



Texas Retired Teachers Association

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The Voice For All Public Education Retirees

www.trta.org

August 28, 2020

The Honorable Giovanni Capriglione, Chairman
House Committee on Appropriations, and Members
Texas House of Representatives

The Honorable Chairman Jim Murphy, Chairman
House Committee on Pensions, Investments, and Financial Services and Members
Texas House of Representatives

RE: House Committee on Appropriations, Charge 2, Joint Charge with the
House Committee on Pensions, Investments, & Financial Services, Charge 4

Dear Chairmen Capriglione and Murphy, and Members:

The Texas Retired Teachers Association (TRTA) is the largest organization of retired school personnel in the country. TRTA represents the interests of its members, follows public pension policy around the country, and works with policymakers in both Texas and the federal government to protect the retirement security of all Texas public education retirees.

Thank you for the joint charge to the Texas House Appropriations Committee (HAC) and Pensions, Investments and Financial Services Committee (PIFS). TRTA members recognize the time and effort the Texas Legislature and House have placed on the Teacher Retirement System of Texas (TRS) and on maintaining a strong, viable public pension plan for our retired and pre-retired education employees.

For reference, TRTA's comments will be directed to the following Charge 2 for the HAC and Charge 4 for the PIFS committee:

- *Review and evaluate the actuarial soundness of the Employees Retirement System and Teacher Retirement System 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 rating. Examine the state's investment policies and practices, including investment objectives, targets, disclosure policies, and transparency. (Joint charge with the House Committee on Pensions, Investments & Financial Services)*

Texas has done far more right than wrong with its statewide public pension plans (TRS and ERS). Elected officials prioritize these plans and work to ensure that they are managed appropriately and funded as required.

In recent years, the Legislature has worked to provide additional financial relief to public education retirees with one targeted cost-of-living adjustment in 2013 (provided to all TRS members who retired on or before August 31, 2004), as well as supplemental payments (known as thirteenth checks) in 2007 and 2019. This focus on benefiting the members of the TRS pension trust fund is appreciated incredibly by our retirees. We are proud of the Legislature's track record of keeping TRS retirees on their minds and among their "must-pass" items in various legislative sessions. Texans should be proud to know that their elected leaders value our school employee retirees.

Perhaps even more important than providing immediate financial relief to TRS retirees is the work the Legislature has done to ensure the long-term solvency of the TRS pension fund.

The Legislature has passed significant funding and plan design reforms in nearly every session since 2005. The lone exception was 2009 when Texas made deep cuts to nearly all governmental programs due to the recession.

What the Legislature has NEVER done is underfund the system per the minimum level required by the Texas Constitution. While it is noted that many in the Legislature, as well as stakeholder groups (including TRTA), believe more could have and should have been done in the years when Texas ONLY met the minimum funding obligations, we can all agree that Texas' commitment to funding is a proud achievement that has paid off in the long run.

Many states that are experiencing funding issues with their pension systems took pension funding "holidays." Texas never acted with such irresponsibility. Every elected official should be proud of how previous state leaders never dropped their funding commitment to TRS. This has made a tremendous difference for the 1.4 million Texans who are a part of Texas TRS.

The 86th Legislative Session represented the most significant work done to improve the actuarial condition of the TRS pension trust fund in more than 30 years. Two key components drove this reform.

The first was the decision made by the TRS Board of Trustees to lower the fund's rate of return assumption (aka the "discount rate"). This lowered the rate of return from 8 percent to 7.25 percent. While this painted a more realistic picture of market performance in the coming years, it also signaled that more revenue would be needed to ensure the pension's overall funded condition (its actuarial projections for an amortization period of less than 30 years).

The other key component was the work done by the Legislature in true partnership with TRTA and other education stakeholders to implement a funding plan that had more revenue coming from the state budget, active employees, and school district employers.

The Legislature responded to these issues by passing Senate Bill 12. This measure represents one of the strongest endeavors ever to ensure the long-term funding status of Texas TRS.

As a result of SB 12, Texas TRS was deemed actuarially sound and was placed on a path to absorb various retirement pattern fluctuations and market performance shifts. It also ensured the increased revenue from the budget and the stakeholders were linked and would increase over

time. This approach put Texas on an upward trajectory of funding its pension obligations while making the plan more affordable over time.

Now, though, we are all dealing with the unexpected realities of the global COVID-19 pandemic. The Legislature will have many funding demands that will be under severe pressure or may even go unmet. TRTA certainly is sensitive to the difficulties legislators will face next session.

TRTA members' number one priority in the coming legislative session is to preserve the funding plan passed through SB 12. Any deviation from that plan may have severe consequences on the actuarial condition of the TRS pension fund. Years of work to stabilize the pension's funded status, as well as to create a sustainable fund that will meet the needs of future retirees and provide incremental cost-of-living adjustments for current and future retirees, may be lost if the plan is not maintained.

At TRTA, we believe that hard work, discipline, and cooperation is what is needed to be successful with our legislative agenda. It will take effort to ensure the integrity of SB 12. We are committed to working with the Texas House Appropriations Committee and PIFS committees to meet this challenge.

Of primary concern will be the incremental funding plan increases in the coming state budget for TRS. As you may recall, SB 12 used a stairstep approach to increase funding from the budget and from active TRS participants. This funding is linked so that if the budget decreases or remains neutral when a contribution increase is scheduled to occur, the employer share will decrease or remain neutral as well.

The TRS actuary scored SB 12, providing a value based on the plan remaining intact. If the Legislature deviates from the plan, TRTA believes the actuary will rescore the plan and lower the projected value considerably. TRTA also believes the actuary will put less value on any future funding plans offered by the Legislature, as they will have suspicions about lawmakers' ability to remain committed to the plans.

Texas should not be put in the position of being considered untrustworthy by independent actuaries who score the financial viability of their commitments to funding TRS. The impact of not funding SB 12 will be severe and long-lasting. Every effort should be made to meet the obligations set forth in SB 12.

TRTA maintains that an adequate funding plan is the best and most efficient way to maintain a defined benefit retirement plan for our public education retirees and pre-retirees. The financial losses to Texas are far greater if we do not maintain our funding commitment to TRS.

TRTA is ready to work with all members of the Legislature to ensure the funding obligations of SB 12 are met. We are committed to maintaining the amazing work done by previous Legislatures. It is no secret that Texas has one of the best managed and best funded pension plans in the country. Considering the financial savings TRS has provided to the state, as well as the tremendous benefit the plan provides to Texas education employees, we should exhaust all efforts to protect TRS pension funding strategies.

With Texas being a non-mandatory Social Security state, and with 95 percent of school districts not paying into the federal program, TRS provides the only retirement security for 1.4 million Texans. Maintaining this vital plan will be appreciated for generations. The stakes are too high to get this wrong! TRTA will do all we can to support legislative efforts to maintain the obligations set forth in SB 12.

Thank you for your consideration of our input. Please know that TRTA stands ready to support each of you and your service to our beloved Texas. If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Timothy R. Lee". The signature is fluid and cursive, with a large initial "T" and "R".

Timothy R. Lee, Executive Director
Texas Retired Teachers Association