An Update on Public Pensions: Where They Are and How They're Changing

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NASRA

Presentation Summary

- Overview of the public pension community in the US and how TMRS compares
- What's changing
- What to expect

Public Pensions in the US

- 5,000+ public retirement systems
- ~14 million active, working plan participants
- 11 million retirees and other annuitants
- $4.5 trillion in combined assets
- The largest 75 systems account for more than 80% of all assets and plan participants
- Pension plans pay out more than $300 billion annually

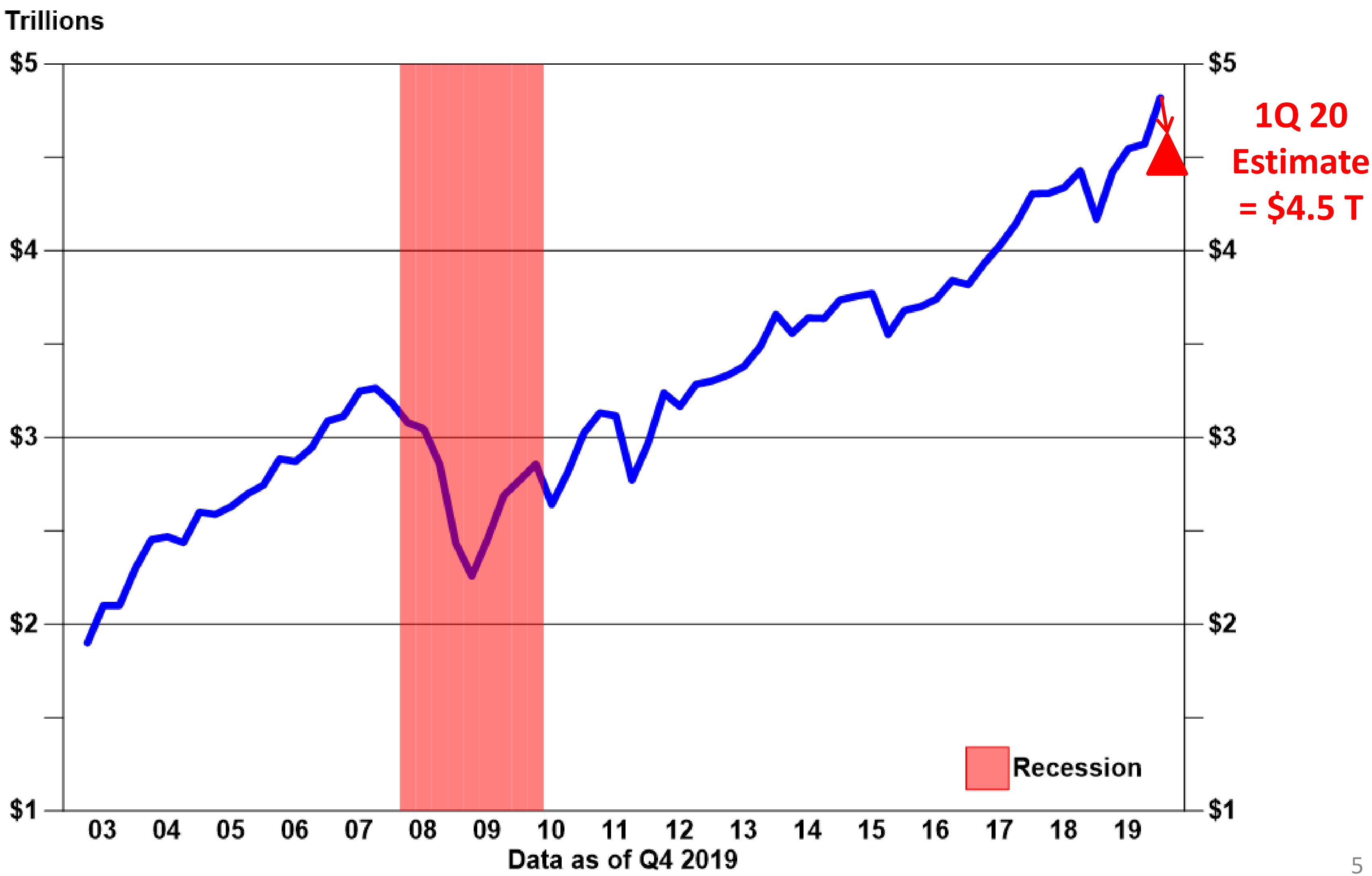
U.S. Census Bureau, NASRA Public Fund Survey

Public Pensions in Texas

- ~$280 billion in assets
- 1.37 million active (working) participants
- 730,000+ retirees and their survivors receive $18.8 billion in benefits annually
- Annual contributions = $13.75 billion
  - $5.5 billion from employees
  - $8.3 billion from employers
- Approximately 100 systems in the state
- TRS alone accounts for more than half of the assets and participants
- TRS, ERS, TCDRS, TMRS account for 90+%
- Aggregate funding level = ~77%

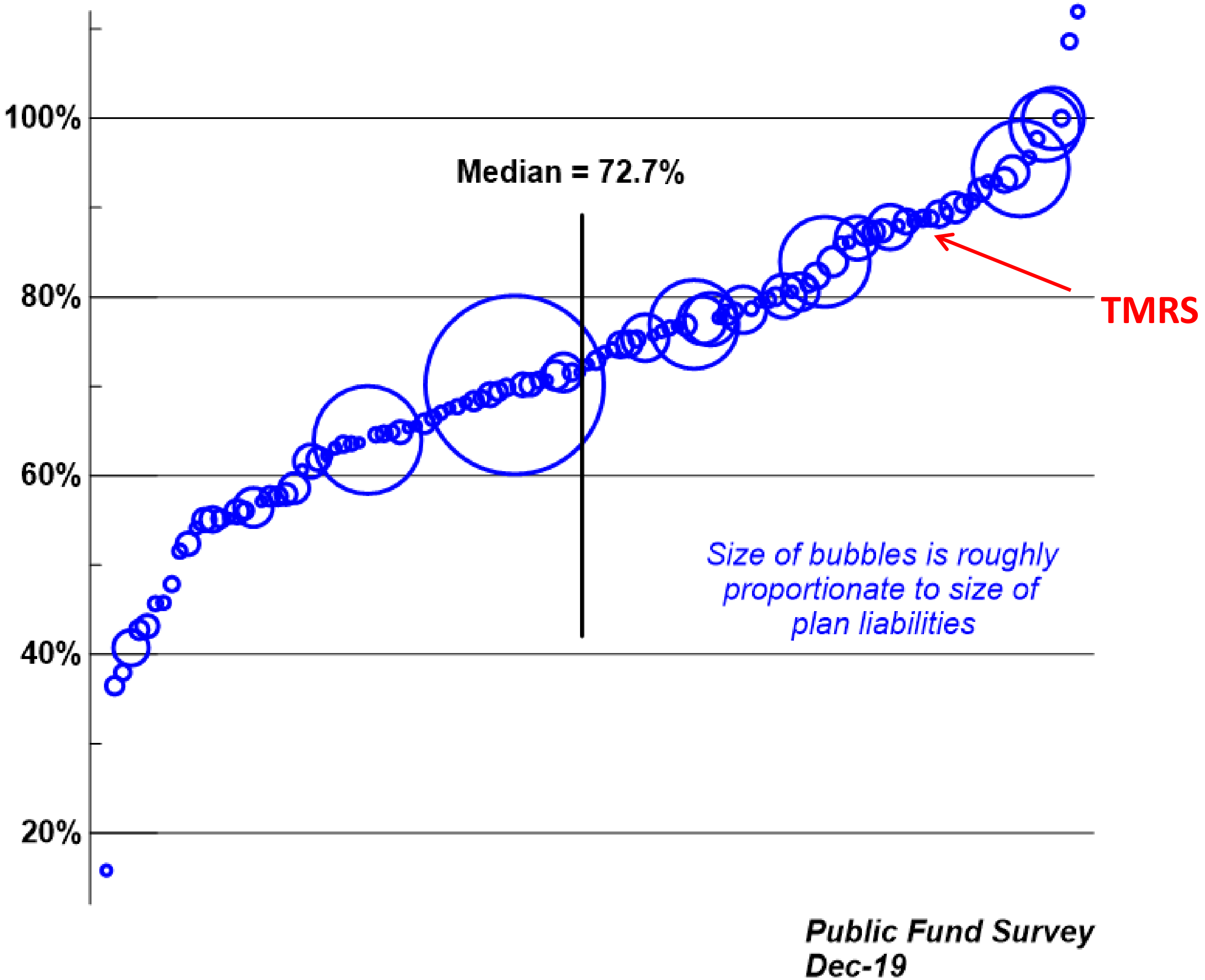
U.S. Census Bureau, Pension Review Board, Public Fund Survey

Change in Aggregate Public Pension Assets, 2003 to 2019

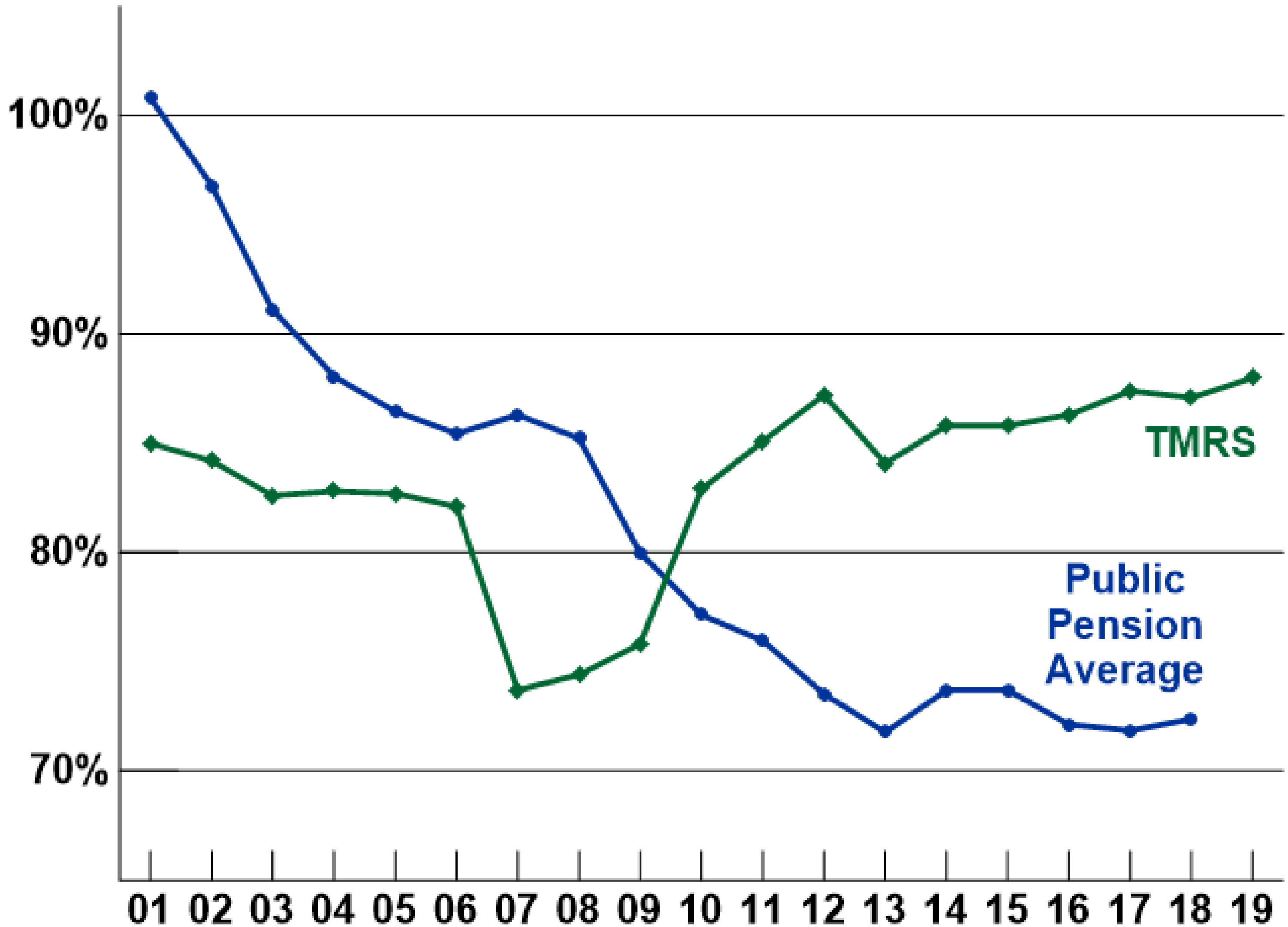


Federal Reserve

Distribution of Public Pension Funding Levels, FY 18

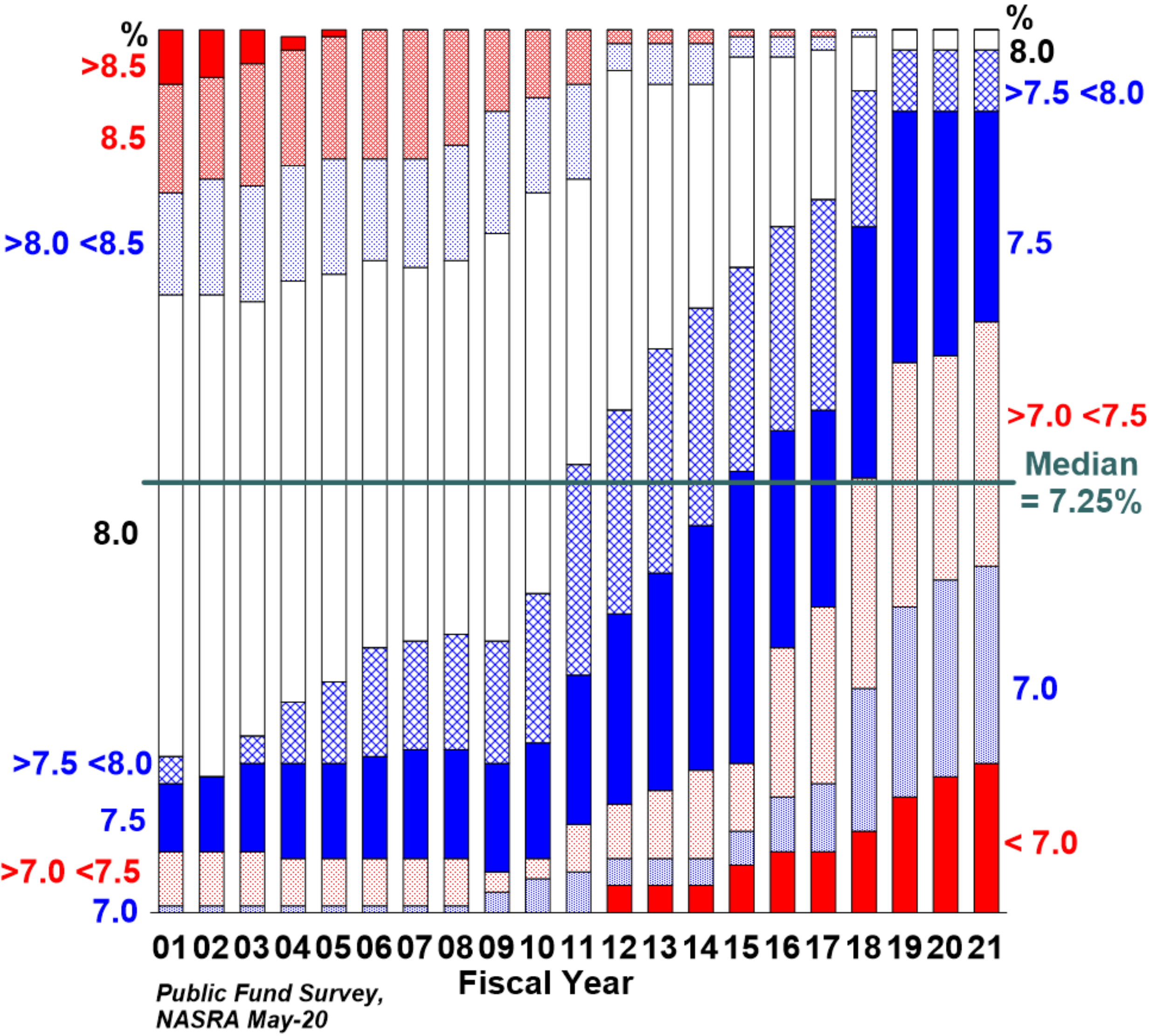


Change in Funding Levels, Public Pensions and TMRS



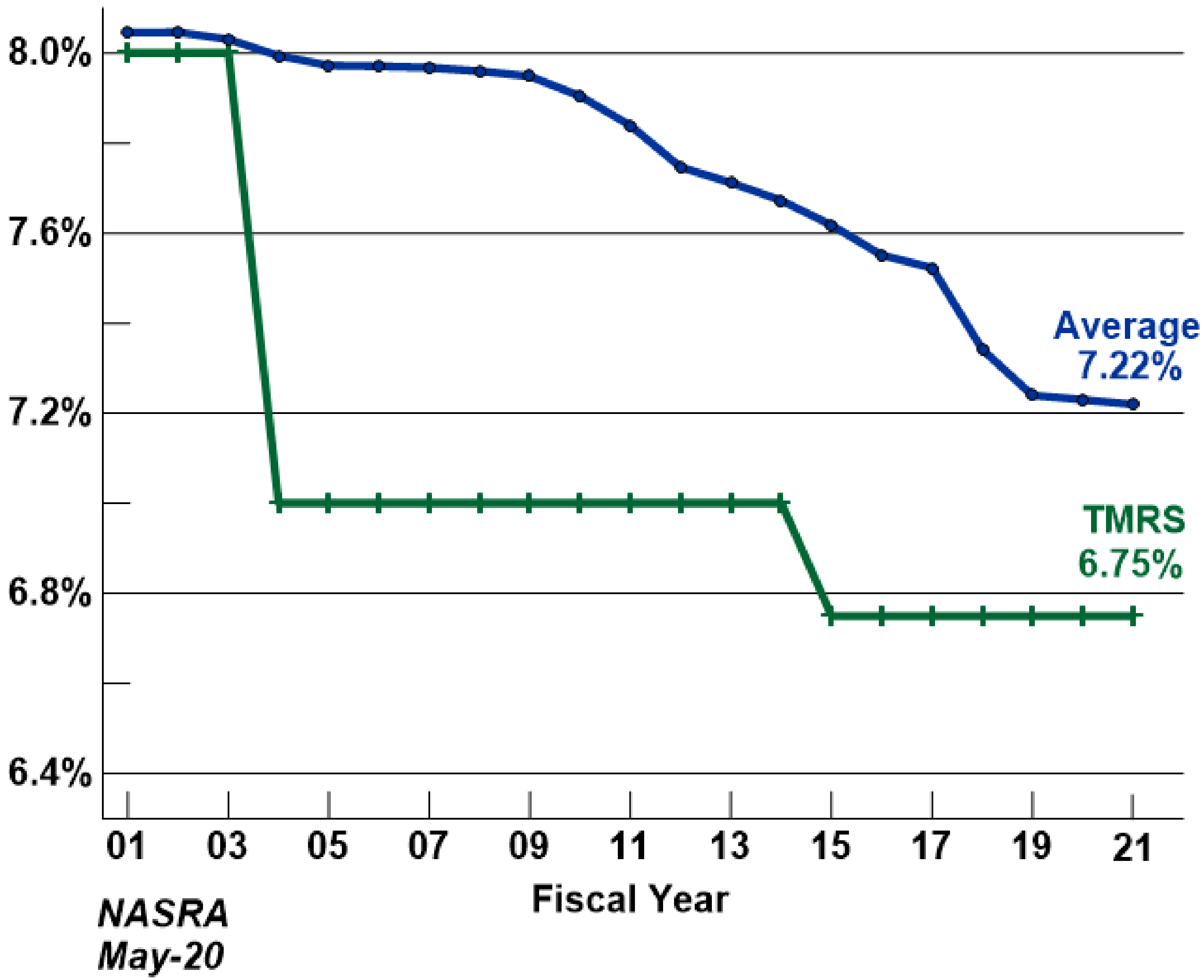
NASRA, TMRS

Change in Distribution of Investment Return Assumptions, FY 01 to present

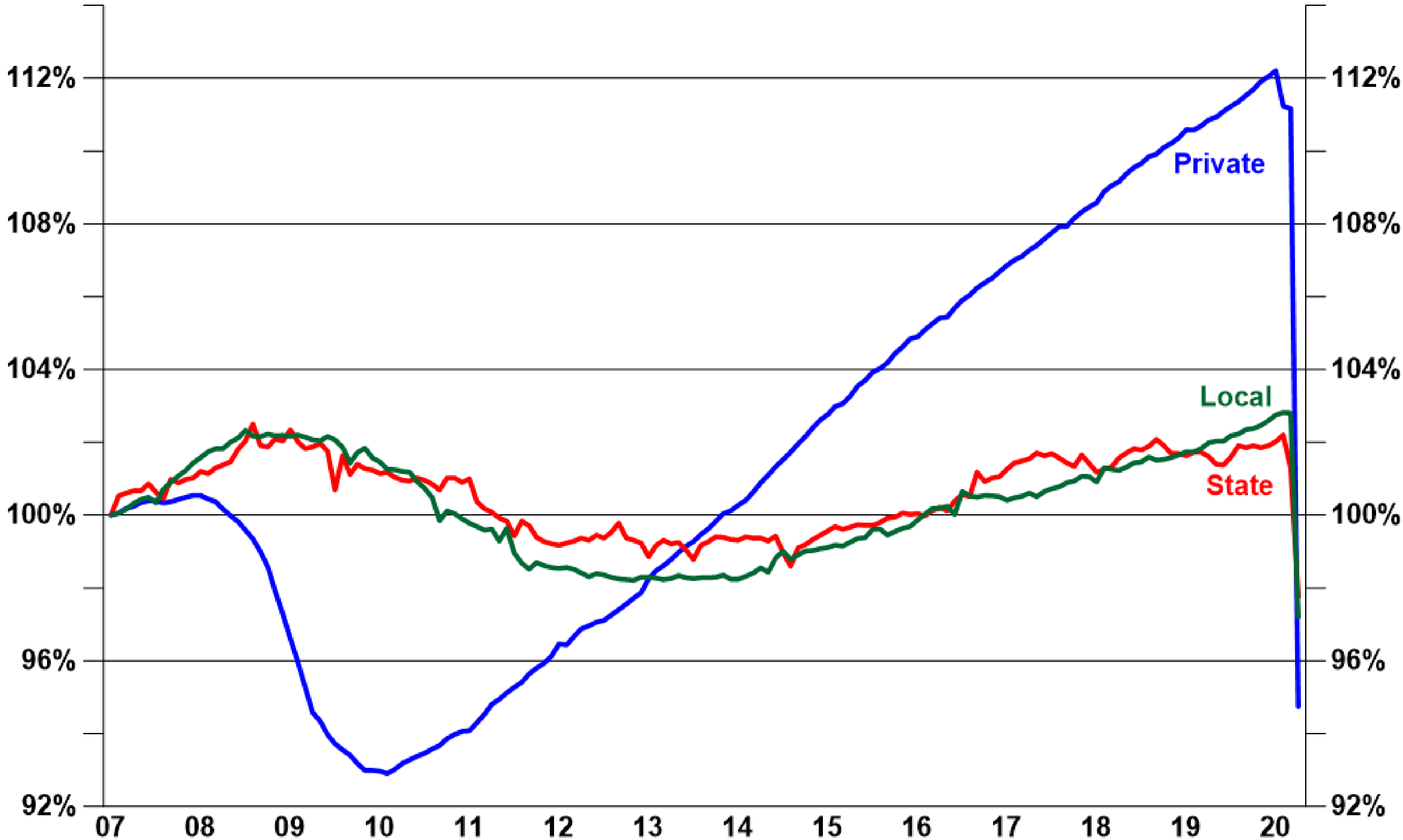


TMRS = 6.75%

Change in Average and TMRS Investment Return Assumptions

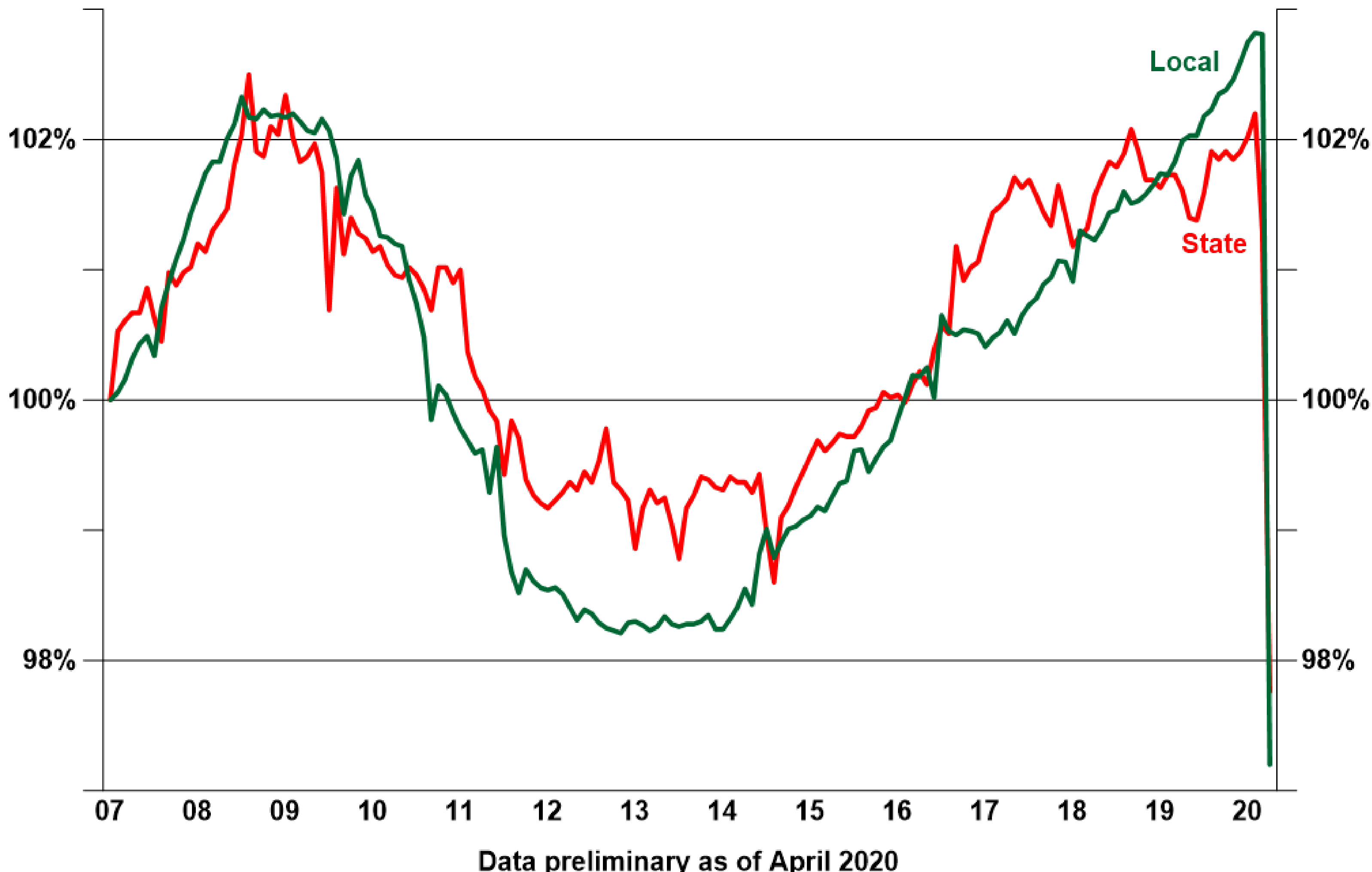


Relative Change in Employment, Private and Public Sector, 2007 to present



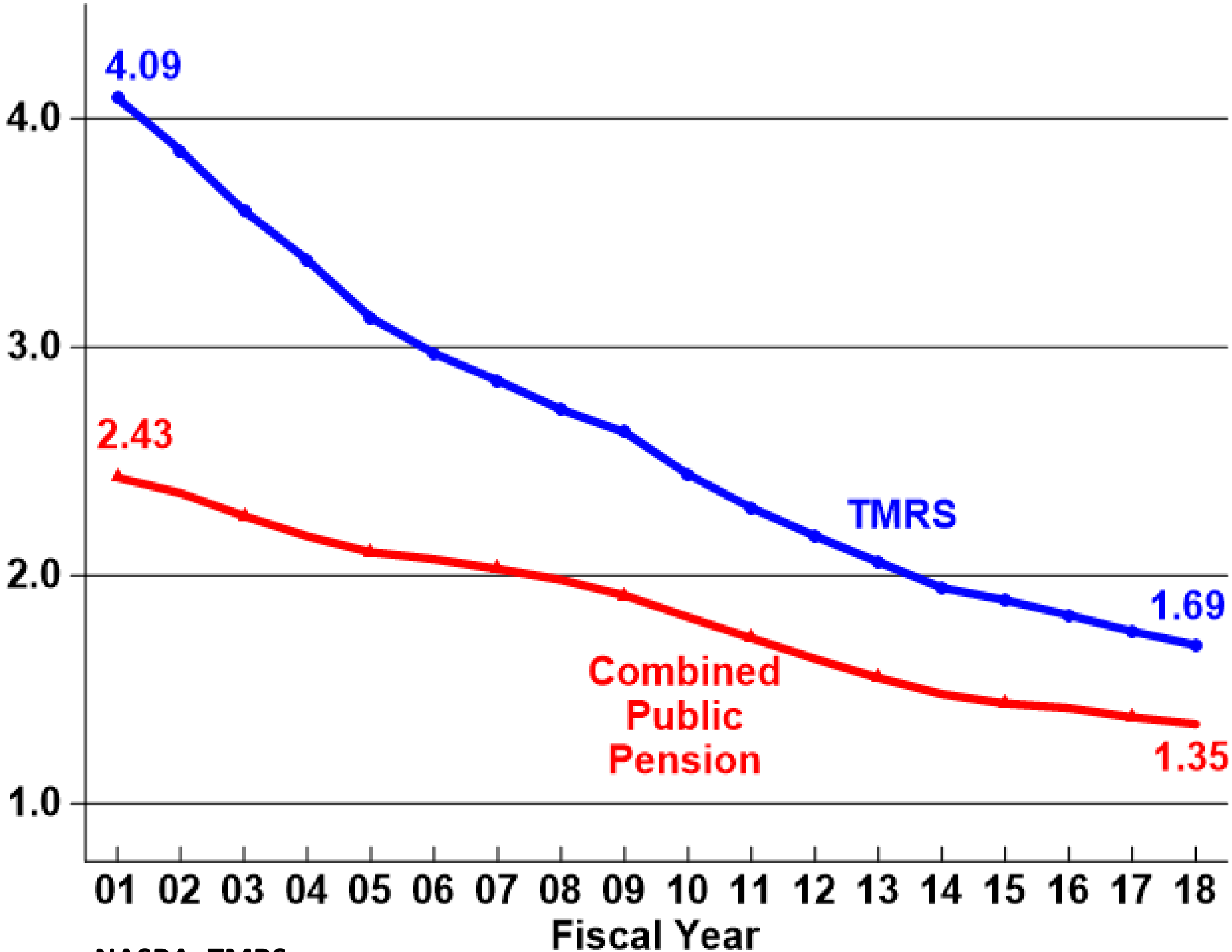
Bureau of Labor Statistics   Data preliminary as of April 2020

Relative Change in Employment, Public Sector Only, 2007 to present



Bureau of Labor Statistics

Number of Active Members per Annuitant, FY 01 to FY 17



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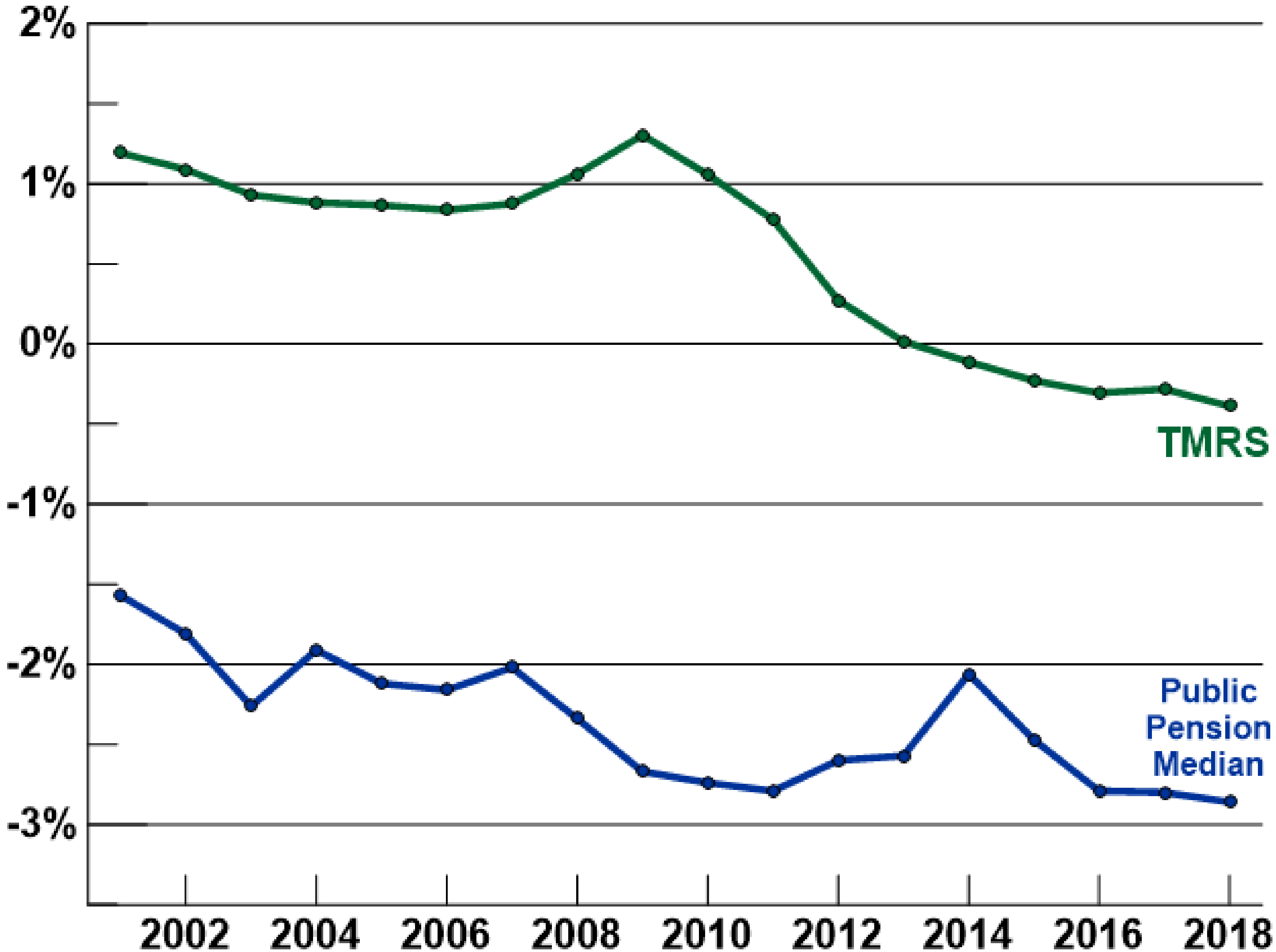
External Cash Flow, Median Public Pension and TMRS, FY 01 to FY 18



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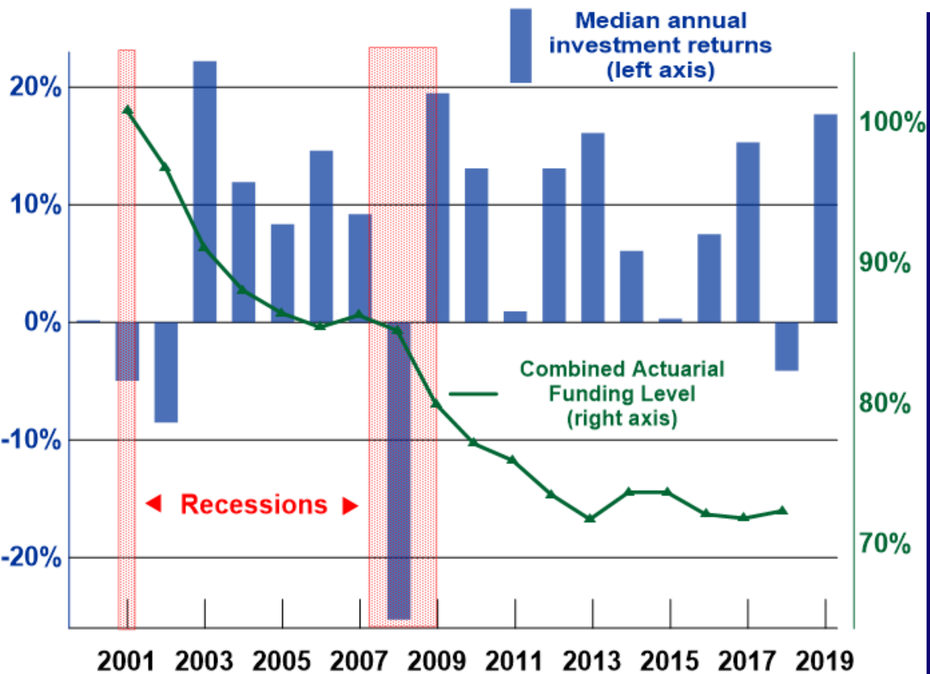
External cash flow is contributions minus expenses, divided into the value of assets.

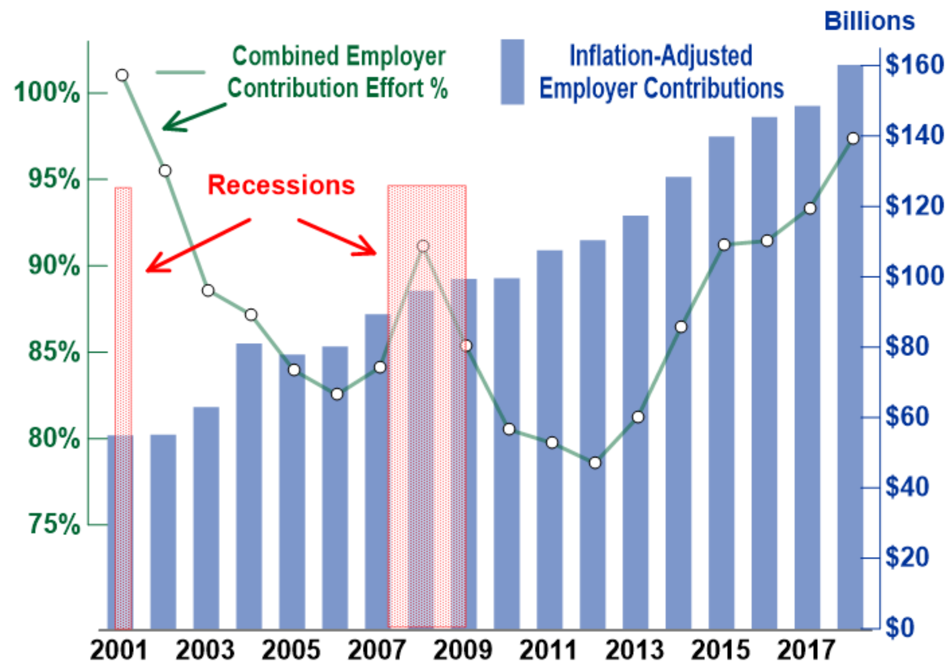
Effects of a Bear Market and Economic Recession on Public Pensions and Sponsoring Governments

- **Investment return below the assumed rate**
  – Higher unfunded liability increases plan cost
- **Economic recession**
  – Reduced government revenue challenges employers' ability to make full actuarial contribution
- **Lower inflation, interest rates, and projected returns on major asset classes**
  – Pressure to lower investment return assumption

Effect of Last Two Bear Markets and Recessions on Public Pension Funding Levels and Contributions



Callan, NASRA, Bureau of Economic Analysis



NASRA, Bureau of Economic Analysis, US Census Bureau

Forecast

- Subpar investment returns will increase unfunded actuarial liabilities
  - This increases pension plan costs
- Sustained low inflation and low interest rates will continue pressure to reduce investment return assumptions
  - This increases pension plan costs
- Employers are likely to face fiscal pressure from lower revenues
  - Pressure will occur as pension costs rise for many plans
- More reforms are likely to be made to plans
  - More risk-sharing; lower benefit levels; higher employee contributions

Thank you

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