

ACTUARIAL VALUATION OF THE PLANS ADMINISTERED BY ERS

AS OF AUGUST 31, 2017

- Employees Retirement System of Texas (ERS)
- Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF)
- Judicial Retirement System of Texas Plan 2 (JRS 2)

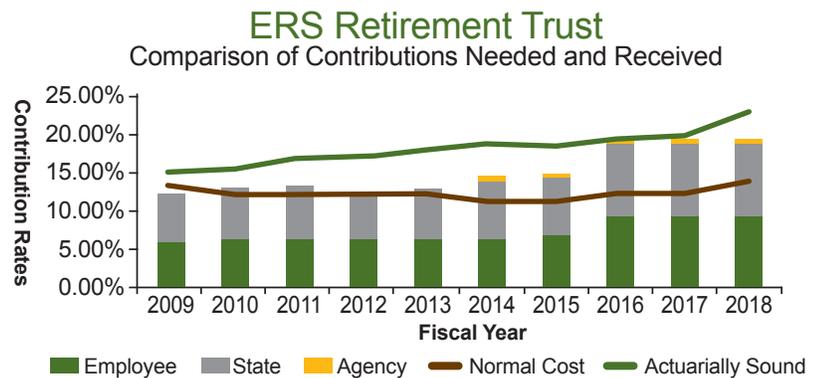
Actuarial Valuation Results as of August 31, 2017			
	ERS	LECOSRF	JRS 2
Actuarial Accrued Liability	\$37.6 B	\$1,399.9 M	\$463.6 M
Actuarial Value of Assets	\$26.4 B	\$924.0 M	\$420.9 M
Unfunded Accrued Liability	\$11.3 B	\$475.9 M	\$42.8 M
Funded Ratio	70.1%	66.0%	90.8%
Funding Period (Years)*	Never	Never	63
Estimated Depletion Date	2084	2044	None

*The funding period defines when a plan can expect to be fully funded based on current benefits, plan experience and contribution rates. "Never" indicates that based on current assumptions and contribution rates, the plan will never be fully funded and will never have enough money to pay benefits to all current and future retirees. Plans that are not fully funded have a funding gap, referred to as an unfunded liability. Texas Government Code 811.006 requires that unfunded liabilities be paid off within a 31-year rolling period to be considered actuarially sound.

The financial health of a defined benefit plan depends on an equal balance between assets and liabilities so that:

$$\text{Investments} + \text{Contributions} = \text{Benefits} + \text{Expenses}$$

Despite positive investment returns and reduced benefit costs for new hires resulting from past benefit reforms, the funding status of all three plans is declining. Additional contributions, benefit cost reductions or some combination of the two will be needed to further stabilize the funds.



State contributions to the ERS retirement plan represent 0.6% of the state's budget.

Breakdown of Contribution Funding Gap (% of payroll)			
	ERS	LECOSRF	JRS 2
Normal Cost (Base Benefit)	13.95%	2.11%	20.57%
FY18 Contribution	19.50%	1.80%*	23.10%
Actuarially Sound Contribution (ASC) (Covers normal cost + paying off unfunded liability)	23.21%	3.67%	23.85%
Contribution Shortfall	(3.71%)	(1.87%)	(0.76%)

*LECOSRF receives a dedicated portion of court cost revenue, approximately \$18.8 million per year. This amount is not a percent of payroll contribution and is expected to decrease relative to payroll over time.

Contributions

- Since Fiscal Year 1998, in 19 out of 20 years, contributions have not met the full funding rate needed.
- For the ERS and LECOSRF funds, contributions are not enough to pay down unfunded liabilities. For JRS 2, contributions cover the normal cost to provide benefits and to pay off the unfunded liabilities in 63 years.
- For Fiscal Year 2018, ERS contributions are the same as the two prior fiscal years: state contributions of 9.5%, agency contributions of 0.5% and member contributions of 9.5%.

Investments

- Investment returns are the largest funding component of retirement benefits and represent approximately two-thirds of the ERS Trust's value.
- ERS lowered its assumed rate of return from 8% to 7.5% based on results of an asset allocation and experience study.

ERS Investment Performance (period ending August 31, 2017)					
Period	20-Year	10-Year	5-Year	3-Year	1-Year
Annualized Return (Net)*	6.41%	5.54%	8.34%	5.84%	12.11%
Annualized Return (Gross)	6.49%	5.67%	8.43%	5.88%	12.15%

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

Retirement Plan Demographics as of August 31, 2017

	ERS	LECOSRF	JRS 2	JRS 1*
	State employees Elected officials District attorneys	Law enforcement and custodial officers (DPS, TABC, TPWD, TDCJ)	Judges, justices and certain court commissioners (as of Sept. 1, 1985)	<i>(closed plan)</i> Judges, justices and certain court commissioners (before Sept. 1, 1985)
Members (current and terminated employees)				
Active Members	141,629	38,206	557	9
Average Age (as of August 31, 2017)	43.6	41.1	57.2	70.7
Average Entry Age	34.9	33.1	47.4	40.3
Average Years of Service	8.7	8.0	9.8	30.4
Average Annual Salary	\$47,986	\$45,029	\$142,424	\$147,778
Inactive Members – Vested	16,110	109	13	0
Inactive Member – Non-vested	96,082	16,991	145	0
Annuitants (retirees and beneficiaries)				
Retirees and Beneficiaries	107,530	12,248	378	355
Service Retirements	96,651	11,448	335	230
Disability Retirements	2,347	100	2	0
Beneficiaries	8,532	700	41	125
Average Age (as of August 31, 2017)**	68.7	62.5	69.2	79.1
Average Age at Retirement**	58.3	54.0	62.8	61.5
Average Years of Service**	22.1	23.6	15.1	18.2
Average Annual Annuity	\$19,948	\$5,308	\$64,168	\$66,253

*JRS 1 is a pay-as-you-go plan in which the state appropriates money to pay benefits. It was closed in 1985, and new judges were moved to JRS 2, a pre-funded plan that leverages investment earnings to offset employer contributions.

**Annuitant demographics on age and service are based only on service retirements.

The number of active contributing members has decreased by 14,000 members, or 10%, since 1998. The number of retirees and beneficiaries has increased by 68,000 retirees, or 64%, during the same time period. The ratio between active contributing members and retirees has decreased over time, currently at a ratio of 1.3 actives to 1.0 retiree, which is a sign of a maturing plan. Traditional defined benefit plans are designed so that current workers are funding their own benefits during their working careers. When a plan has an unfunded liability and changes are needed to improve long-term solvency, there are fewer active members (and their payroll, which is the basis for fund revenue) to share in the cost of any funding solutions.

ERS Member Count by Type, Fiscal Years 1998-2017

