Response to request for public comments from the House Pensions Investments and Financial Services Committee on its interim charges and the effects of COVID-19

August 27, 2020

ATPE Senior Lobbyist Monty Exter respectfully offers the following comments on behalf of ATPE and its approximately 100,000 members:

Regarding **House Pensions Investments and Financial Services (PIFS) Committee Interim Charge Two,** which reads, “Monitor the Teacher Retirement System’s (TRS) actions in implementing high deductible regional plans for certain school districts interested in providing alternatives to the current TRS-ActiveCare options,” ATPE supports providing public school employees with high-quality, competitive health insurance benefits that are fully funded by the state at a level equal to or greater than the benefits provided to state employees.

We appreciate the agency’s diligence in continually seeking to lower premiums for members through aggressive contract negotiations with partners, such as the upcoming transition to Blue Cross Blue Shield, which is expected to save TRS-ActiveCare members a combined $90 million in premiums costs per year.

We also appreciate the TRS health care team’s efforts to reach out to districts and other stakeholders over the past year to seek input on areas for improvement. Feedback received included a desire for lower pricing with increased options and quality of care. The agency has responded favorably by developing new statewide plan options that include lower fees associated with plan usage and attempts to improve care by focusing on coordination with primary care providers.

Despite the agency’s aggressive contract negotiations and work toward innovative plan design, health care costs will continue to be an issue as long as the state fails to recognize that a fixed state contribution, which hasn’t been increased since its institution in 2002, inevitably leads to a greater share of health care costs being borne by Texas educators. Prior to the last legislative session, many Texas educators saw an effective reduction in their year-over-year take-home pay due to rising insurance costs that outpaced modest salary increases. The infusion of money provided by HB 3, combined with cost-saving measures from TRS, has temporarily reversed this trend for many educators, but educators will only have a short-term reprieve if legislators do not find a way to index state contributions so they better keep up with long-term inflationary effects on healthcare costs.

Regarding **PIFS Committee Interim Charge Four,** which reads, "Review and evaluate the actuarial soundness of the Employees Retirement System and TRS pension funds. Examine the cost of and potential strategies for achieving and maintaining the actuarial soundness of the funds. Examine the effect the unfunded liabilities could have on the state's credit. Examine the state's investment policies and practices, including investment objectives, targets, disclosure policies, and transparency," ATPE supports the dedication of all available revenue to maintain the actuarial soundness of the pension fund in order to improve benefits for all active and retired Teacher Retirement System (TRS) members. In addition, ATPE supports an increased state contribution rate, an increase of the retirement formula multiplier, the establishment of TRS benefits comparable to state employee retirement benefits, and continued control of TRS funds at the state level.

Retired and active teachers alike greatly appreciated the prudent fiscal action taken by the 86th Legislature to increase contributions to the TRS pension fund. The increased contributions dramatically reduced the timeframe for paying down the fund's unfunded liability and immediately improved the fund's actuarial soundness. Reducing the fund's debt burden by instituting more appropriate contribution levels helps ensure the state will be able to maintain the highest possible credit rating, saving Texas taxpayers billions in interest payments over time, while maintaining the state's promise of a sound and secure retirement system for more than one million active and retired TRS members. Increased contribution rates would also reduce the burden and uncertainty of paying for benefits and debt reduction by maintaining a higher rate of return on the fund's investment income, thus making the fund less susceptible over time to market downturns.

Unfortunately, it is still too early to say whether the fund will be impacted by the current economic uncertainty or a potential wave of retirements caused by COVID-19. In either event, however, higher contributions and less dependence on investment returns would put the fund in a better position to handle any crisis. Accordingly, we ask the Legislature to stay the course begun by the 86th Legislature and continue funding scheduled increases to the state's contribution rate for the betterment of educators and the state.

Additional measures, both funding and logistical, should be taken to further improve the fund. Next steps could include improving the transparency of agency investment strategies for TRS members. This could be achieved both through additional reporting on the cost and benefits of investment decisions and procedures as well as improving the accessibility and digestibility of information for the typical TRS member. Although we understand that state is current under increased budgetary pressure due to the multiple impacts of COVID-19, legislators should begin to map out plans to legislate and fund a structural cost-of-living adjustment (COLA) for TRS retirees that would replace the current ad hoc COLA framework in the future. Under the current framework, retirees see an unacceptable rate of decline in their standard of living over time. The state can and should provide retirees with a better and more predictable system.

Thank you for your consideration of these comments.