

Senate Finance Committee  
Interim Hearing  
State Pension Reforms

Porter Wilson, Executive Director  
Employees Retirement System of Texas  
May 4, 2022



## SB 321 changes ERS Plan trajectory



Created long-term solutions to address the critical funding status and mitigate future unfunded liability for the ERS Retirement Plan

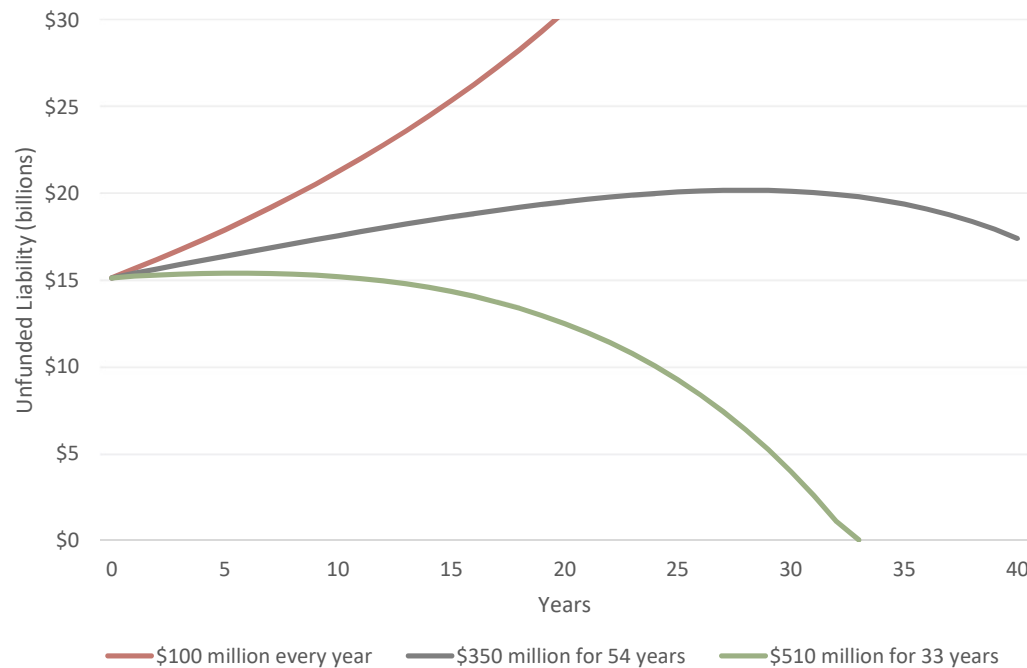
### ➤ Legacy Payment Schedule

- Annual, actuarially determined payments to address unfunded liabilities within at least 33 years
- Currently \$510 million per year

### ➤ Established Group 4 for new employees hired on or after 9/1/22

- Guaranteed lifetime benefit using a Cash Balance structure
- Reduced employee contributions (6% vs 9.5%)
- Shorter vesting period (5 years)
- Annual Interest (4%) and Gain Share (0-3%) structure

# Legacy Payment Schedule Interest Savings



## 87<sup>th</sup> - Options Considered:

Annual payments of \$100m

- Asset depletion in 56 years

Annual payments of \$350m

- UAAL eliminated in 54 years; and
- State will pay **\$62 billion** in interest on UAAL

Annual payments of \$510m

- UAAL eliminated in 33 years
- State will save **\$34 billion** in interest compared to the \$350 million scenario

# ERS Plan Actuarial Valuation Results



Funded Status	8/31/2020 valuation	8/31/2021 valuation
Unfunded Liability	\$14.7 B	\$14.1 B
Funded Ratio	66.0%	68.0%
	Meets Funding Guidelines and Priorities	
Cover Normal Cost	✓	✓
Avoid Trust Fund Depletion	✗	✓
Meet Statutory 31 Year ASC Rate	✗	Approx. 2024
Meet Additional Funding Standards	✗	100% funded in 2054

As of August 31, 2021 Valuation

**All of the funding goals will be met following the Legacy Payment Schedule**

## Group 4 Implementation



- New employees joining the state workforce on/after 9/1/22
- Implementation is on schedule
- Significant changes to technical systems, data interfaces, administrative rules, policies, procedures, communications and educational materials
- Requires work from multiple state agency partners
- Clarifying legislation for next session to address issues raised in implementation

# LECOS and JRS 2 Actuarial Valuation Results



Funded Status	LECOS	JRS 2
Unfunded Liability	\$653 M	\$95 M
Funded Ratio	60.5%	84.6%

	Meets Funding Guidelines and Priorities	
Cover Normal Cost	X	X
Avoid Trust Fund Depletion	X	X
Meet Statutory 31 Year ASC Rate	X	X
Meet Additional Funding Standards	X	X

As of August 31, 2021 Valuations

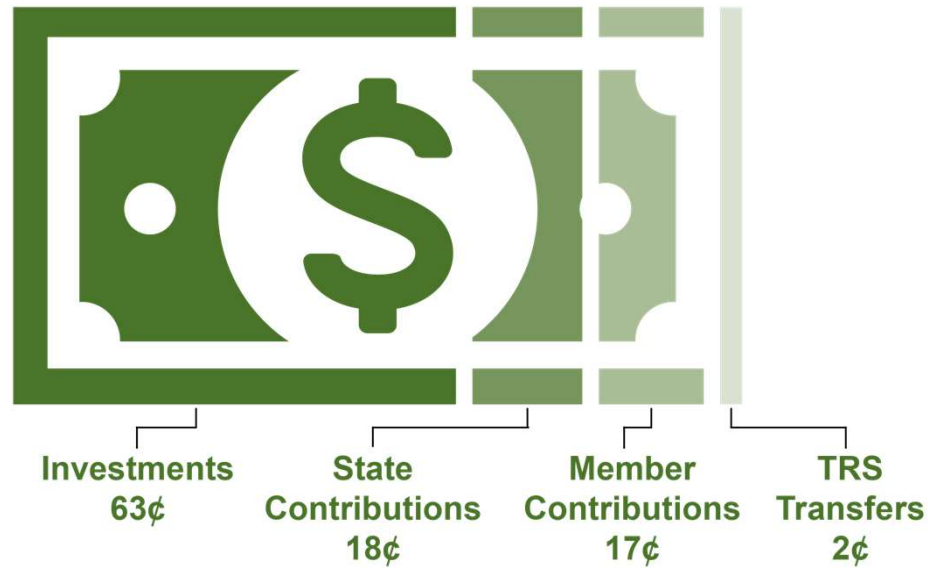
**With projected depletion dates, none of the vital funding goals are being met.**

# Investments are Essential to Benefits

ERS Trust Fund Assets by Revenue Source - FY 1998-2021



Of each dollar paid for ERS retirement benefits, 63 cents has come from investments



Period	30 year	20 year	10 year	5 year	3 year	1 year
Net Return	Not available*	7.29%	9.32%	11.13%	11.34%	25.46%
Gross Return	8.05%	7.38%	9.40%	11.17%	11.38%	25.51%

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

\*Not available due to custodian data transfer issue.

As of 8/31/21