

Looking Good: TRS August 2013 Actuarial Valuation hits 117.4 Billion

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

Last month the Teacher Retirement System of Texas (TRS) held a meeting to share its August 2013 actuarial valuation of the pension trust fund and to provide an update on the TRS-Care retiree health insurance program. While much of the news shared was good, a common sentiment that was shared by both actuaries and TRS staff members was that legislative changes made in 2013 need to be maintained.

TRS Executive Director Brian Guthrie thanked everyone attending the meeting for their support during the 83rd Legislative Session, stressing that Senate Bill 1458 successfully made the pension fund actuarially sound for the first time in many years.

Mostly Good News

The forecast for the pension fund is dramatically improved, almost entirely as the result of the SB 1458 legislation. This is because SB 1458 increased revenues from the state, the active employees and added a new revenue stream from the school districts which goes into effect in 2015. It is important to know that when revenues change, the accumulation occurs over time. In other words, it is vital that TRS continues to receive these contribution levels in order to maintain actuarial soundness in the future.

As of August 31, 2013, the fund has a market value of \$117.4 billion, compared to \$111.4 billion a year ago at the same time. The funded ratio was 80.8% as of August 31, 2013, which is higher than expected. The market value of the fund also improved since last year, and is now at 77.9% compared to 77.2% last year.

TRS had a return of 8.9% in investments, higher than the projected return of 8%. Liabilities for the system grew more slowly than expected, partly due to lower than projected salary

increase for active employees (this was 2.5% as opposed to the expected 5.5%). This resulted in an actuarial gain of almost \$2 billion. Payroll growth increased slightly over projections as well due to a population increase in active employees in 2013.

Actuarial calculations are based on a variety of factors and can be confusing at times, but because of SB 1458, TRS could have \$31.3 billion in unfunded liabilities and still be considered actuarially sound by state law. This is good for the TRS investment team because it allows for more market volatility and results in much smaller swings in the funding period over time.

The current unfunded liabilities are \$28.9 billion, and will grow slightly to about \$32.2 billion in 2014 with a ratio of 79.5% (assuming 8% return on investments). TRS cautioned that the unfunded liability of the pension fund will grow slightly for a few years. This is due in part to the fact that the new contribution rates for the fund are going into effect over a period of several years.

The liability will actually appear to grow in dollar amount for the next 20 years, but the funded ratio will improve. This phenomenon is part of the plan. If the fund follows this pattern as projected, this will bring TRS to 100% funded status within 28 years. 20 years from now, the unfunded liabilities for the pension fund will actually be higher than they are today. However, they should be 0 by the end of 28 years if contribution levels remain the same.

TRS also stated that if contribution rates returned to what they were prior to the implementation of SB 1458, the fund will be right back where it started.

If everything that was accomplished by SB 1458 was undone in 2015, there would not be much improvement to the system at all. We must fight to keep the changes put in place by SB 1458!

An independent actuary speaking during the meeting also recommended that any future COLAs ideally should be tied to an increase in revenues. He also stated that the fund would need to be 100% funded to grant regular COLAs without requiring additional revenue. Without it, the risk of having to cut benefits down the line for future retirees increases substantially. **Right now, TRS says “we are not there.” He estimated that it takes about a 10% increase in revenues to pay for a 1% recurring COLA.**

GASB Challenges Checkmated by SB 1458

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

Many of the changes made to TRS this year were made to prevent a huge increase in pension fund liabilities with the advent of new Governmental Accounting Standards Board (GASB) rules in 2014. The new standards force a fund to pass a test to determine if it can continue to use its usual investment return assumption. Based on last year's funding level and unfunded liabilities, TRS would have failed the test. **With all of the changes put into place by SB 1458, TRS expects to pass and be able to use the usual 8% investment return assumption.** Again, this possibility is based upon the new contribution rates established by the legislation continuing into the future.

TRS-Care Only Solvent through 2015

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

An update on the TRS-Care retiree health insurance program yielded information that is similar to what we have been hearing throughout 2012 and 2013.

TRS-Care is expected to be solvent through the end of FY 2015. However, it faces a shortfall into the billions after that time if nothing is done to improve it.

TRS Executive Director Brian Guthrie said that the sustainability study done on TRS-Care in 2013 will be updated this year. In February 2014, the TRS Board of Directors is meeting in Corpus Christi and will host a town hall meeting about health care. TRTA members are welcome to attend this meeting in person to provide feedback and ask questions. TRS will also address comments and questions via phone calls and emails. The exact date of the meeting has not yet been determined. TRTA will report this information as soon as it becomes available.

Many of our members ask why TRS-Care is experiencing significant financial issues.

Although the new Aetna Medicare Advantage plan introduced this year did create some cost savings for TRS-Care, it has not been enough to overcome the cost drivers of the plan. The most significant cost driver of TRS-Care is the non-Medicare eligible category of participants. The cost for those participants is about 12 times as much as Medicare participants. Other drivers include increased prescription and medical costs, as well as

increased utilization of the plans due to aging population.

The Medicare Advantage plan has about 70% of those eligible to participate using the plan, which is about 80,000 people. Participation in the Medicare Part D prescription plan is at about 83%.

Today's report by the independent health care actuary confirms the concerns that TRS-Care faces a major funding shortfall in the very near future.

TRS cautioned that the plan will need reform, possibly in the form of increased revenues, increased retiree premiums, benefit reductions, or a combination of factors.

Right now, retiree premiums account for 34.2% of the cost of TRS-Care. Contributions from the state account for 23.2%.

Chronicle points out Congressman Stockman Ethical Problems

Congressional District 36 snakes from the NASA area at Highway 3 across the most rustic parts of east Texas to the Louisiana border and Steve Stockman was elected to that sprawling District in the 2012 election. Last month the *Chronicle* had the following to say about Congressman Stockman:

Both as a candidate and as a congressman, Rep. Steve Stockman of Clear Lake has failed to make federally required disclosures about business affiliations that stretch from Texas to the British Virgin Islands, and has provided no details about the business he claims as his sole source of income. Stockman returned to office in 2013 after 16 years away from Congress - crediting a low-budget, come-from-behind campaign to which he claimed to have lent more than \$100,000 of his own money. Stockman failed to file a federal disclosure form during his candidacy in 2012 when he ran for the newly created District 36, which stretches east and north from Southeast Harris County, around Beaumont, and beyond to the Louisiana line. Every other Texan in Congress, whether incumbent or freshman, filed a report in 2012.

....Some of Stockman's antics would be funny if he occupied a less-significant office, but in a Southeast Texas district that's poorer than most, a district that not only includes NASA's Johnson Space Center but also needs jobs and health care and education opportunities, residents deserve better from the person who purports to represent them in Washington.

Houston Chronicle, 11-24 -13 and 12-5-13

Nobel Economist Paul Krugman calls Defined Contributions a Failure

In a NY Times column two weeks ago Paul Krugman, a Nobel laureate, analyzed the reasons many economists are calling for an expansion of the Social Security System. Senators Tom Harkin and Elizabeth Warren are supporting legislation that would increase Social Security benefits even if it would require a tax increase. Krugman explained the stark differences between the retirements of 65 year-old janitors and 65 year-old lawyers. He pointed out that expanded life expectancy is overwhelmingly a story about the more affluent. In the process of his reasoning he solidly defended **Defined Benefit** plans just like our TRS as follows:

Today... workers who have any retirement plan at all generally have defined-contribution plans — basically, 401(k)s — in which employers put money into a tax-sheltered account that's supposed to end up big enough to retire on.

The trouble is that at this point it's clear that the shift to 401(k)s was a gigantic failure. Employers took advantage of the switch to surreptitiously cut benefits; investment returns have been far lower than workers were told to expect; and, to be fair, many people haven't managed their money wisely.

As a result, we're looking at a looming retirement crisis, with tens of millions of Americans facing a sharp decline in living standards at the end of their working lives. For many, the only thing protecting them from abject penury will be Social Security....

[Paul Krugman, *NY Times*, 11-21-13]

Voter ID Problems

The Burnt Orange Report (BOR) has been keeping track of the voter ID problems encountered in last month's election. Less than 10% of the registered voters turned out and many election wonks are concerned about the March 4 Texas Primary where the vote count could go into the millions. BOR reports the following stories:

Meet Peggy: she's 90 years old and a registered voter. She can't get an ID because she doesn't have her citizenship documentation. She came to the U.S. with her parents thru Ellis Island. She is a naturalized citizen. She doesn't have the money to get the required documents. She missed the

deadline to apply for a mail ballot, so she didn't get to vote in the November election.

Or what about Alberta? She was born in Wyoming. She has a copy of her Wyoming birth certificate. She was married in Washington State. She has lost her marriage license and has not been able to get one so far from Washington State. She lived in Colorado for a while and is still using her Colorado driver's license, which will not expire until 2015. She has been living in Texas recently and is registered to vote in Texas. She voted here in the 2012 election. She wants to continue to vote but has been told she cannot vote in Texas unless she gets a copy of her marriage certificate which will link her current name to the name on her birth certificate so she can get an allowable Texas photo ID.

Or Evelyn - She has been trying to get a Texas personal id so she can vote and fly. She has a birth certificate, Social Security card, proof of residency and unexpired Driver's license from another state, but DPS won't issue an id without her marriage license. The county where she was married can't find her marriage license. BurntOrangeReport.com, 11-21&27-13

The Dallas Morning News (DMN) reported that of the 66 people charged with voting irregularities since 2004 "only four cases involved someone illegally casting a ballot at a polling place where a picture ID would have prevented it." All of the other cases involved mail-in ballots which do not require a picture ID. Rep. Trey Martinez Fischer put it bluntly when he told the DMN "If you really wanted to go after all the voter irregularities, you'd be looking at mail ballots."

Rep. John Davis Retires from Dist. 129; 7 Republicans to Vie in March Primary

The following Republicans appear to be seeking John Davis old position as representative for District 129:

Sheryl Berg [SherylBergforTexas.com]

Her website states that she is a 33-year speech pathologist and founder of "Bay Area Speech Language Learning Associates" and lives in the UHCL area. She is currently President of the Space City Rotary and as a member of the State Republican Executive Committee.

Brent Perry [brentperryfortexas.com]

His website indicates that he has been a "leader in the Federalist Society" and trustee of the Tom DeLay Legal Defense Fund since 2000 and supports "the sanctity of unborn life, and preserving traditional family values."

Jeff Larson [texansforjeff.com]

His website indicates that he worked in NASA Mission Control (25 years) and afterward helped form a small aerospace business and "helped plan the first Houston Tea Party rally at Jones Plaza."

He has an MA in Electrical Engineering from UH.

Briscoe Cain [briscoecain.com]

His website shows a young Seabrook lawyer who is a "proven conservative leader with strong moral convictions" and "a strong commitment to his community." He even "traveled as a volunteer for Gov. Rick Perry in the Iowa Straw Poll."

Chuck Maricle . . [chuckmaricle.com]

His website describes a 23-year Sagemont resident and a computer engineer and "a leading industry expert and technologist with laser and photonic systems currently holding four medical laser patents." He is an army veteran and currently serves in the US Coast Guard Auxiliary.

Dennis Paul [dennispaul.com]

His website indicates that he is a UH graduate, an Engineer and a 27-year Webster resident. He claims "that half of the HD 129 Pct. Chairs are already supporting him." He is a 15-year Republican precinct chair and 7-year member of the State Republican Executive Committee.

Mary Huls [maryhuls.com]

Her website says she is the chairman of the Clear Lake Tea Party, a lifetime NRA member, a former county coordinator for True the Vote and a Friendswood resident. For over 25 years, she worked as a senior financial analyst at Emory University and at the UT Medical Center before retiring.

John Gay of Pasadena has filed as a **Democrat** but has no website as yet. He ran as an anti-Obama Republican for Congress (CD14) in the last election and indicated at that time that he was a "Texas Auctioneer," a Texas A&M graduate (B.S. in Industrial Distribution) and that he and his wife are both auctioneers in a family auction business.

**Rep. Eiland has Retired from Dist. 23;
2 Republicans compete March 4**

Wayne Faircloth [votefaircloth.com]

His website indicates that he started as teacher, then a manufacturers representative and for the last 27 years he has built an insurance business from the ground up in Dickinson. He is a Sam Houston State graduate and has served on Dickinson City Council, Galveston County Water Board, and as a Commissioner on the Galveston/Texas City Pilot Commission.

Bob Senter [bobsenter.com]

His website states that he is a partner/shareholder with Rust Ewing Insurance in Texas City with a degree in Business Administration from Baylor University. Currently he is V-P of Gulf Coast Big Brothers/Big Sisters, Treasurer of Texas City ISD Foundation for the Future and Board Member of the Texas City Firefighters Pension Board. He has also served as a board member of the Texas City – La Marque Chamber of Commerce.

* Democrat **Susan Criss** has resigned as a 15 year District Judge of the 212 Court and is expected to run unopposed in District 23 representative race.

No Contests in 24, 29 & SD11

Republicans Rep. **Greg Bonnen** of Friendswood (Dist. 24) and **Ed Thompson** in Pearland (Dist. 29) have thus far drawn no opposition for the March 4 Republican primary election. If no Democrats file in either race by December 9 both incumbents will continue as our local House Representatives in Austin. Senator Larry Taylor with a four-year term is not up for election until 2016.

U.S. Congress 36 and 14 get Contests

CD36 Steve Stockman [stockman2014.com]

CD 36 Michael K. Cole [michaelcole.us]
an Orange **Democrat**

CD 14 Randy Weber incumbent

CD 14 Donald G. Brown a Vidor **Democrat**

Contact Your Legislators

Sen. Larry Taylor - 512-463-0111
League City 281-332-0003

Rep. John Davis - 512-463-0734
NASA area 281-333-1350
Dist. 129 area north of Clear Creek

Rep. Greg Bonnen - 512-463-0729
League City 281-338-0924
Dist. 24 - area south of Clear Creek

Rep. Ed Thompson - 512-463-0707
Dist. 29 – area of Pearland/Alvin

Rep. Craig Eiland - 512-463- 0502
Texas City (800) 345-2630
Dist. 23 – Bacliff/Texas City