Texas Municipal Retirement System

Keith Brainard
Research Director, NASRA
Pension Review Board Member

Dan Wattles
Governmental Relations Director
TMRS

Current State and National Issues
Current State and National Pension Issues

Keith Brainard
Research Director
National Association of State Retirement Administrators

Texas Municipal Retirement System
Annual Training Seminar
September 9, 2016
Public Pensions in the U.S.

- ~$3.55 trillion in assets
- ~14 million active (working) participants
  - 13 percent of the nation’s workforce
- 9+ million retirees and their survivors receive ~$250 billion annually in benefits
- Annual contributions = $166 billion
  - $121 billion from employers; $45 billion from employees
  - Approximately 5.0 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
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

A heightened sensitivity to making required contributions has developed in recent years

New accounting standards are producing new ways of looking at pension obligations

Many plans are reducing their projected rate of return on investments

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

- Newly-hired state employees 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 Contributions
States that Reduced Pension Benefits
States that Reduced Automatic COLAs

Affecting New Hires Only

Affecting Current Employees & New Hires

Affecting Retirees

“Significant Reforms to State Retirement Systems,” NASRA 2016
States that Established New Hybrid Plans

Plan Type

- Orange: Combination hybrid
- Grey: Cash balance

“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.
Employer (Taxpayer) Spending on Public Pensions, 1984 to 2014

Texas in FY 13: 2.84%

Source: NASRA, AARP
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 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
Municipal Pensions in Texas, Outside TMRS

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

- Statutes and governance of these plans vary from one plan to another

- Authority over key elements of plan design and financing is distributed among the pension board, city council, local voters, and legislature, depending on the plan

- Almost every plan governance arrangement is unique

- There have been calls to modify these arrangements, particularly to increase local control
Federal Issues: Public Employee Pension Transparency Act (PEPTA)

- Legislation has been proposed in Congress in recent years that would establish PEPTA.
- PEPTA would require states and local governments that sponsor pension plans to calculate and report to the US Treasury Department their funding condition based on a risk-free discount rate.
- Current risk-free rate is below 2.5 percent.
- Governments that do not comply would lose access to tax-exempt municipal bond market.
- Proposed but was not passed once again this year.
- Members of Congress have made statements about public pensions based on erroneous information about public pension accounting practices and disclosures.
There were indications Congress would include PEPTA in the legislation, passed this summer, affecting Puerto Rico.

Puerto Rico has a failing pension plan.

Legislation affecting Puerto Rico passed without PEPTA provisions.

Congress is expected to consider other legislation in the coming months in which PEPTA may be added.
The Actuarial Standards Board is responsible for promulgating Actuarial Standards of Practice (ASOPs)

The ASB may be moving toward establishing an ASOP that professional actuaries calculate a solvency or termination number as part of public pension actuarial valuations

A solvency or termination number would be similar to a risk-free discount rate
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
Contact Information

keith@nasra.org

202-624-8464
State Legislative Update
State Legislative Update

84th Session Rewind
  • TMRS Focus and Why
  • Legislation Affecting TMRS

The Legislative Interim Period
  • Senate and House Interim Charges
  • Pension Review Board

85th Session Outlook
  • Schedule
  • Issues

TMRS Activities in 2016
  • Executive Workshops
  • Advisory Committee on Benefit Design

Final Thoughts
84th Session Rewind
TMRS Focus

- No Legislation proposed / endorsed by TMRS Board
- Focus on education and TMRS’ differentiating qualities

Why?

- Major bills passed in 2009 and 2011
- No “must have” issues that needed to be addressed
- Changeover in state leadership, Senate, and House membership

Legislation

- No TMRS-specific legislation passed
- Other bills passed:
  - HB 3310 (Paul)
  - HB 9 (Flynn)
  - SB 463 (Huffman)
The Legislative Interim Period
Senate and House Interim Charges

• Lt. Governor announced interim charges for Senate standing committees in mid-October, 2015

• Speaker released interim charges for the House standing committees in early November, 2015
Senate State Affairs Committee Charges

• No “specific” pension issue charge

• General monitoring charge: “Monitor changes made to Employees Retirement System regarding member contributions and proposed reforms to the Teacher Retirement System”

• Union dues charge: “Examine the practice of using public funds and employees for the payment processing of union dues. Make recommendations on whether Texas should end this practice”
Senate Finance Committee Charges

• Fiscal Responsibility Charge: “Review and make recommendations to reduce state debt liabilities, including state pension liability”

• *Property Tax Process Charge: “Study the property tax process, including the appraisal system, and recommend ways to promote transparency, simplicity, and accountability by all taxing entities”

• *Reduce Tax Burden Charge: “Examine and develop and further reduce the tax burden on property owners”

• General Monitoring Charge: “Monitor legislation passed by the 84th Legislature and make recommendations for any legislation needed to improve, enhance, and/or complete tax relief provided to property owners”

* Charges given to a select subcommittee on Property Tax Reform and Relief
House Pensions Committee Interim Charges

• No “specific” charge to TMRS

• Study the impact that fluctuations in global financial markets have had on public pension funds. Analyze assumed rates of return on investments, structures among asset classes, long-term and shorter-term investment goals.

• Examine Texas pension funds’ compliance with GASB Financial Reporting Statements 67 and 68.

• Examine fiscal and policy impacts of structural reforms to increase state public pension plans' ability to achieve and maintain actuarial soundness. Evaluate feasibility, costs, and benefits of utilizing one-time funding increases to reduce or eliminate unfunded liabilities.

• Evaluate investment performance benchmarks utilized by the state's pension funds and the impact portfolio diversification and short- and long-term market assumptions have had on achieving expected investment returns. Analyze fee structure and investment strategy for various investment classes.
Interim Hearings are still ongoing

Senate State Affairs Committee Charges
• Hearings scheduled for September 14 (Union Dues and other non-pension-related charges) and October 5 (Transparency and Government Ethics)

Senate Finance Committee
• Hearing scheduled for September 15 (General Monitoring)

House Pensions Committee
• Hearing scheduled for September 29th (in Dallas)
The Pension Review Board is responsible for monitoring Texas’ 93 public pension systems and reporting information to the Texas Legislature. Some issues of importance:

- **Trustee Training**
  
  Developed program for meeting minimum training requirements passed by Legislature for Trustees of pension systems; TMRS is a “accredited training sponsor” and TMRS trustees are in compliance with PRB and statutory training requirements

- **Soundness Restoration Plans**
  
  Systems with 3 successive actuarial valuations that have an amortization period of 40 years or longer are required to develop a restoration plan (HB 3100); 15 plans are now subject to this requirement

- **System Scorecard**
  
  A “leading indicator” scorecard is being developed that will signify if systems are getting off-track; completion scheduled for Summer 2017
85th Session Outlook
85th Session Outlook
Schedule

Schedule for 85th Legislative (140 days) Session

• November 8, 2016: General Election Day
• November 14, 2016: Early (bill) filing period starts (first Monday following general election)
• January 10, 2017: Session begins
• Late January / early February: Committee assignments announced
• March 10: Bill filing period ends (unless emergency or local bill)
• May 29, 2017: End of Session
• June 18, 2017: 20-day bill signing period ends
One policy debate that is at the forefront is what is meant by “Local Control,” how it is applied, and in what instances. Recent examples:

- Hydraulic Fracturing
- Uber / Lyft
- Voter referendum
- Firearms on campus and government buildings
- Payday loans
- Revenue / Appraisal caps
- School district bathrooms use
What impact could this debate over local control have on Pension-related issues?

• Return of “total” control to jurisdictions regarding type of retirement system (DB to DC)

• Options available in TMRS to address workforce competitiveness

• Ability to pay the Actuarially Determined Employer Contribution
TMRS Progress and Activities
Executive Workshops were developed to...

• Provide TMRS-related education to city managers, assistant city managers, finance officers, human resource directors, elected officials, and other decision makers

• Provide in-depth information on plan design, the value of TMRS to cities, TMRS investments, and actuarial funding to understand plan costs

• Build awareness and understanding about TMRS among the current and next generation of city leaders who understand the need for and benefits of TMRS

• Workshops held in Austin, McAllen, Plano, Deer Park, and Nacogdoches; another session is scheduled for Amarillo on October 13, 2016
The Advisory Committee on Benefit Design...

- TMRS Board assigned the Committee with two topics to study this interim: return to work and cost of living adjustments (including retroactive provision)
- Goal is to determine the advantages and disadvantages of certain design options and report back to TMRS Board
- Two meetings held: June and August
- TMRS Board to determine whether to propose any changes to current provisions based on advantages and disadvantages of options studied
Final Thoughts
• Certain local systems in Texas are experiencing difficulties; TMRS is not one of those plans

• All pension plans tend to be lumped together, but shouldn’t be

• Certain groups continue to advocate for defined contribution plans and against defined benefit plans

• Not all pension systems are the same; TMRS is a cash balance plan, which is different from a formula-based defined benefit plan

• TMRS receives no state funding

• While aspects of local control are being redefined, TMRS’ model works: State establishes framework, and cities have the ability to control their plan options
2016 Annual Training Seminar
September 7-9, 2016 - Sheraton Austin at the Capitol