

Budget Presentation to the Senate Finance Committee for Fiscal Years 2020-2021

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Employees Retirement System of Texas

January 23, 2019

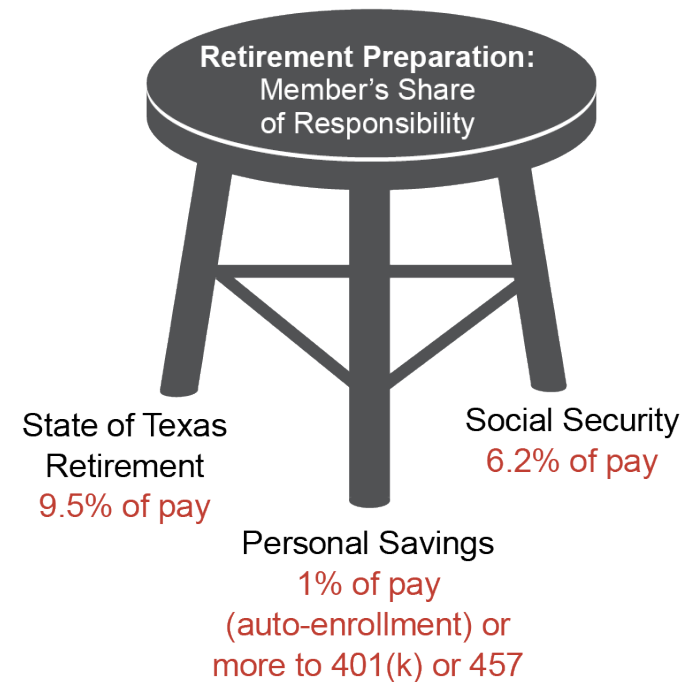


Employees Have Diversified Retirement Pension, Social Security and Personal Savings



- Four state plans
 - Three pre-funded, open plans
 - One closed, pay-as-you-go plan (JRS1)
- All state employees participate in state pension and Social Security
- Texa\$aver 401(k)/457 plans
 - Automatic 401(k) enrollment with opt-out
72.8% of those auto enrolled remain in plan
 - Among eligible employees:
60% of eligible contribute to 401(k)
7% of eligible contribute to 457

ERS Plan Retirees receive an average monthly benefit of \$1,690





ERS Members Serve Texas in Many Ways

Fiscal Year 2018 Plan Members



Member type	ERS	LECOSRF*	JRS 2	JRS 1 (Closed Plan)
	State Employee Elected Official District Attorney	Law Enforcement & Custodial Officer Supplement	Judges, justices & certain court commissioners (after 9/1/85)	Judges, justices & certain court commissioners (prior to 9/1/85)
Contributing Employees	141,535	37,167	561	< 10
Non-contributing Employees	119,736	19,842	153	0
Retirees/Beneficiaries	111,361	13,080	393	337

Average ERS Plan Annuitant	Average ERS Plan Member
 <p>68.9 years old currently</p> <hr/> <p>59.1 years old at retirement</p> <hr/> <p>21.7 years of service</p> <hr/> <p>Annuity of \$20,285 per year</p>	 <p>43.6 years old currently</p> <hr/> <p>35 years old when hired</p> <hr/> <p>8.6 years of service</p> <hr/> <p>Salary of \$48,581 per year</p>

*Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) members are included in ERS membership

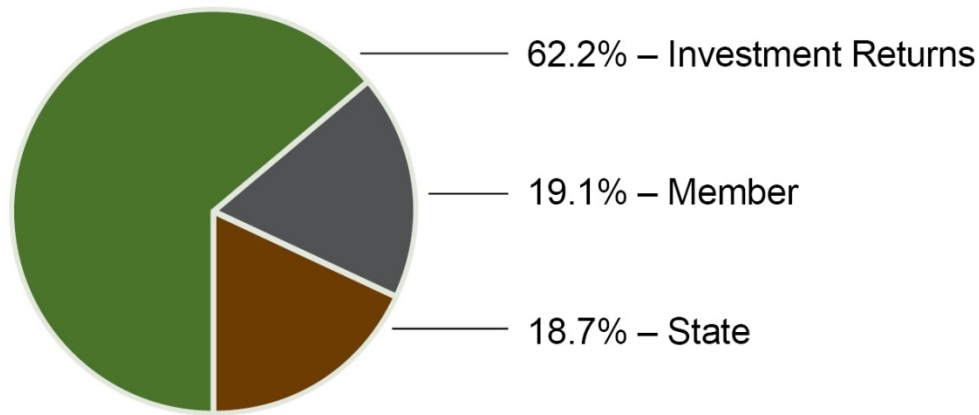
All numbers from GRS Actuarial Valuation Report as of August 31, 2018

Investment Returns Pay Majority of Benefits

ERS is a Long-term Investor



ERS Retirement Trust Assets by Revenue Source, Fiscal Years 1998-2018



ERS Investment Performance (period ending August 31, 2018)

Period	30-Year	20-Year	10-Year	5-Year	3-Year	1-Year
Net Return*	Unknown**	6.48%	7.02%	8.27%	8.94%	9.54%
Gross Return	8.26%	6.56%	7.14%	8.33%	8.98%	9.58%

*The actuarial assumed rate of return of 7.5% is based on net return.

**Not available due to custodian data transfer issue. 30-year net will first be available beginning FY 2027.

Pension Funding Guidelines and Priorities

Approved May 2018 by ERS Board



- **Purpose:** Enhance communications and provide transparent, accurate information to the Legislature, plan members and retirees regarding Board positions on plan administration.

- **Goal:** Define the principles and methods needed to achieve and maintain actuarial soundness for the plan.

- **Content:** Define Board policies on four funding principles . . .
 1. **Actuarial Cost Method** *(set by the ERS Board)*
 2. **Asset Smoothing Method** *(set by the ERS Board)*
 3. **Funding Period** *(set by the Legislature)*
 4. **Criteria for Approving Enhancements** *(joint effort of ERS Board & Legislature)*

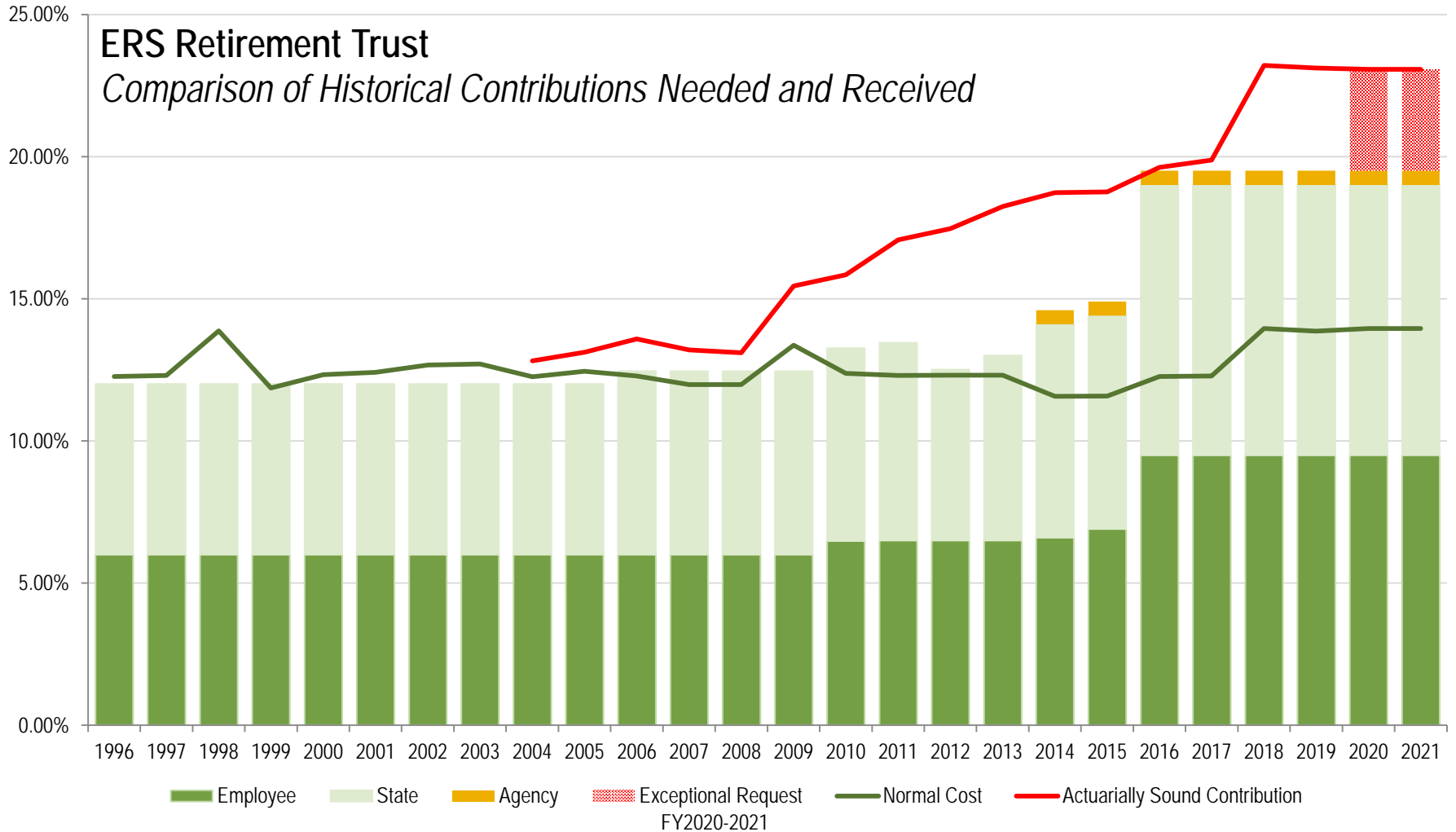
ERS Funding Guidelines and Priorities



The Guidelines and Priorities laid out a multi-level funding period goal to gradually achieve funding on sound actuarial principles assuming current contributions meet normal costs:

- Avoid trust fund depletion,
- Meet current statutory standard of a 31-year funding period, and
- Match funding period to the average years of service at retirement (currently 21.7 years for ERS Retirement Fund) once a 31-year funding period is achieved.

Contributions have increased over time, but have not met the actuarially sound rate



Benefit Reforms Have Lowered Costs

Over 62% of Current Employees in Groups 2 and 3



	Group 1	Group 2	Group 3
	Employees hired before 9/1/2009	Employees hired 9/1/2009 – 8/31/2013	Employees hired on/after 9/1/2013
Minimum retirement age¹	60 with 5 years service credit (55 with 10 years LECO)	65 with 10 years service credit or Rule of 80 (55 with 10 years LECO)	
Annuity reduction when retiring before certain age	No reduction	5% per year, 25% cap Age 60 – Regular Class Age 55 – LECO ²	5% per year, no cap Age 62 – Regular Class Age 57 – LECO ²
Final average salary based on:	36 months	48 months	60 months
Multiplier	2.3% - Regular Class 2.8% - LECO ²	2.3% - Regular Class 2.8% - LECO ²	2.3% - Regular Class 2.8% - LECO ²
Unused leave can count toward eligibility?	Yes	No	No
Unused leave can help increase annuity?	Yes	Yes	Yes - if not taken as a lump sum

¹ This age does not consider requirements to be eligible for GBP retiree insurance.

² The lower retirement age and higher multiplier for a Law Enforcement and Custodial Officer (LECO) employee applies when an employee has at least 20 years of LECO service.

Actuarial Valuation Results - ERS



Current Status	
Unfunded Liability	\$11.63 billion
Funded Ratio	70.2%

Funding Metrics		Meets Funding Guidelines and Priorities?
Normal Cost*	13.86%	✓
Depletion Date	2096	✗
31-Year ASC Rate*	23.12%	✗
Funding Period	Never	✗

As of August 31, 2018 for FY 2019

*percent of payroll

With a projected depletion date, none of the funding goals are being met.

ERS Retirement Program

Exceptional Item #1 Funding Request



Contributions Required to Return to Actuarial Soundness

Fiscal Year	Current Rates				Actuarially Sound Contribution	Rate Shortfall	SB 1 GR/GRD	SB 1 All Funds	Exceptional Item GR/GRD	Exceptional Item All Funds
	Member	State	Agency	Total						
2020	9.50%	9.50%	0.50%	19.50%	23.07%	3.57%	\$469.9 M	\$655.1 M	\$176.5 M	\$246.0 M
2021	9.50%	9.50%	0.50%	19.50%	23.07%	3.57%	\$472.3 M	\$658.4 M	\$177.5 M	\$247.3 M
Total							\$942.2 M	\$1,313.5 M	\$354.0 M	\$493.3 M

Based on the 8/31/18 valuation projected for FY 2020-2021.

The ASC and funding request will be updated to reflect the February 2019 valuation.

Actuarial Valuation Results - LECOSRF



Current Status	
Unfunded Liability	\$500 million
Funded Ratio	65.6%

Funding Metrics		Meets Funding Guidelines and Priorities?
Normal Cost*	2.09%	X
Depletion Date	2045	X
31-Year ASC Rate*	3.76%	X
Funding Period	Never	X

As of August 31, 2018 for FY 2019

* percent of payroll

With contributions that do not meet normal cost, none of the funding goals can be met.

LECOS Retirement Program

Exceptional Item #2 Funding Request



Contributions Required to Return to Actuarial Soundness

Fiscal Year	Current Rates			Actuarially Sound Contribution	Rate Shortfall	SB 1 GR/GRD	SB 1 All Funds	Exceptional Item GR/GRD	Exceptional Item All Funds
	Member	State	Total						
2020	0.50%	0.50%	1.00%	3.08%	2.08%	\$8.45 M	\$8.45 M	\$34.9 M	\$35.15 M
2021	0.50%	0.50%	1.00%	3.08%	2.08%	\$8.45 M	\$8.45 M	\$34.9 M	\$35.15 M
Total						\$16.90 M	\$16.90 M	\$69.8 M	\$70.30 M

Based on the 8/31/18 valuation projected for FY 2020-2021.

The ASC and funding request will be updated to reflect the February 2019 valuation.

Actuarial Valuation Results – JRS 2



Current Status	
Unfunded Liability	\$40.7 million
Funded Ratio	91.7%

Funding Metrics		Meets Funding Guidelines and Priorities?
Normal Cost*	20.83%	✓
Depletion Date	None	✓
31-Year ASC Rate*	23.84%	✗
Funding Period	69	✗

As of August 31, 2018 for FY 2019

*percent of payroll

First level of the funding goal is currently being realized.

Second level of the funding goal is not currently being realized.

JRS 2 Retirement Program

Exceptional Item #3 Funding Request



Contributions Required to Return to Actuarial Soundness

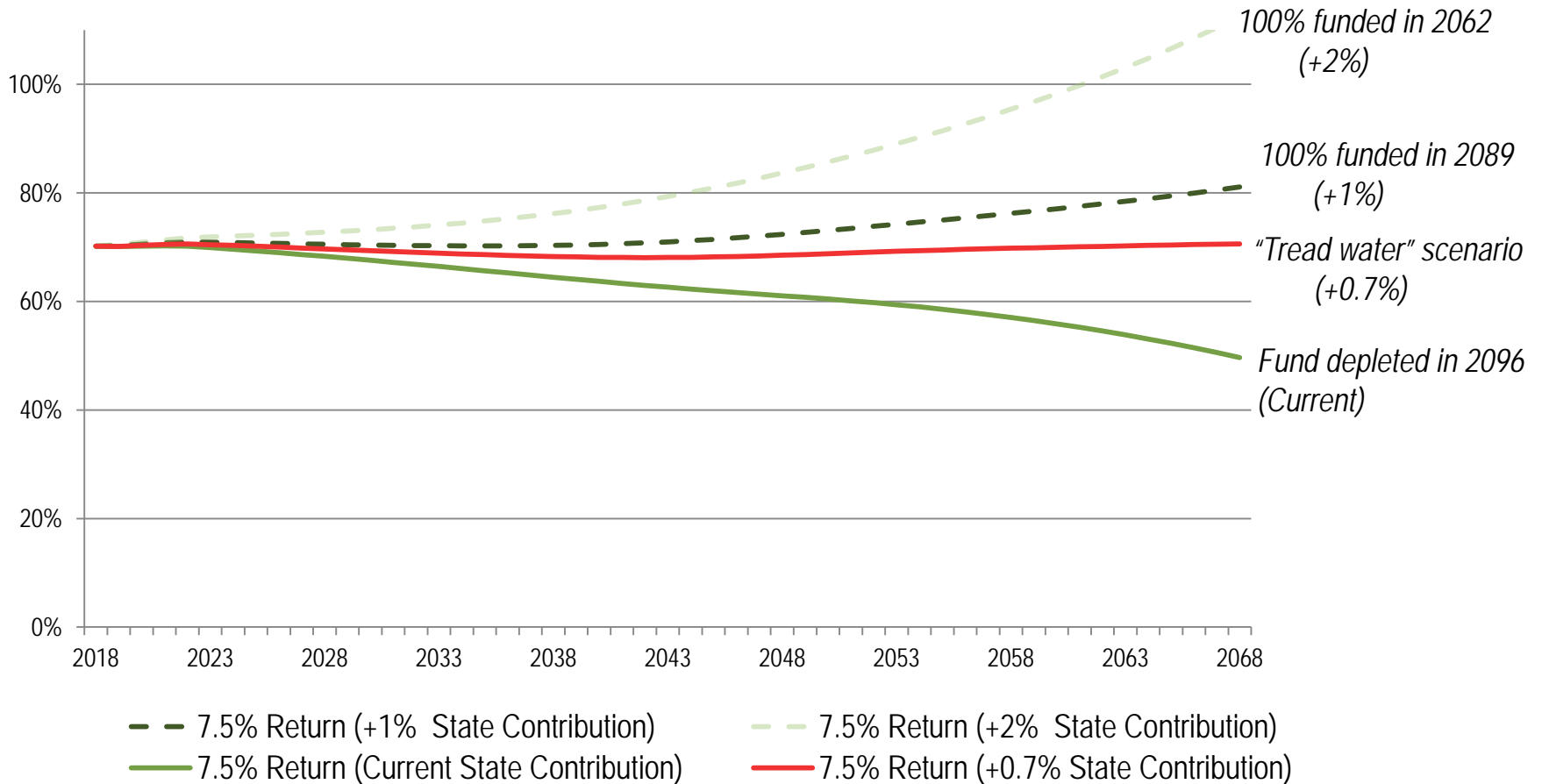
Fiscal Year	Current Rates			Actuarially Sound Contribution	Rate Shortfall	SB 1 GR/GRD	SB 1 All Funds	Exceptional Item GR/GRD	Exceptional Item All Funds
	Member	State	Total						
2020	7.50%	15.663%	23.093%	23.55%	0.427%	\$8.3 M	\$12.5 M	\$0.23 M	\$0.34 M
2021	7.50%	15.663%	23.093%	23.55%	0.427%	\$8.3 M	\$12.5 M	\$0.23 M	\$0.34 M
Total						\$16.6 M	\$25.0 M	\$0.46 M	\$0.68 M

Effective Member contribution is 7.46% as a result of some active members electing to cease contributions to the plan and ceasing to accrue additional benefits.

Based on the 8/31/18 valuation projected for FY 2020-2021.

The ASC and funding request will be updated to reflect the February 2019 valuation.

Pension Stress Testing: Trust will require more contributions to pay promised benefits



Projections assume no changes to current assumptions and except State Contribution rates, as noted, all other assumptions are met.