Public Retirement System
Issues and Trends

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Public pensions in the U.S.

- ~$3.6 trillion in assets
- ~14 million active (working) participants
  - 13 percent of the nation’s workforce
- 9+ million retirees and their survivors receive ~$240 billion annually in benefits
- Annual contributions = $166 billion
  - $121 billion from employers; $45 billion from employees
  - Approximately 4.0 percent of all state and local government spending goes to public pensions
- Of 4,000 public retirement systems, the largest 75 account for 80+ percent of assets and members
- Aggregate funding level = ~74%

US Census Bureau, Public Fund Survey
Size of bubbles is roughly proportionate to size of plan liabilities.

Public pension funding levels and Texas statewide plans, FY 14

Median = 73.4%

ERS
TRRS
TCDRS
TMRS

Public Fund Survey
March 2016
Aggregate Public Pension Funding Level, FY 01 to FY 14

Aggregate Actuarial Funding Level %

Trillion

$4

$3

$2

$1

Fiscal Year

01 02 03 04 05 06 07 08 09 10 11 12 13 14

Actuarial Value of Assets
Actuarial Value of Liabilities
National trends

- States are taking a pause from an unprecedented period of public pension reform, from 2009 to 2014
- Pension funding levels have stabilized
- Pension costs are stabilizing for most plans
- Heightened sensitivity to making required contributions
- GASB requirements are producing new ways of looking at pension obligations
- Investment return assumptions remain under scrutiny
- Looming federal interest in increasing public pension oversight and regulation
Pension reforms in recent years

- Nearly every state modified public pension benefits, raised employee contributions, or both, since 2009
- Lower benefits:
  - higher retirement age
  - more required years of service
  - lower multiplier
  - longer vesting period
  - reduced, suspended or eliminated COLAs
- Increased use of hybrid retirement plans
- New state hires in Oklahoma as of 11/1/15 have only a defined contribution plan
States that reformed pension plans, by year, 2007-2015

“Significant Reforms to State Retirement Systems,” NASRA 2016
States that increased employee pension contribution rates

“Significant Reforms to State Retirement Systems,” NASRA 2016
States that reduced employee pension benefits

“Significant Reforms to State Retirement Systems,” NASRA 2016

Legend:
- Blue: Longer Final Average Salary Period
- Red: Reduced Multiplier
- Purple: Both
States that reduced automatic COLAs

“Significant Reforms to State Retirement Systems,” NASRA 2016
States that established new hybrid plans

Plan Type  | Combination hybrid  | Cash balance

“Significant Reforms to State Retirement Systems,” NASRA 2016
States with hybrid plans

“Significant Reforms to State Retirement Systems,” NASRA 2016
Legal Rulings

- Many state pension reforms that affected current plan participants provoked lawsuits
- An unprecedented number of legal rulings on public pension issues have been issued since 2010
- Rulings have run the gamut, from affirming to rejecting states’ authority to reduce benefits and increase contributions
- Rulings in some states have contradicted rulings in other states on the same basic issues
- Some states have clear and strong constitutional protections against reducing pension benefits
- Federal bankruptcy rulings in 2014 in Detroit and Stockton, CA permitted reductions in pension benefits despite strong pension legal protections in those states
Fallout of New GASB Standards

- New standards may be an incentive for pension plan sponsors to reform their plans.

- Because new standards focus on accounting, there is some confusion regarding other pension calculations:
  - Pension plans continue to calculate funding numbers.
  - Some bond ratings agencies perform proprietary pension calculations.
Public sector employment growth remains muted
Relative change in private and state & local government employment, Jan-06 to Apr-16

Final data as of April 2016

Bureau of Labor Statistics, compiled by NASRA
Median change in membership, FY 01 to FY 14
Public sector salary growth remains modest
Annualized change in wage and salary costs, private and state & local government, Jan-05 to Mar-15
Median Contribution Rates, Social Security–eligible and –ineligible, FY 02 to FY 14, general employees and teachers

*Public Fund Survey*
March 2016

*Public Fund Survey*
July 2015

NASRA
Employer (taxpayer) spending on public pensions, 1984 to 2014

Spending on pensions as a percentage of all spending

Texas in FY 13: 2.84%

Source: NASRA, AARP
Change in distribution of investment return assumptions, FY 01 to present

Public Fund Survey, NASRA Dec-15
Median annualized public pension fund investment returns for selected periods ended 12/31/15

- 1 year: 0.3%
- 3 years: 7.5%
- 5 years: 7.0%
- 10 years: 5.8%
- 20 years: 7.2%
- 25 years: 8.3%

Callan Associates
Public pensions in Texas

- ~$240 billion in assets
- ~1.44 million active (working) participants
- Nearly 300k retirees and their survivors receive ~$13.7 billion annually in benefits
- Annual contributions = $10.2 billion
  - $6.3 billion from employers; $3.9 billion from employees
  - Of all state and local government spending in Texas, 2.84 percent is spent on public pensions
- Of 92 public retirement systems, the largest four (TRS, ERS, TCDRS, TMRS) account for 88 percent of assets and members
- Aggregate funding level = 80%

US Census Bureau, Public Fund Survey, Texas
Pension Review Board

NASRA
Public pension funding levels in Texas, FY 14-15

Median = 71.3%

Size of bubbles is roughly proportionate to size of plan liabilities

Public Fund Survey, Pension Review Board
May 2016
Municipal Pensions in Texas, Outside TMRS

- Larger cities in Texas sponsor their own pension plans
  - Houston, Dallas, San Antonio (for fire and police), Ft. Worth, Austin, El Paso, and Galveston
  - 16 plans

- Governance of these plans varies widely
- Authority over key elements of plan design and financing is distributed among the pension board, city council, local voters, and legislature
- Almost every plan governance arrangement is unique
- There have been calls to modify these arrangements, particularly to increase local control
Pension challenges facing state and local government

For some states and cities, adequately funding their pension will be a challenge, especially for those with large unfunded liabilities.

Providing a retirement benefit that aligns with key stakeholder objectives:

▲ For employers, to attract and retain qualified workers
▲ For taxpayers, to ensure delivery of public services in an affordable and cost-effective manner
▲ For public employees, a competitive compensation package
Pension challenges facing state and local governments

Understanding and responding appropriately to multiple pension measures (books, budgets, and bonds):

▲ Books: GASB statements provide standardized financial reporting

▲ Budgets: Actuarial funding calculations identify the amount needed to fund the benefit

▲ Bonds: Bond rating agencies assess the degree to which pension obligations affect a government’s ability to repay bonded debt

Possibility of federal oversight

▲ PEPTA: Public Employee Pension Transparency Act

▲ Would require state and local government sponsoring pensions to submit to the US Department of the Treasury calculations based on the use of a risk-free interest rate

▲ Creates a burdensome reporting requirement under the threat of losing access to municipal bond markets