree premiums, or increasing revenue through contributions from the state, school district, active employee or from the federal government.**

While these changes are projected to save TRS-Care millions of dollars, they are not enough to prevent a

shortfall in the 2016-2017 biennium, according to the study. These plans are dependent upon high participation rates in the Medicare Advantage program, as well as the state restoring its contribution to the full 1% of teacher payroll.

TRS Makes its Budget Pitch

Now is the time to adequately fund programs!

adapted from Tim Lee, *Inside Line*, 8-31-12

The TRS has just presented its next biennium budget request to the Legislative Budget Board (LBB) and the Governor's Budget Office. Both agencies will play a critical role in evaluating and then presenting policy recommendations to the 83rd legislature.

Brian Guthrie, Executive Director of TRS, provided a summary of the system's budget needs for 2014-2015. He stated that the TRS baseline budget calls for a state contribution of 6.4% to the pension trust fund for both years. Mr. Guthrie also requested that an exceptional item be considered to help move the fund towards actuarial soundness by observing that if the state contributed 8.13% to the fund today, the fund would become sound.

Understanding the current budget environment, Mr. Guthrie noted that this request may not be reasonable and recommended that instead, the Texas Legislature consider making incremental increases to the fund. Under exceptional items TRS is requesting that the state make a 6.9% contribution in 2014 and 7.4% contribution in 2015, an increase of half a percent each year....

The study looked at a variety of *possible* methods for reducing the trust's unfunded liability, which is presently \$24 billion. Some options that would have a significant impact on the fund include raising the minimum retirement age from 60 to 62 or changing the multiplier. **TRS will make no recommendations to the Legislature about what options should be used to address funding issues; the study was done as an objective means of reviewing all possible options.**

On TRS-Care:

Mr. Guthrie asked that the 1% (of the aggregate active teacher payroll) state contribution be restored in both years of the upcoming biennium. During the previous legislative session, the state contribution was 1.0% in the first year of the biennium and 0.5% in the other.

He also suggested that with the cost savings from the new Medicare Advantage plan this plan, combined with the restored state contribution, will keep TRS-Care solvent through 2015.

TRTA Testimony Highlights Success of TRS Defined Benefits System

adapted from Tim Lee, *Inside Line*, 9-15-12

The House Pensions, Investments, and Financial Services Committee met September 12 to discuss the interim charge on state Retirement Systems. Several TRTA members from around the state attended the hours of hearing testimony. TRTA, including Tim Lee, made a strong case promoting the value of the existing TRS defined benefit retirement program for education employees and retirees.

Key points of the TRTA Testimony:

- TRS under current contributions levels and investments can pay benefits through the year 2075
- TRS is not coordinated with the federal Social Security program and is the sole source of retirement security for 95% of retired public school personnel
- TRS is not being ignored by the Texas Legislature, while other states with flailing pension plans have skipped contributions to their systems, sometimes for years
- TRS implementing a defined contribution style plan is not good public policy; it is, in fact, drastic, costly, and fiscally irresponsible
- TRS is not a tremendous burden on Texas taxpayers and is not an entitlement program
- TRS is not an overly rich benefit plan with an average monthly benefit of \$1,867
- TRS is not far from achieving actuarial soundness
 - TRS is not perfect, but would benefit significantly from modest changes to the system while maintaining its defined benefit structure. The issue at hand is about ideology versus good public policy
- TRS is in the forever business, with 75 years of proven success in providing benefits for its members
- TRS brings tremendous value to the state of Texas, including \$690 million in state revenues
- TRS is a bargain for Texas taxpayers, costing them far less than what private sector businesses pay in for their hourly employees
- TRS is well-managed and has earned more than \$40 billion since the two major market declines in 2008 and 2009
- TRS provides real retirement security and is a legacy worth protecting.

We are meeting with legislators, talking to educators, sending letters to newspapers, talking to additional media, and informing our own members.... And we expect action this session to improve the funding condition of the TRS-Care program. We need to tell legislators that their TRS-care is a vital part of their retirement benefit and their livelihood.

Candidate Lineup for November

(more details will follow in October)

State Senate District 11

Larry Taylor (larrytaylor.com) R

Taylor is supported by almost all of the area's mayors.

Jacqueline Acquistapace, (jacquelineacquistapace.com) D
Acquistapace lives in Pearland.

State Representative District 129

John Davis ([votejohndavis.com](http://vote johndavis.com)) R

Davis has spoken at CCART meetings several times.

State Representative District 24

Greg Bonnen (drgregbonnen.com) R

Dr. Bonnen is a neurosurgeon from Friendswood.

Rusty Cates (rustycates.com) D
Cates owns Coffee Oasis in Seabrook.

State Representative District 23

Wayne Faircloth (votefaircloth.com) R

Faircloth is a State Farm Agent in Dickinson.

Craig Eiland, (craigeiland.net) D
Eiland is the incumbent known for past TRTA support.

Congressional District 14

Randy Weber, Pearland (randyweber.org) R

Weber is a former state legislator heavily supported by conservatives.

Nick Lampson, Beaumont (lampson.com) D
Lampson is the former Congressman representing the SE Texas area.

Congressional District 22 *

Pete Olson (olsonforcongress.com) R

Olsen is a graduate of Clear Lake High School.

Kesha Rogers (kesharogers.com) D
Rogers is a Sugarland area libertarian.

And the new Congressional District:

Congressional District 36*

Steve Stockman (congressmanstevestockman.com) R

Stockman is a '95-6 former Congressman ('95-'96) from League City.

Max Martin (max4congress.com) D
Martin is Clear Lake area educational software businessman.

* In the Clear Creek ISD area the border separating CD36 and CD22 lies on along Highway 3 except for an area SW of Diana between Bay Area Blvd and Pineloch which is in CD36.