



## ATTN: Pensions Investments and Financial Services Committee:

The Employee Retirement System (ERS) represents a commitment to State Employees as mentioned in our State Constitution and is a form of deferred compensation. A strong and secure retirement system is crucial for recruiting and retaining a competitive workforce. With historic turnover (19.3%) it is even more important than ever to strengthen our pension system. The State must uphold this promise and fully fund the pension system. Years of significant underfunding is the root cause of the current state of the fund, not mismanagement or sustainability.

The contributions to the plan have been increased (9.5% by State .5% by agency and 9.5% for employee). However, the funding has not met the Actuarially sound contribution level needed to fully fund the plan since the early 2000's. A total funding contribution of 25.33% is now needed to bring the ERS fund to Actuary soundness. Once the unfunded liability that has accumulated due to the underfunding is dealt with the fund only requires a contribution of 14.24% to cover the normal costs. This normal cost is well under the current 19.5% contribution level.

With the recent decision by the ERS board to lower the expected rate of return from 7.5% to 7% the fund is now expected to reach depletion in 2061.

The Texas Legislature must include a much-needed increase of 5.83% in the next budget to put the ERS pension back on track to full funding. Employees have already shouldered a heavy burden with a current contribution of 9.5% of their check.

During the 86<sup>th</sup> Legislature, Senator Nelson requested an opinion from the Attorney General regarding constitutional limitations on the legislature contributing more than 10% to the fund. The AG determined that since the constitution also requires the legislature to fund the pension to actuarially soundness and gives the Governor power to declare an emergency, that if a contribution over 10% is included in the budget and is signed by the Governor that would be sufficient.

It is dire that action be taken this session. Either by an increase to the State's contribution, a direct cash infusion, or a combination of both. Delaying adds billions to the cost and will hurt State Employees, Retirees and the taxpayer.

### Retirement Plan Demographics as of 8-31-19

	ERS
<b>Active Contributing Members</b>	141,865
Average Age	43.5
Average Entry Age	35.1
Average Years of Service	8.4
Average Annual Salary	\$49,220
<b>Non-contributing Members – Vested</b>	15,425
<b>Non-contributing Members – Non-vested</b>	110,510
<b>Retirees and Beneficiaries</b>	115,155
Service Retirements	103,934
Average Age*	69.1
Average Age at Retirement*	59.1
Average Years of Service*	21.7
Disability Retirements	2,237
Beneficiaries	8,984
Average Annual Annuity	\$20,645

### Largest Contributing Agencies (based on membership)

<b>26%</b>	<b>25%</b>	<b>9%</b>
Texas Health & Human Services Commission	Texas Department of Criminal Justice	Texas Department of Transportation

### ERS Investment Performance (period ending 8-31-19)

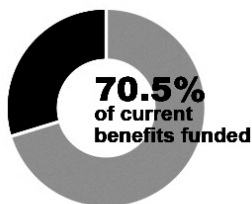
Period	30-Year	20-Year	10-Year	5-Year	3-Year	1-Year
Annualized Return (Net)	N/A	5.83%	8.09%	5.99%	8.15%	3.00%
Annualized Return (Gross)	7.76%	5.92%	8.20%	6.03%	8.19%	3.04%

### Employees Retirement System (ERS) - Plan Cost Impact of Newly Adopted Assumptions

As of August 31, 2019	Previous Assumptions and Methods	Newly Adopted Assumptions and Methods
Unfunded Accrued Liability	\$11.7 billion	\$13.6 billion
Funded Ratio	70.5%	67.3%
Funding Period	Never	Never
Projected Depletion Date	2075	2061
FY 2020 Normal Cost	13.76%	14.24%
FY 2020 Actuarially Sound Contribution (ASC)	23.26%	25.33%

**IMPACT ON ERS PLANS:** The following findings resulted in recommended changes that impact the previous funding status of the plans. The findings are ranked from the most to the least impactful and indicate whether a change would increase or decrease funding status

Key Findings	Impact of Assumption Change on Projected Funding Status
Lower expectations for nominal investment return going forward	Decrease
Lower expectations for future individual salary growth	Increase
Lower expectations for future overall payroll growth	Decrease
Lower expectations for law enforcement and custodial officers retirements	Increase
Higher expectations for law enforcement and custodial officers employment separation	Increase



- State employees
- Elected officials
- District attorneys
- LECOSRF members