

**TMRS**

# **Retirement Toolkit**

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## **Legislative Update**

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# Legislative Update

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- Preview of 83<sup>rd</sup> Legislature and Session (2013)
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# 82<sup>nd</sup> Session Recap



# 82<sup>nd</sup> Session Recap — TMRS Legislation Passed

## SB 350 (Williams / Truitt)

- Unanimously supported by TMRS Advisory Committee
- Contained Board's recommendations based on work of Advisory Committee
- Bill took immediate effect (June 17, 2011)
- TMRS Board chose to remain neutral on all other legislation

# 82<sup>nd</sup> Session Recap — TMRS Legislation Passed

## SB 350 (Williams / Truitt), cont.

- Restructured TMRS' Internal Accounts
- Removed “leverage” against the employer account
- Increased funded ratios for most cities; System-wide funded ratio increased from 75.8% in 2009 to 82.9% in 2010; now at 85.1%
- Reduced unfunded liabilities System-wide by \$1.4 billion
- Reduced employer contributions by approximately \$141 million

# 82<sup>nd</sup> Session Recap — TMRS Legislation Passed

## HB 159 (Raymond) / SB 812 (Zaffirini)

- Both bills passed and signed; each started out differently, but were identical when passed
- Return-to-work policy changed only for retirees returning to work at same city
- If retiree returns to work at the same city, annuity is suspended
- Retirees separated (retired) for 8 years or longer before returning to work are now eligible to receive a lump sum payment equivalent to the amount of the suspended payments, after re-retiring

# 82<sup>nd</sup> Session Recap –

## Significant TMRS Legislation Not Passed

<b>Bill</b>	<b>Author (s)</b>	<b>Subject</b>
HB 925	Bonnen	Add TMRS restricted credit for volunteer reserve police service
HB 1820	Anderson	Increase requirement for TMRS eligibility
HB 1939	Menendez	Place Advisory Committee in Statute
HB 2934 / SB 1164	Castro / Wentworth	Provide 13 <sup>th</sup> check or 13 <sup>th</sup> check and fixed-rate COLA with no retroactive catch-up feature
HB 3338 / SB 642	Smithee / Seliger	Provide fixed-rate COLA with no retroactive catch-up feature
HB 1974	Sheets	Phase out four statewide defined benefit plans; defined contribution plan for all new employees; current employees could opt into DC plan

# 82<sup>nd</sup> Interim Activities



# 82<sup>nd</sup> Interim Activities — Studies

## Teacher Retirement System — released on 8/31/12

- Charged by 82<sup>nd</sup> Legislature with studying and reporting on actuarial and fiscal impacts and plan design changes
- Report provided three scenarios:
  - Modeled changes to current plan for new hires
  - Modeled changes to current plan for all current active employees
  - Modeled existing plan to other types of plans (hybrid, cash balance, and defined contribution models) to provide either same level of benefit or at same costs
- Conclusions:
  - Changing to a different plan will not eliminate existing liabilities
  - Alternative plans carry different risks to the State and plan members
  - Other Systems have lowered benefits to realize savings

# 82<sup>nd</sup> Interim Activities — Studies

## Employees Retirement System — released on 9/4/12

- Charged by 82<sup>nd</sup> Legislature with studying and reporting on actuarial and fiscal impacts and plan design changes
- Report provided three scenarios:
  - Increase revenues
  - Modify plan design
  - Consider alternative plan structures (hybrid, cash balance, and defined contribution models)
- Conclusions:
  - Action needs to take place to address unfunded liability
  - The workforce and compensation are different in public versus private sector
  - Any changes that are made will have an impact on System

# 82<sup>nd</sup> Interim Activities — Legislative

## House Pensions and Financial Services Committee

- Interim Charges:
  - Review local retirement systems not part of state system, to make recommendations to curb rising pension costs
  - Review TMRS and the Texas County District Retirement System and examine benefit plan options
  - Monitor the study by the Employees Retirement System and Teacher Retirement System of the viability of the current defined benefit plans and the feasibility of creating a defined contribution or hybrid plan
- Hearings held on September 12 and 13 on all three charges
- Testimony provided by TMRS, TCDRS, TRS, ERS, local plans, and other interested parties
- Interim report to be compiled and submitted to Speaker later this year

# 82<sup>nd</sup> Interim Activities — Legislative

## Sunset Advisory Commission

- Regular, cyclical legislative review of the Pension Review Board and Fire Fighters' Pension Commissioner to determine if they need to exist
- Sunset staff has performed their review and issued reports
- Hearing held September 5. Staff reports were presented and agencies and stakeholders were able to respond
- Staff recommendations:
  - Texas has a need for Pension Review Board; defined contribution and “pay as you go” systems should be exempt from reporting to PRB; Significant plan changes, experience studies need to be submitted
  - Fire Fighters' Pension Commissioner is not necessary due to the increased independence of local fire fighter plans; Emergency Services System to operate under a Board of Trustees
- Decisions to be made at November 13 and 14 meeting

# 82<sup>nd</sup> Interim Activities — Other Studies

## Texas Association of Public Employee Retirement Systems (TEXPERS)

- Commissioned Perryman Group to perform economic impact study of payments to retirees by state and local retirement systems; study released on September 12, 2012 showed that:
  - More than \$10 billion paid in benefits in 2010, which is five times the payroll of Texas agriculture, and equal to the combined payroll of computer and electronic manufacturers in Texas and the same as the total military payroll in Texas
  - An estimated 95% of these funds are sent to Texas residents
  - Due to multiplier, \$24.16 billion in expenditures are made
  - \$1.1 billion and \$436 million are generated in state and local tax revenues, respectively

# 82<sup>nd</sup> Interim Activities — TMRS

## Advisory Committee on Retirement Matters

- Nineteen-member body
- Representatives of management, employees, retirees, public safety, and elected officials
- Tasked with reviewing potential proposals for 83<sup>rd</sup> Legislative Session
- Integral to legislative success last two sessions
- Current Chair is Frank Simpson, and Vice Chair is Julie Oakley

# 82<sup>nd</sup> Interim Activities — TMRS

## Advisory Committee, cont.

- Met five times this interim to discuss proposals to submit to the Board for their consideration
- Issues the Committee decided not to study:
  - Two-tiered plans
  - Return-to-work
  - Eligibility threshold for employees to participate in TMRS

# 82<sup>nd</sup> Interim Activities — TMRS

## Advisory Committee, cont.

- Issues the Committee did study:
  - COLAs (nine different options reviewed)
  - Gain-sharing — distribution of excess earnings
  - Local options for increasing retirement eligibility and delaying implementation of COLAs
- In August, the Committee declined to recommend any of the proposals to the Board for the 83<sup>rd</sup> Session

# 82<sup>nd</sup> Interim Activities — TMRS

## TMRS Board of Trustees

- At the Board's September meeting:
  - Voted to not propose any legislation for the 83<sup>rd</sup> Session
  - Directed staff to prepare a Board resolution for review and discussion at the October meeting; the resolution would provide conditions for the Board to take a position on other legislation filed during the 83<sup>rd</sup> Session

# Preview of 83<sup>rd</sup> Session



# 83<sup>rd</sup> Session Preview – Makeup

The makeup of the Senate and House will change:

- Texas Senate
  - Five, possibly six, new senators (of 31 total)
  - Due to retirements and election losses, new chairs of Senate Finance, Education, Economic Development, Jurisprudence, and Transportation Committees
  - The Senate will likely be more conservative
  - The Lieutenant Governor, presiding officer of the Senate, will face new challenges

# 83<sup>rd</sup> Session Preview – Makeup

- House of Representatives
  - 40 incumbents (of 150 members) either retired or lost their bid for re-election in the primary and runoff elections
  - Eleven of the members retiring or losing were committee chairs
  - Together with the new House members elected last session (40), House will have 80 members (50%+) with one session or less of experience
  - House Pensions Committee will lose 4 of 9 members, including Chair
  - The House is also expected to be more conservative

# 83<sup>rd</sup> Session Preview – Issues

A number of issues have already been identified by leadership as possible priority issues for the Session, including:

- Water Infrastructure
- School Finance
- Economic Development
- Redistricting

# 83<sup>rd</sup> Session Preview – Issues

- Certain groups and individuals have identified pension reform as a session issue
- The need for reform has been driven by funding and benefit issues that have occurred in other states, and some isolated cases in Texas
- The call for major reform may not gain traction with the four Statewide systems since:
  - All are considered well-funded
  - Retiree benefits are modest
  - Studies indicate that costs may be too great to enact major change

# 83<sup>rd</sup> Session Preview – Issues

- Nevertheless, perception can be reality
- Reasons why pension reform may be an issue:
  - Texas is considered a conservative spending state
  - Private sector pension plans are declining, and perception is private sector is subsidizing public sector
  - The drag caused by the federal fiscal cliff
  - The umbrella effect: All plans, inside and outside Texas, are cast in the same light, regardless of benefits provided, fiscal health, and type of plan
  - Experience of the Texas Senate and House with pension issues

# TMRS in the 83<sup>rd</sup> Session



# TMRS in the 83<sup>rd</sup> Session

- Legislation

- TMRS had major legislation last two sessions and has no critical need for additional System-wide changes; TMRS Board decided not to pursue legislation this Session
- TMRS Board will consider other actions at their October and December Board meetings

- Education and Outreach

- Participate in all pension-related forums and hearings
- Educate legislators on improvements made last two sessions and System's continuing success
- Educate legislators on "differentiating qualities" of TMRS

# TMRS in the 83<sup>rd</sup> Session

## Differentiating Qualities and Takeaways:

- Not all pension systems are the same
- TMRS receives no state funding
- TMRS is conservative
  - 7% expected rate of return, among lowest of any major pension plan in the nation
  - No double-dipping or pension spiking
  - No pension holidays
  - Benefits are modest

# TMRS in the 83<sup>rd</sup> Session

## Differentiating Qualities and Takeaways, cont.

- Member cities have the ability to control costs (local control)
  - Over 1,400 different benefit combinations are available, so cities can adjust benefit options
  - Cities must pay the annually required contribution, so benefits offered must be paid for
  - Cities have met the challenge; over the past four years have modified prospective benefits, which reduced System-wide liabilities by \$822.5 million

# TMRS in the 83<sup>rd</sup> Session

## Differentiating Qualities and Takeaways, cont.

- TMRS has taken steps to address System-wide issues and did so through legislative change where necessary
  - All COLAs are advance-funded
  - Authority obtained to diversify investment portfolio
  - Restructuring of internal accounts to modernize fund structure



"The president is out of town, but a movie star who **PLAYED** a president will take your questions."