



“Stability-wise, we’re actually in pretty doggone good shape”

- Texas Comptroller of public Accounts

Susan Combs assesses the

TRS and ERS Funds

Tim Lee, *Inside Line*, 12-4-12

The Texas Comptroller’s office recently released a report about public pensions, providing details about Texas’ local and state pension programs as well as information about plans throughout the country.

Included in the report is information about the TRS...

You may read the report in full at the following link:

www.texasransparency.org/yourmoney/pdf/TexasItsYourMoney-Pensions.pdf

The report accurately states that TRS has a funded ratio of 82.7%, and also mentions that “a funded ratio of 80% or more signifies a fiscally sound plan.” The report, however, suggests that this is only one measure that assesses the financial soundness of a system and other measures must be considered...

Some of the key facts included in the report:

- “more than 80% of TRS members are not covered by Social Security” and
- TRS has “a 30-year investment return that is higher than the plan’s assumed rate of return of 8%.”

The report also features several mini-articles about pension plans in other states that have experienced significant funding crises. However, the Comptroller points out that most of Texas’ public pension plans are NOT in crisis, stating that “by recognizing early how public pension plans affect state and local finances around the country, state and local governments can act on this issue before it becomes a crisis in Texas.”

The Texas Retired Teachers Association (TRTA) has stated repeatedly that TRS is not in crisis. As you know, TRTA has stood firm in its position that the TRS defined benefit plan is a solid one. Groups such as the Texas Public Policy Foundation (TPPF) and Texans for Public Pension Reform (TPPR) have pushed the Legislature to change TRS and other

pension funds into defined contribution-style plans (such as 401(k)’s), that would drastically diminish the retirement security of hundreds of thousands of public education employees.

The comptroller’s report reinforces TRTA’s stance that moderate changes to pension systems can have a tremendous long-term financial impact.

TRTA agrees that “in Texas, many public pension systems appear to be stable and should be able to support the workers who have paid into them through retirement.”

On page 17, **the Comptroller lists methods of improving defined benefit pension plan health.**

Those methods include increasing contributions (from employees as well as employers), and reducing benefit costs (for example increasing retirement ages or years of service). TRS has made changes in the past five years, including adding restrictions on salary spiking and return-to-work requirements.

For the upcoming 83rd Legislative Session that begins in January, **TRTA supports the state increasing its contribution to the TRS pension fund to a minimum 6.4% in both years of the biennium. In the previous session, the state reduced its contribution to TRS to the constitutional minimum (6.0%) for one year of the biennium.**

TRTA also believes the State should increase funding to TRS by at least half a percent each year of the coming biennium (6.9% and 7.4%) to further stabilize and improve the TRS pension fund.

On page 11, the Comptroller singles out TRS and ERS stating that although “most of Texas’ local pension plans are on track to be fully funded within 30 years, ERS and TRS...are projected to run out of money without changes to current contribution rates and promised benefits.” The Comptroller’s report affirms that “state and local governments and their employees must maintain adequate contributions to ensure their plans remain fiscally sound.”

What does this mean? It means now is the time for those moderate changes to be made so that the system may be protected for the long-term.

TRTA’s major priorities this coming session include not only improved funding for the pension fund and TRS-Care, but working with the Legislature to create long-term solutions for both programs. Funding these plans using a two-year cycle is not working! TRTA is

ready to work with the Texas Legislature to create a strategy that improves TRS for the long-term, one that enables the system to be financially sound enough to provide a much-needed cost-of-living increase to TRS annuitants.

TRS is a legacy worth protecting, and has 75 years of proven success in providing retirement security to its members. As the Comptroller states in her report, the “challenges facing these systems are significant and will continue, calling for continuing vigilance from our leaders.” TRTA is looking to the Legislature to be partners with us in facing these challenges head on....

Gallegos Senate District to Remain Vacant until March 30

The recently deceased Senator Gallegos of District 6 easily won the General Election and now a special election must be called by Gov. Perry. Despite protests from constituents, best political bets suggest that that a special election will not happen until the legal maximum of March 30. The Gallegos District, sprawling snake-like over much of eastern Harris County, was drawn to favor a Democratic candidate. Now a virtual “civil war” has erupted between proponents of **Rep. Carol Alvarado** and former advocates for Harris County **Commissioner Sylvia Garcia**.

Last week the Chronicle’s Patricia Kilday Hart commented that Gov. Perry sees these events as “a good thing” since the 31-member Texas Senate will now drop to 30 with “one less pesky Democrat.” **The political result:** the first half of the 83rd Legislative Session starting January 8th will see 19 Republicans and only 11 Democrats, one member short of Constitutional standard.

Two TRS Bills to Watch

Rep. Larry Gonzales, Dist.52 from Round Rock, has filed **HB103** which would set up a one-time \$2400 supplemental payment for TRS retirees. According to his website Gonzales is a second term “conservative Republican” whose wife teaches for Round Rock ISD.

Rep. Mando Martinez, Dist. 39 from Weslaco, has filed **HB 175** which would create “**a cost-of-living increase**” applicable to benefits paid by the TRS beginning in 2014. Martinez is a five-term Democrat, a licensed paramedic and served on the Appropriations Committee in the last session. To read an entire bill google “Texas Legislature

Online” and choose “bill look-up,” enter the bill number and click “Submit.” Once on the bill’s page look at the top and choose “Text” which will give you the word for word bill or “Action” which will show the stages of the bill’s progress.

Legislative Leadership Reshapes for the 83rd Legislature

Lt. Gov. David Dewhurst as presiding officer of the Texas Senate has already rearranged committee chairs. The most dramatic upshot was his choice of conservative Sen. **Dan Patrick**, R-Houston, to chair the Senate’s Public Education Committee assuring a battle over school choice and vouchers. The *Dallas Morning News* asked if Dewhurst is tracking right also noticing “his decision to dethrone the higher education committee chairwoman, Judith Zaffirini, Democrat of Laredo.”

Speaker of the House Joe Straus, the presumed representative of mainline Republicans like George W. Bush, David Dewhurst and Kay Bailey Hutchison has received threats of Tea Party opposition. Two potential rivals to Speaker Straus leadership are **David Simpson**, a Longview Tea Party libertarian and **Bryan Hughes**, a Mineola anti-tax, anti- government Republican. However, according to Texas Monthly editor Paul Burka, “neither has the gravitas to be speaker.” The test will come on January 8 when the other 147 members of the legislature vote on a presiding officer. Straus allies say he’s got enough commitments from members to win another term. But, according to the Texas Tribune, Tea Party-oriented members say that he is “too moderate and gives too much ground to the Democrats.”

Texas Tribune Version of Tim Lee’s Report of Nov. 19

Ben Philpott, *Texas Tribune*, 11-20-12

Texas lawmakers are once again heading into a legislative session facing concerns over the fiscal health of the state’s major pension systems, and changes to retirees’ health insurance may play a role.

The state’s Teacher Retirement System, for instance, is not out of money. As of August, the fund was valued at \$111 billion, about \$41 billion more than just three years ago, at the height of the recession. But the fund’s long-term stability is in question.

So when the state reduced its contribution to the fund, the retirement system decided to lower its own costs, starting with health insurance.

“We are actually going to offer a Medicare Advantage option for our Medicare-eligible population,” Brian Guthrie, the system's executive director, told the state's Senate State Affairs Committee on November 19th.

“We are structuring that program in a way that everyone who is Medicare-eligible will be automatically enrolled but they do have the opportunity to opt out. That opt-out period is occurring right now and will end at the end of this month.”

He says that if the system can reach 80 percent participation in the program, it could save the fund more than \$300 million over the next two years, enough that the system wouldn't need extra funding from the Legislature.

But that plan is just one of several proposals for some more long-term financial stability — proposals that could require changes to the law or other legislative approval. State Sen. Rodney Ellis, D-Houston, says the problem with making any drastic changes is how it could affect longtime members who are now on fixed incomes and didn't budget for a change.

Guthrie says the goal... was to give lawmakers several options to consider, and then begin running the numbers on the most popular options. The 2013 legislative session begins Jan 8.

On Tim Lee's Inside Line, 11-19-12

Three weeks ago Tim Lee spoke before the Senate State Affairs Committee on TRS issues including “a charge to examine the feasibility of implementing health reimbursement accounts (HRA) and Medicare exchanges for Medicare eligible participants currently covered by and receiving health coverage through TRS.” The following is Lee's reaction to the pending committee hearing:

We know many TRS retirees are going through significant changes in their health care coverage options right now. The new Aetna Medicare Advantage plan gives many retirees a program more suited to their health care needs, while others have chosen to opt out and remain in TRS-Care.

More changes to retirees' health care plans are sure to create apprehension.

The basic definition of a health reimbursement account is that it is an employer-funded medical reimbursement plans. The “employer” (in this case, TRS) would set aside a specific amount of pre-tax dollars for employees to pay for health care expenses on an annual basis. HRAs are most commonly offered in conjunction with a high deductible health plan. As a rule, moving to a high deductible health plan will result in reduced premium costs, which creates real savings on healthcare costs for the employer.

All employer contributions to the plan are 100% tax deductible to the employer, and tax-free to the employee. Enrolling in an HRA provides two major advantages to employees: (1) a reduced health insurance premium resulting from the high deductible health plan, and (2) availability of employer-sponsored funds to pay for medical expenses incurred prior to point at which the insurance deductible is met.

Depending on the plan design, expenses that may be reimbursed from the HRA include the following: deductibles, co-payments, co-insurance, prescription medications, vision expenses, dental expenses, and other out-of-pocket health-related expenses.

TRTA firmly believes that there is no better health care option for our members than TRS-Care. We feel it is vital that the Legislature focus all of its resources on addressing the revenue shortfalls that are imminent in the TRS-Care plan. While we are always open to working with the Legislature on solutions for protecting the health insurance program for the long term, TRTA does not support introducing HRAs as an option for TRS retirees at this time.

Our Executive Director added the following advice: “TRTA members need to tell legislators that their health care is a vital part of their retirement benefit and their livelihood. They should also remind legislators that this program is not a “no-cost” health care plan. TRS-Care participants pay significant premiums to participate in this plan. Combining what

retirees pay in premiums, as well as deductibles and out-of-pocket costs indicates that plan participants are paying the highest portion of these health care costs.

TRTA members want the Legislature to restore funding to the TRS-Care program that was cut last session and to be ready to provide any additional funding necessary to maintain the TRS-Care retiree health insurance program.”

Here are TRTA's key points from the testimony regarding the pension fund:

- TRS is NOT in crisis and under current contributions levels and investment return assumptions, the plan 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
- Implementing a defined contribution style plan for TRS is not needed, and 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.

TRTA Lobby Day Fee: \$22

On Wednesday, March 20, 2013 CCART travels to Austin to express our opinion of whatever legislation is pending at that time. District IV Legislative Chair Marcy Cann is doing the organizing and the collection of funds will be complete by mid-February. District IV is paying half the cost of the buses including bottled water and sandwiches from Jason's Deli. Our **pickup location** will likely be in front of **Barnes and Noble at Baybrook Mall at about 5:45am** getting us to the Capitol by 10am.

A Message from Rep. Bonnen

With no assigned office or staff as yet Representative Bonnen sent the following message:

Last week I was in Austin for orientation for freshman legislators. The first two days we covered logistical and operational aspects related to our new role as state representatives. The next two days were spent in policy orientation. One of the best aspects of this experience was the opportunity to spend time getting to know my colleagues from around the state.

I am excited about being sworn into office on Jan. 8. I appreciate our education community and all that you have done for our state. I look forward to representing you and appreciate continued communication with CCART. I would like to wish everyone a Merry Christmas and a prosperous 2013! Greg Bonnen
832-715-8697

Greg Bonnen, MD