

Employees Retirement System of Texas  
87<sup>th</sup> Legislative Session  
House Appropriations Committee  
HB 1 Introduced

Porter Wilson  
Executive Director  
2021



# Retirement

# ERS Administers Three Pre-Funded Pension Plans



*All funds are projected to run out of money*

	ERS	LECOSRF	JRS 2
	State Employee Elected Official District Attorney LECOSRF members	Law Enforcement & Custodial Officer Supplement	Judges and Justices taking office after 9/1/85
Active Employees	142,062	35,230	570
Non-contributing Members	134,909	25,511	187
Retirees/Beneficiaries	117,996	14,697	484
<b>Fund Depletion Dates</b>	<b>~2061</b>	<b>~2041</b>	<b>~2059</b>

*Actuarial Valuation as of August 31, 2020*

*NOTE: ERS administers a closed pay-as-you-go plan JRS1 for judges elected prior to 9/1/85. These benefits are directly appropriated each biennium.*

# FY 2022-2023 HB 1 Exceptional Item Request

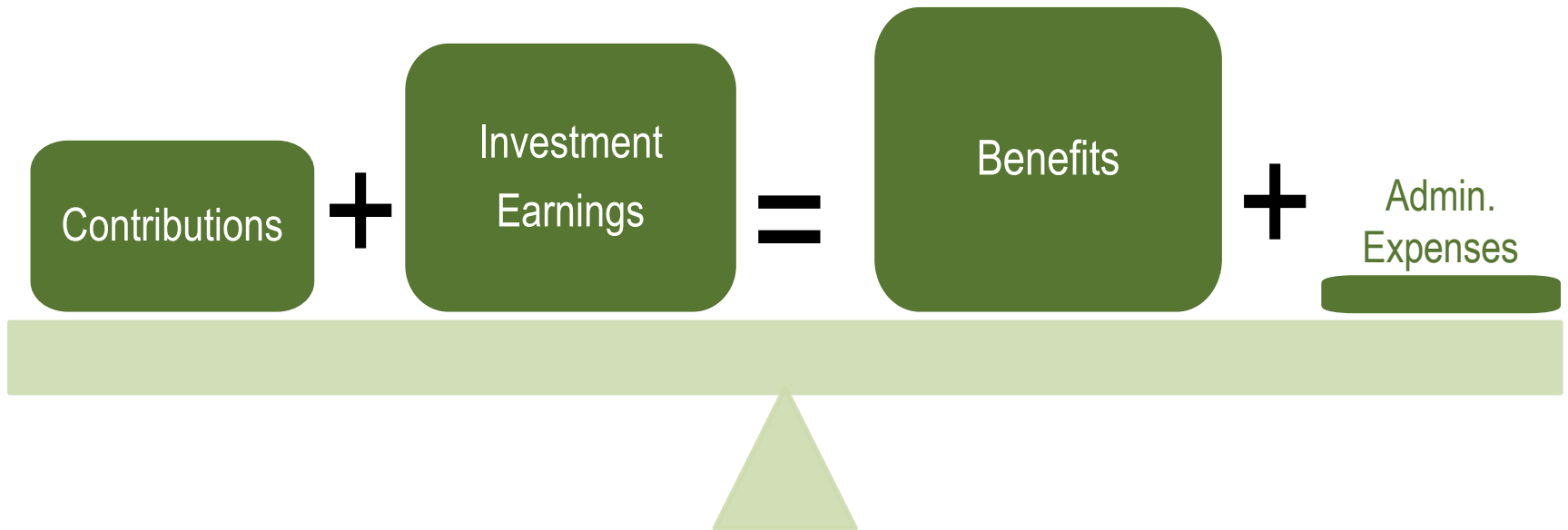
## Fund Actuarially Sound Contribution Levels



	ERS	LECOSRF	JRS2
<b>Current</b> Total Contribution (% of payroll)	19.50%	1.00%	25.08%
<b>Required</b> Actuarially Sound Contribution (% of payroll)	26.13%	3.57%	33.94%
Contribution <b>Shortfall</b> (% of payroll)	<b>6.63%</b>	<b>2.57%</b>	<b>8.86%</b>
<b>Exceptional Item Request to fund contribution shortfall</b>			
<b>All Funds</b>	<b>\$952.5 million</b>	<b>\$89.4 million</b>	<b>\$16.1 million</b>
<b>GR/GR-D</b>	<b>\$688.6 million</b>	<b>\$88.8 million</b>	<b>\$11.4 million</b>

Actuarial Valuation as of August 31, 2020

# Pension Plan Sustainability Requires Balance



# Legislative Reforms Have Lowered Benefit Costs



*Normal Cost for ERS is 14.16% of payroll*

## Group 1

*Employees hired  
before 9/1/2009*

## Group 2

*Employees hired  
9/1/2009 -8/31/2013*

## Group 3

*Employees hired  
on or after 9/1/2013*

Created by  
81<sup>st</sup> Legislature

Created by  
83<sup>rd</sup> Legislature

**32%**

**14%**

**54%**

**Percent  
of current workforce**

Regular  
Class

**14.83%**

**13.61%**

**13.32%**

LECO\*

**17.39%**

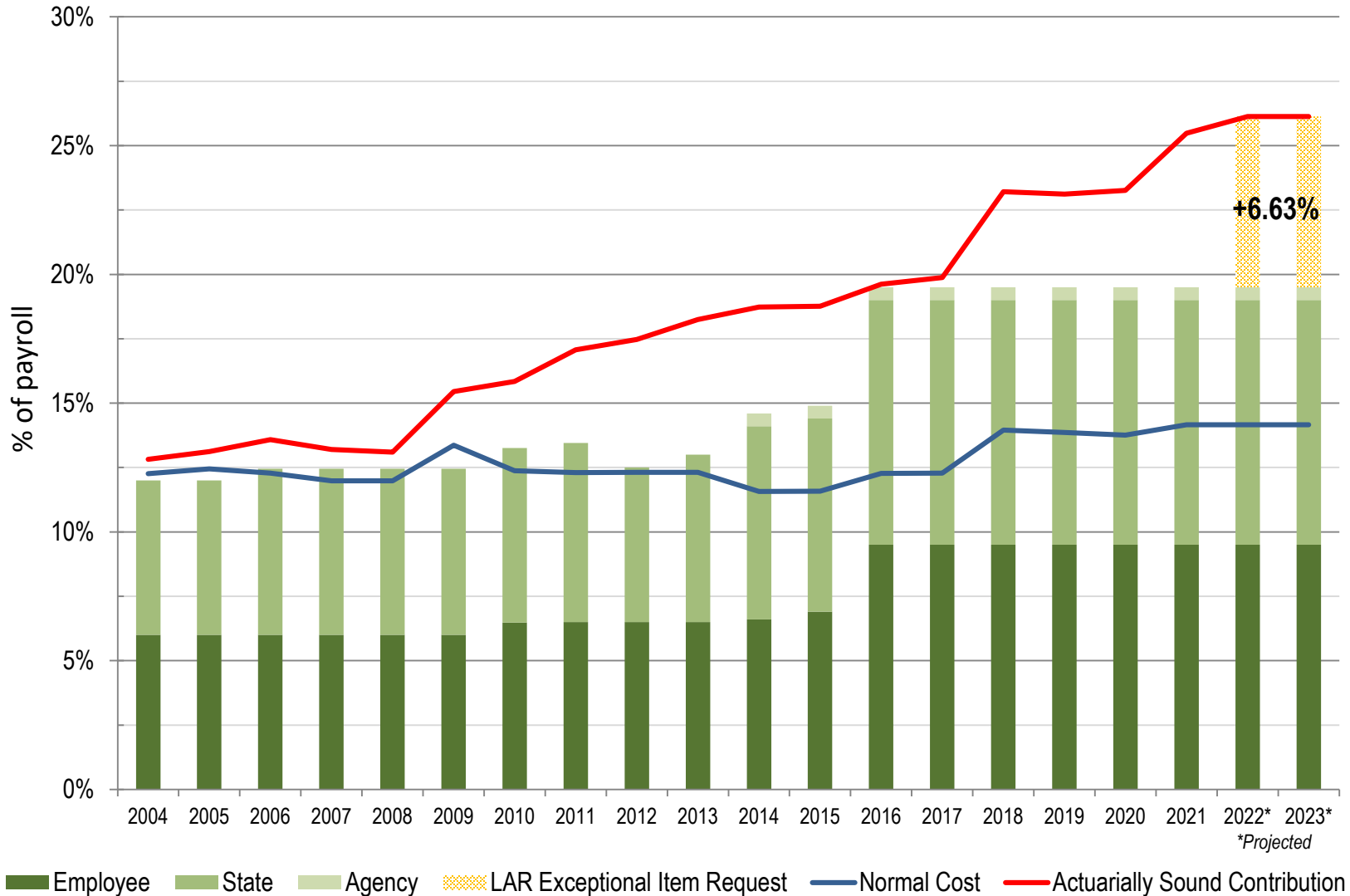
**15.85%**

**15.79%**

**Normal Cost  
as a % of payroll**

*\*Total Normal Cost for ERS Plan and LECOSRF  
Preliminary Current Employees and Normal Costs as of August 31, 2020*

# The Legislature has increased contributions but have not met the actuarially sound rate



# Plans Funding Status



- Based on current contributions and assumptions, **all funds are projected to run out of money**
- When pension funds deplete, the plans convert to pay-as-you-go status making annual benefit costs significantly more expensive for the state. At the time the funds run out of money, the cost to the state would be 4x more.

## Actuarial Valuation Results as of August 31, 2020

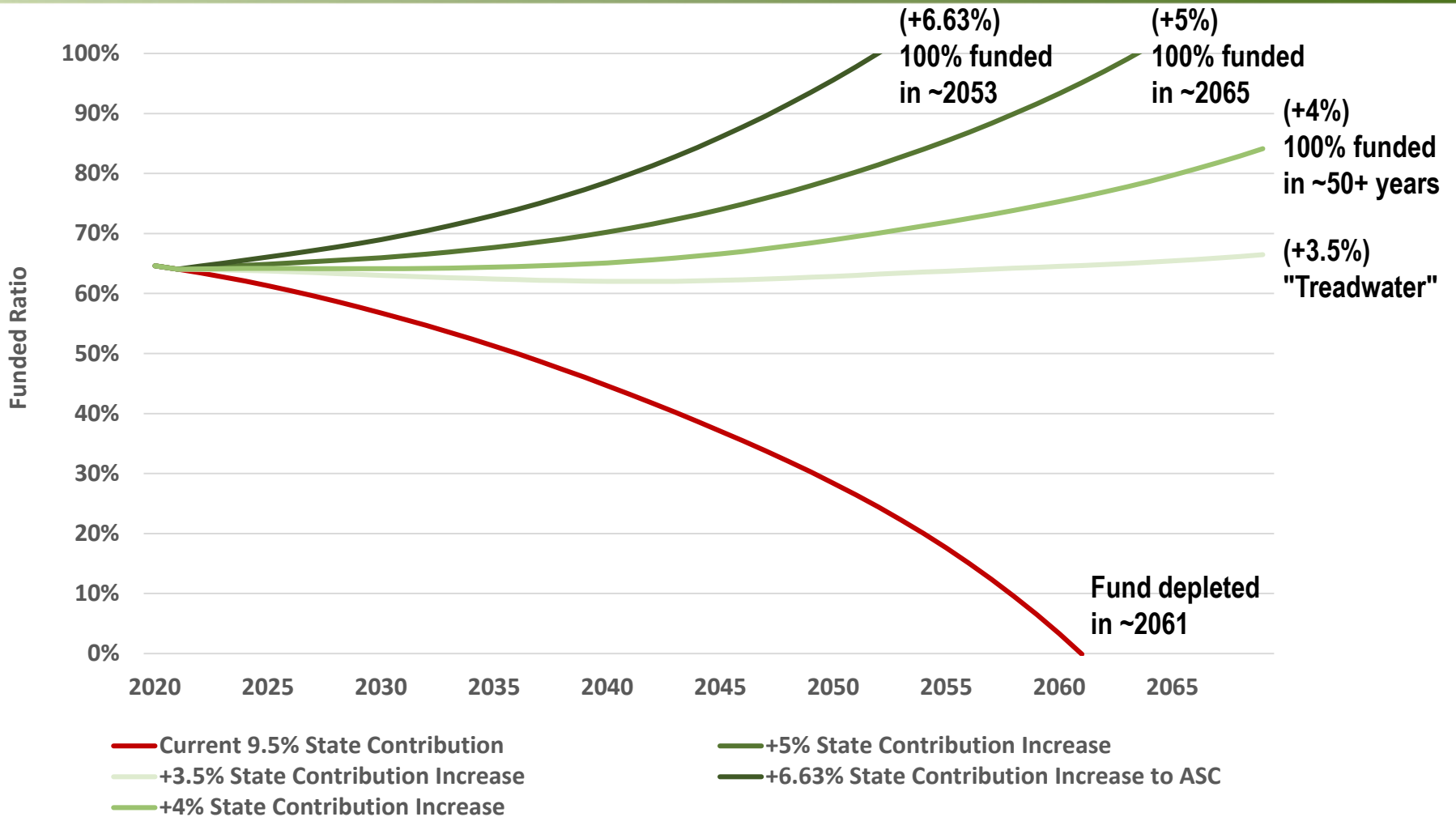
	ERS	LECOSRF	JRS 2
<b>Actuarial Accrued Liability</b>	\$43.2 B	\$1.61 B	\$591 M
<b>Actuarial Value of Assets</b>	\$28.5 B	\$968 M	\$487 M
<b>Unfunded Accrued Liability</b>	<b>\$14.7 B</b>	<b>\$642 M</b>	<b>\$104 M</b>
<b>Funded Ratio</b>	66.0%	60.1%	82.3%
<b>Funding Period (Years)</b>	Never	Never	Never
<b>Projected Depletion Date</b>	~2061	~2041	~2059

***“The current financial outlook for ERS is very poor. It is important to understand that the currently scheduled contributions are not expected to accumulate sufficient assets in order to pay all of the currently scheduled benefits when due.”***

- Gabriel Roeder Smith & Company Consulting Actuaries



# Impact of State Contribution Rate Increases



State contribution rate increases assumed effective for FY 2022. Projections as of 8/31/2020 valuation and assume no changes to current assumptions and expectations.

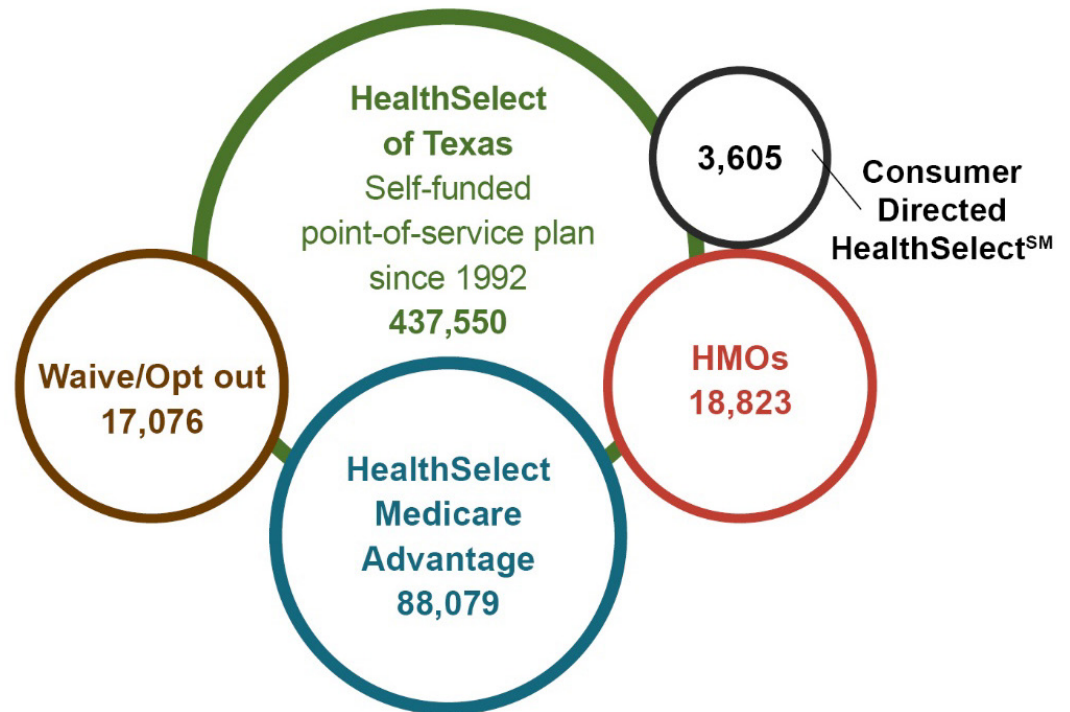
# Health Care

# ERS Health Insurance Covers 1 in 53 Texans



The Texas Employees Group Benefits Program (GBP) provides health insurance coverage and optional benefits to employees, retirees and eligible dependents for:

- state agencies and
- public institutions of higher education (except The University of Texas and Texas A&M University systems)



***Current enrollment is roughly a half million Texans***

- ERS health insurance program remains financially strong
- Thanks to cost management initiatives and competitive contracting, ERS will **not** be requesting appropriations above base funding levels in order to maintain current benefits for the coming biennium

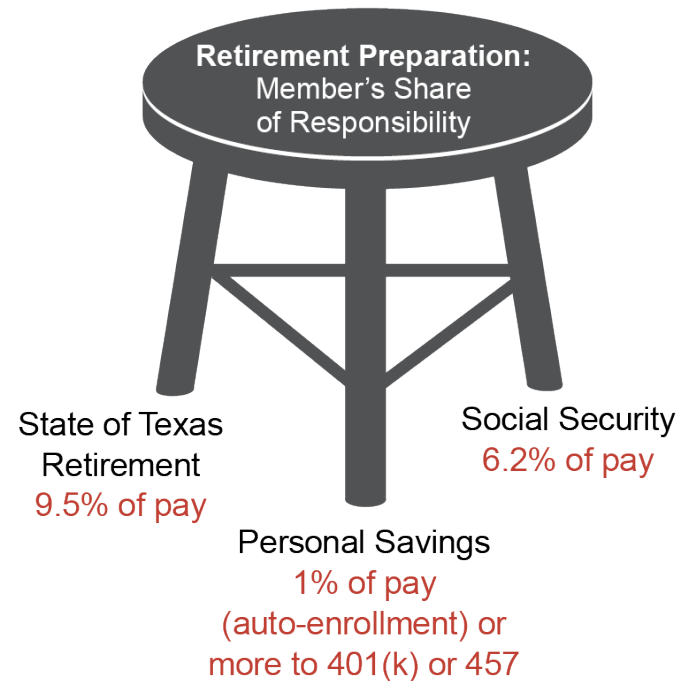
# Appendix

# 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 both state pension and Social Security
- Texa\$aver 401(k)/457 plans
  - Automatic 401(k) enrollment with opt-out
    - 70% 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 \$1,746**



# Current Contributions



	ERS	LECOSRF <sup>1</sup>	JRS 2
State	9.5%	0.5%	15.663%
Agency	0.5%	-	-
Employees	9.5%	0.5%	9.5%
Total	19.5%	1.00% <sup>2</sup>	25.163% <sup>3</sup>

<sup>1</sup> LECOSRF members participate in both the ERS and LECOS plans.

<sup>2</sup> LECOSRF receives additional revenue from dedicated court costs fees which are projected to be \$17.1 million annually and will decline as a percent of payroll.

<sup>3</sup> JRS 2 total current contributions do not match due to an effective employees contribution of 9.42% from members that have maxed out and stopped contributing.

# Actuarial Valuation Results

## Measuring Funding Needs



Funded Status	ERS	LECOSRF	JRS 2
Unfunded Liability	\$14.7 B	\$642 M	\$104 M
Funded Ratio	66.0%	60.1%	82.3%

Funding Goals	Meets Funding Guidelines and Priorities		
	ERS	LECOSRF	JRS 2
Cover Normal Cost	✓	✗	✗
Avoid Trust Fund Depletion	✗	✗	✗
Fund 31 Year ASC Rate	✗	✗	✗
Fund 20-25 Year ADC Rate	✗	✗	✗

As of August 31, 2020 Valuations

**None of the vital funding goals are being met**



# Legislative Benefit Reforms Have Lowered Costs

## Over 65% of Current Employees in Groups 2 and 3



	Group 1 Employees hired before 9/1/2009	Group 2 Employees hired 9/1/2009 – 8/31/2013	Group 3 Employees hired on/after 9/1/2013
<b>Minimum retirement Age<sup>1</sup></b>	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)	
<b>Annuity reduction when retiring before certain age</b>	No reduction	5% per year, 25% cap Age 60 – Regular Class Age 55 – LECO <sup>2</sup>	5% per year, no cap Age 62 – Regular Class Age 57 – LECO <sup>2</sup>
<b>Final average salary based on:</b>	36 months	48 months	60 months
<b>Multiplier</b>	2.3% - Regular Class 2.8% - LECO <sup>2</sup>	2.3% - Regular Class 2.8% - LECO <sup>2</sup>	2.3% - Regular Class 2.8% - LECO <sup>2</sup>
<b>Unused leave can count toward eligibility?</b>	Yes	No	No
<b>Unused leave can help increase annuity?</b>	Yes	Yes	Yes - if not taken as a lump sum
<b>Portion of Active Membership<sup>3</sup></b>	32%	14%	54%
<b>Normal Cost<sup>3</sup></b>	14.83% - Regular Class 17.39% - LECO <sup>2</sup>	13.61% - Regular Class 15.85% - LECO <sup>2</sup>	13.32% - Regular Class 15.79% - LECO <sup>2</sup>

<sup>1</sup> This age does not consider requirements to be eligible for GBP retiree insurance.

<sup>2</sup> The lower normal 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.

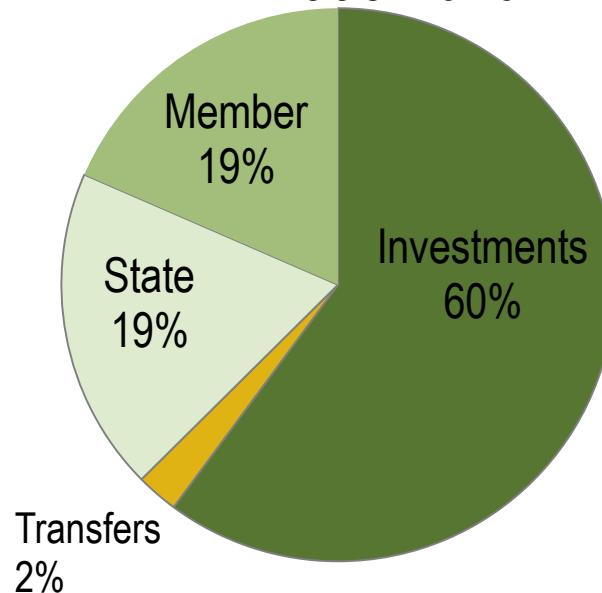
<sup>3</sup> Active Membership and Normal Costs as of August 31, 2020.

# Investment Returns Pay Majority of Benefits

## ERS is a Long-term Investor



### ERS Retirement Trust Assets by Revenue Source FY 1998-2020



Period	30 year	20 year	10 year	5 year	3 year	1 year
Net Return	Unknown*	5.70%	8.12%	7.30%	6.42%	6.82%
Gross Return	7.84	5.79%	8.22%	7.34%	6.46%	6.85%

The actuarial assumed rate of return of 7.0% is based on net return.

\*Not available due to custodian data transfer issue.

As of 8/31/20