TEXAS HOUSE COMMITTEE ON PENSIONS, INVESTMENTS AND FINANCIAL SERVICES

August 28, 2020

Re: Request for Information on Interim Charge #4. 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. (Joint Charge with the House Committee on Appropriations)

SUMMARY

On behalf of TSTA members, I would like to express our gratitude for the Legislature's work during the 86th Session. With the passage of SB 12 specifically, the Texas Legislature made history by committing through statute, for the first time, to a long-term and cost-effective plan to increase the financial stability of the Teacher Retirement System of Texas (TRS). Additionally, SB 500 marks the first time the Legislature directly paid for a "13th check" for retirees. Our members were extremely grateful for the 13th check that they received. However, for many of them, their annuity payments from TRS are their main source of income, and they still struggle to make ends meet. Our retirees are in desperate need of not only a periodic or one-time benefit enhancement, but a true cost of living adjustment (COLA).

As a public pension, TRS depends on worker contributions, employer contributions and state contributions along with investment returns to generate the promised retirement annuity payments to our educators when they retire. TRS' defined-benefit pension structure and pre-established formula provides our educators with a predictable retirement income. The average TRS retiree receives a little less than $2,100 a month in pension payments. The benefit package that TRS offers, though modest, is a critical part of teacher retainment and a key tool for recruiting qualified individuals into the profession. With the defined monthly annuities from TRS, retirees have proven to be powerful economic engines for local communities.

Not only does TRS play an important role in recruiting a high-quality public education workforce — a much needed public good during this unprecedented crisis — it provides its beneficiaries with a stable source of income. Even if annuity payments are modest, they play a key role in our economy. Previous research has shown that pension beneficiaries can, and do, bolster the economy by feeding their pension dollars back into their local communities where they live and work.[1]

In order to recruit and maintain a talented workforce for our education system, amplify the role of our retirees as economic drivers in our local economies, and to ensure our retirees are able to make ends meet, TSTA strongly urges the Legislature to honor its commitment to increase its contribution to TRS according to the schedule determined in SB 12 and to continue to invest in our education workforce by providing a true and desperately-needed COLA to TRS retirees, many of whom have not received a change in their income for over 15 years.

TRS Beneficiaries Serve as Stimuli to the Local Texas Economy

As the National Institute on Retirement Security phrased it in a letter to the New York Times, "pensions can act as an 'economic stabilizer' during volatile times because retirees with stable monthly pension income can continue to spend on basic needs, even during an economic downturn."[2] In Texas, for every dollar TRS sends to members in benefits, $2.35 in economic activity is created.[3] With so many Texans facing unemployment and no promise of future stimulus checks, TRS pensions provide our retirees with a small but reliable source of income that is crucial to saving our local economies.

Of course, TRS can only serve as a stimulus if it is able to continue putting money in our retired educators' pockets. Public pensions with defined benefits are built to last and are structured to ensure long-term sustainability and to withstand economic downturns — so long as these pensions follow well-established practices for long-term investing before, during and after an economic downturn. For example, while the 2008 Great Recession reduced public pension fund asset values from $3.15 trillion in 2007 to $2.17 trillion in 2009, almost every state has been able to ensure long-term sustainability in the years since. According to the Boston College Center for Retirement Research, not only did most defined benefit plans across the United States rebound to a well-funded and financially stable state, but during the last quarter of 2019, public pension assets were $4.82 trillion — doubling in under a decade after the financial crisis. Similarly, an analysis of the U.S. Federal Reserve and U.S. Census Bureau pension data from 1993 to 2005 found that public pensions were able to follow well-established practices before, throughout and after the 2001 market plunge, allowing for a strong recovery. Despite our current economic environment, historical data proves that as a public pension with a defined benefit plan, TRS is well suited to recover from the coronavirus financial crisis, so long as the state maintains its obligation to increase its contributions to the fund, as outlined by Senate Bill 12 (86R).

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[1] Michael Kahn, Ph.D. Unintended Consequences: How Scaling Back Public Pensions Puts Government Revenues at Risk; The National Conference on Public Employee Retirement Systems
[2] (National Institute on Retirement Security, 2020)
[3] TRS Value Brochure, Feb. 2019, pp. 4-9

EXAMINE THE EFFECT OF THE UNFUNDED LIABILITIES ON THE STATE'S CREDIT

Thanks to Senate Bill 12 and Senate Bill 500 passed by the 86th Legislature, statute now provides for gradual increases to contribution rates for the state, participating employers, and active employees to make the pension fund actuarily sound. With these measures, the pension system will be fully funded within a 29-year period instead of the previous 87-year period.

Senate Bill 12 set up a contribution schedule to the pension trust fund for the state, employers and members in a phase-in schedule ending in Fiscal Year 2025:

Contribution Rates			
Fiscal Year	**State**	**Public * Education Employer**	**Active Employee**
2019	6.80%	1.50%	7.70%
2020	7.50	1.50	7.70
2021	7.50	1.60	7.70
2022	7.75	1.70	8.00
2023	8.00	1.80	8.00
2024	8.25	1.90	8.25
2025	8.25	2.00	8.25

Senate Bill 12 also extended the employer contribution under Section 925.4035 to apply to all TRS-covered employers, regardless of whether the public education employer participates in Social Security.

Senate Bill 500 appropriates additional dollars to fund the state's pension contribution increase and the one-time supplemental payment. Specifically, the bill provides $524 million to fund the increases for the state's contribution to the pension fund from 6.80% to 7.50% in fiscal years 2020 and 2021.

By legislatively committing to increase the state's contribution to the fund, the legislators addressed the concern of unfunded liabilities and their effect on the state's credit. The state's commitment to a gradual increase in contributions to TRS was a proactive step in protecting our state's credit rating. Of course, this means that the state must stand by its commitment. Further, should the state back out of its commitment and reduce its contribution rate, it would trigger a proportionate reduction in the public education employer and active employer contribution rates. Any reduction in planned contribution rates will negatively impact the fund's amortization period and only increase the unfunded actuarial accrued liability.

For the 2022-23 fiscal biennium, the estimated incremental increase to TRS is $540 million in addition to the money committed during the 2020-21 fiscal biennium. Though we are in difficult financial times, TRS continues to perform highly and has already bounced back from its initial dip in March of 2020. If the state delays its contributions, the amount of money needed to move forward to lessen the fund's amortization period will only substantially increase and potentially have devastating effects on the state's credit rating. By staying firm to the state's contribution commitment now, you will be making the conservative and prudent decision.

COST OF LIVING ADJUSTMENT

Our members are thankful for the 13th check from the 86th legislative session. But this gratitude and one-time payment does not fix a systematic issue that could have devastating consequences. In fact, many retirees spent the one-time 13th check to try to catch up on bills, which have only increased over time. As part of a TSTA survey[4] we asked over 1,000 13th check recipients how they would be using their increased income, respondents made it clear that a majority of retirees planned to use the one-time supplemental benefit to cover basic needs that they had been unable to pay. In response to the question "How are you going to use your 13th check":

- Around 3 in 10 were going to service outstanding credit card debt
- Almost 1 in 4 intended to pay down outstanding medical debt
- Over 1 in 5 planned to make home repairs
- Almost 1 in 5 were going to cover doctors' visits
- Almost 1 in 6 were spending the benefit on prescriptions

There is a set formula for the amount a retired school employee receives from their TRS pension: 2.33% of an employee's average salary during their final five years, multiplied by years of service. As TSTA mentioned in our September 2019 report, "Beyond the 13th Check: Building Retirement Security through a Permanent TRS COLA," this often means that school staff who do vital but low-paying work with few raises throughout their career will end up with a smaller pension than they deserve. For example, someone who served in education for 30 years will receive a pension that is less than 70% of what they made in their final years — almost always with no Social Security to supplement these savings.

If retirees are able to make a workable budget with their annuity payments, any change in rent, medication prices, insurance premiums or even food costs can have a tremendous impact. Even a seemingly modest 1-2% cost of living increase can have devastating effects for retirees on a fixed income. In a survey of TRS recipients conducted in coordination with the Texas Pension Coalition[5] respondents reported having to rotate bill payments, reduce their medications, or even skip meals in order to make their annuity work.

After regular double-digit COLAs through the 1980s and 1990s to meet increases in the U.S. Consumer Price Index, the last significant TRS pension increase was in 2001. A TRS COLA would not only help to reduce this burden, but, like current annuity payments, would see a great return on investment.

CONCLUSION

Each and every Texas student deserves to have dedicated and highly qualified educators in their schools. By maintaining a sound and predictable pension plan for educators and education support professionals, which enables these workers to have modest retirement security after a career in public service, we are also able to give stakeholders, the community, and parents the peace of mind of knowing that public schools can attract and retain the most well-trained and dedicated employees.

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[4] Figures based on 1,154 survey responses from TRS recipients between 8/18/19 and 9/13/19

[5] TPC Retiree Survey of TRS Recipients, collected 6/11/19-7/28/19