TEXAS PUBLIC POLICY FOUNDATION
Testimony

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Center for Fiscal Policy

Enhancing Transparency, Ethics, and Anti-Spiking Provisions in Local Retirement Systems

Testimony to the House Committee on Pensions

By The Honorable Talmadge Heflin

Chairman Callegari and Members of the Committee:

My name is Talmadge Heflin, and I am the Director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a nonprofit, non-partisan free market think tank based here in Austin. Thank you for taking the time today to discuss House Bill 2432, a bill to improve transparency, ethics, and anti-spiking practices in Texas' local retirement systems.

To be clear, the Foundation strongly supports HB 2432, believing it necessary to improve the state of transparency and ethics in local pension systems as well as address the issue of spiking. Making improvements in these key areas is critical to the long-term sustainability of these systems and is in the best interests of both beneficiaries and taxpayers.

Concern Surrounding Texas' Local Retirement Systems

Texas' local pension systems are not in the same dire financial condition that we see in other states and cities around the nation. However, these systems, according to the latest data, are not in the best possible financial condition either.

From the Texas Comptroller's recent report on state and local pension systems, *Texas, It's Your Money: Your Money and Pension Obligations:*

- Only 19 percent of the local plans have funded ratios at or above 80 percent.
- About 31 percent of the local plans have funded ratios below 80 percent ***and*** amortization periods greater than 30 years. [emphasis mine]
- Another 53 percent of the local plans have either a funded ratio below 80 percent or an amortization period above 30 years, and should be monitored for further changes in financial stability.
- Six plans have infinite amortization periods, and all of these except the Irving Supplement Benefit Plan also have funded ratios below 80 percent.

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SNAPSHOT OF STATEWIDE AND LOCAL PENSION PLANS IN TEXAS

NOVEMBER 2012

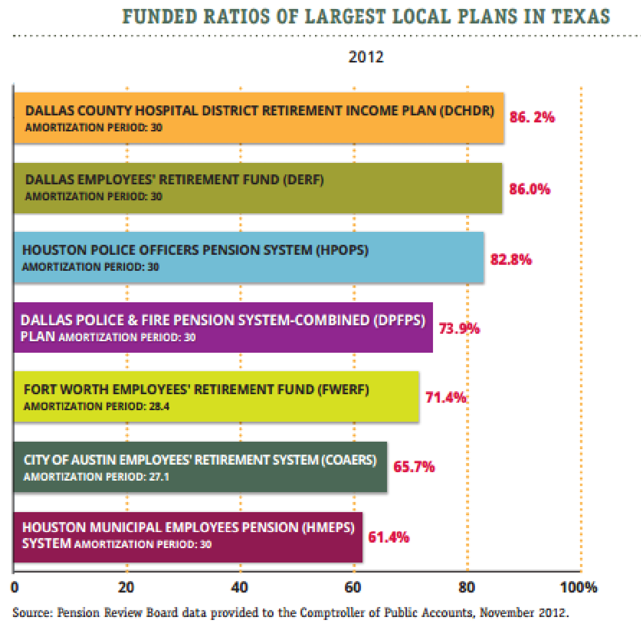
	STATEWIDE PLANS	LOCAL PLANS
NUMBER OF PLANS	8	81
NUMBER OF MEMBERS	2,096,860	183,807
TOTAL NET ASSETS	$165,881,743,166	$28,146,868,760
PERCENT OF PLANS AT OR ABOVE 80 PERCENT FUNDED RATIO	86%*	19%
PERCENT OF PLANS WITH 30 YEAR OR LESS AMORTIZATION RATE	50%	67%

*Only 7 of the state's 8 pension plans were included in this calculation, as Judicial Retirement System Plan One is a closed, pay-as-you-go plan. Funded ratio is calculated with actuarial asset value. (See more details on these public pension plans beginning on page 8.)

Source: Pension Review Board

- The Houston Municipal Employees Pension System (HMEPS), the largest of the local plans, has a funded ratio of 61.4 percent.
- HMEPS has an amortization period of 30 years.
- HMEPS's employer contribution, funded by taxes and fees, has fallen below the annual required contribution (ARC) in every year since 2003. However, the city's current funding agreement with HMEPS will increase employer contributions annually until they are equivalent to the ARC.[1]

As a final point, it is worth noting—and emphasizing—that, ***as of November 2012, none of Texas' local retirement systems were fully funded.*** Some of these systems approached the 100 percent funded ratio benchmark, but none actually achieved this measure. This is important to note because it means that none of the state's local pension plans are able to meet their obligations in full under current conditions.



Note: None of the local pension plans in Texas has a 100% funded ratio.

HB 2432: Improving the Status Quo

A thorough review of the data suggests that Texas' local retirement systems are in need of meaningful reform to ensure that they can continue to meet their obligations and remain a stable force into the future. One way to go about achieving this goal is by enacting House Bill 2432.

House Bill 2432 proposes to improve the fiscal health and condition of Texas' local retirement systems by focusing on three areas: transparency, ethics, and spiking. More specifically, the bill seeks to:

- Require greater government transparency from local pension systems so as to be able to better educate beneficiaries and taxpayers on the management practices and potential problem areas of certain systems.
- Disallow pension administrators from determining what records are confidential and to require the Attorney General to issue an opinion when and if those administrators decline to release public information.
- Require board members to disclose any conflicts of interest and to provide a method for removal and due process if a conflict occurs, and it is not reported. It sets caps for gifts and benefits at $1,000 annually.
- Bar the use of overtime in making a determination of an employee's salary on which an annuity is based.

By taking these initial steps to improve the state of transparency, ethics, and anti-spiking in Texas' local pension systems, we can ensure their continued stability and well-being.

Recommendation

The Foundation strongly supports HB 2432 and urges its passage. Thank you for your time, and I look forward to answering any questions that you may have. ✩

[1] Texas Comptroller of Public Accounts, *Texas It's Your Money: Your Money and Pension Obligations* (Dec. 2012).