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Overview of Local Retirement Systems Under State Governance

by The Honorable Talmadge Heflin & James Quintero

It is generally thought that local government, being closer to the people, is the most preferable form of government. Policies enacted at the local level are typically more reflective of the surrounding community and course corrections can be made more quickly as demographic, economic, or fiscal circumstances dictate.

However, in spite of the obvious appeal of local control and its long-standing tradition in Texas, some of the state's largest municipal retirement systems have, over the years, erected barriers to local decision-making and oversight by way of the legislative process.

More precisely, 12 local retirement systems in seven major Texas metropolitans have codified their pension plans and benefits structure in state statute. By putting their plans in state law, these local systems have effectively fossilized certain critical aspects, like "contribution rates, benefit levels, and the composition of their board of trustees," such that no outside party can make meaningful changes without first going to the statehouse and passing legislation.[1] Complicating matters further is the fact that making statutory changes first requires that the legislature be in session, an affair that only occurs once every other year for 140 days. This leaves prudent planners with only a narrow window of time to propose and enact any critical changes.

Key Point

- Twelve municipal retirement systems in seven major metropolitans have codified major aspects of their pension systems into state law and have thus erected a major obstacle to local control.

The 12 local retirement systems that have successfully petitioned the legislature for this kind of state protectionism include:

Municipal Retirement System	Active Members	Unfunded Liability	Unfunded Liability Per Active Member	Amoritization Period	Funded Ratio
City of Austin Employees' Retirement Systems (COAERS)	8,348	$932,942,173	$111,756	27 yrs.	65.7%
Austin Fire Fighters Relief & Retirement Fund	963	$74,924,239	$77,803	21 yrs.	88.7%
Austin Police Retirement System	1,690	$270,760,099	$160,213	31 yrs.	67.2%
Dallas Police & Fire Pension System	5,376	$1,190,369,365	$221,423	30 yrs.	73.9%
El Paso Firemen's Pension Fund	798	$108,582,531	$136,068	76 yrs.	79.9%
El Paso Police Pension Fund	1,040	$174,514,074	$167,802	Infinite	78.2%
Fort Worth Employees' Retirement Fund	6,281	$748,205,870	$119,122	28 yrs.	71.4%
Galveston Employees' Retirement Plan for Police	133	$25,694,496	$193,192	54 yrs.	46.9%
Houston Firefighters' Relief & Retirement Fund	3,861	$220,625,000	$57,142	30 yrs.	93.4%
Houston Municipal Employees Pension Systems (HMEPS)	12,345	$1,461,524,000	$118,390	30 yrs.	61.4%
Houston Police Officers' Pension System (HPOPS)	5,312	$770,090,000	$144,972	30 yrs.	82.8%
San Antonio Fire & Police Pension Fund	3,917	$242,741,389	$61,971	9 yrs.	90.6%

Source: Texas Comptroller of Public Accounts
Note: Funded ratios marked in red denote systems that are below the 80% threshold, signifying a plan that is considered to be actuarially unsound.

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Together, the 12 local retirement plans governed by the state are host to over 50,000 active members and almost 90,000 total members.* All of the plans listed above feature defined benefit (DB) retirement systems.

As is commonly the case with DB systems, many of the state-governed local systems above are in poor fiscal condition. To begin, the vast majority of these systems face significant unfunded liabilities for current members, often totaling in excess of $100,000 per active member. In addition, a third of the plans above maintain amortization periods† in excess of 30 years, a period that exceeds the recommended level set by the Governmental Accounting Standards Board (GASB).

But perhaps most telling is that 8 of the 12 plans listed above currently have a funded ratio‡ that is below 80 percent, a threshold most actuaries consider necessary to be fiscally sound.

In the absence of local control, the data suggests that a majority of these state-governed municipal retirement systems have become fiscally unsound.

Recommendation

It is the Foundation's recommendation that the Legislature remove from state statute all local retirement systems and devolve authority over these plans back to the respective local community of each. This will serve to help restore local control of these systems, and also allow local government officials and taxpayers to oversee good government reforms to these systems to ensure their stability and sustainability into the future. ✮

* The term "total members" refers to the number of active members plus inactive members plus annuitants.

† Amortization period is "the length of time required to pay off a plan's unfunded liability, based on current employer and employee contributions and actuarial assumptions," according to the Texas Comptroller.

‡ According to the Texas Comptroller: "One indicator for measuring pension plan health is its funded ratio. A common perception is that a funded ratio of 80 percent or more signifies a fiscally sound plan."

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[1] http://www.prb.state.tx.us/files/reports/finaldistributionreportinterimpifshearing.pdf.

900 Congress Ave., Suite 400 | Austin, Texas 78701 | (512) 472-2700 phone | (512) 472-2728 fax | www.TexasPolicy.com