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Restoring Local Control of State-Governed Pension Plans

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Key Points

- The 85th Texas Legislature should restore local control of local retirement systems that are governed by state law.
- Over the years, approximately 13 separate local retirement systems have petitioned the legislature to codify certain aspects of their pension plans into state statute, including provisions related to "contribution rates, benefit levels and the composition of their board of trustees."
- Generally speaking, hindering the ability of community stakeholders to make good government changes has not been a positive development for the fiscal position of these plans.

Local control is a style of governing often espoused by local elected officials in Texas. Ironically, it is also a policy preference that is conspicuously absent from many major municipal retirement systems.

Over the years, approximately 13 separate local retirement systems have petitioned the Legislature to codify certain aspects of their pension plans into state statute, including provisions related to "contribution rates, benefit levels and the composition of their board of trustees" (Texas Pension Review Board, 89). By establishing these provisions in state law, these select systems have effectively created a political barrier to local oversight and control.

Absent approval by the Texas Legislature, many features of these state-governed systems cannot be changed, modified, or altered locally. This applies even in instances where the sustainability and reliability of these pension plans has been called into question.

Complicating matters further is the fact that legislative approval must be obtained in a compressed and hurried setting. The Texas Legislature only convenes a regular session for 140 days every other year, providing community stakeholders with a narrow window of time to achieve necessary reforms. This condensed time frame can be an especially challenging hurdle to overcome for stakeholders who are either new to the legislative process or lack the right connections at the statehouse.

Stymied by the Status Quo

Generally speaking, making it difficult, if not impossible, to enact good government changes locally has not yielded positive fiscal results for these state-governed systems. The latest data from the Pension Review Board reveals that the health of many of these systems is lacking. (*See chart on back.*)

Combined, unfunded pension liabilities for these 13 state-governed systems, which have more than 50,000 active members, amount to $8.7 billion or $171,155 owed per active member. That is more than a $1 billion increase since June 2015.

Among the plans, four of the 13 systems had unfunded liabilities in excess of $1 billion, while six of the systems' future pension debt was greater than $500 million. The Dallas Police & Fire Pension System—Combined has accumulated the most unfunded liabilities at $2.1 billion.

What's more, nine of the 13 systems have funded ratios that are below 80 percent. It is generally presumed that "a ratio below 80 percent may indicate a pension plan is not fiscally healthy" (Texas Comptroller of Public Accounts, 6). However, even the 80 percent ratio is forgiving; only a ratio of 100 percent or more would reflect a fully funded plan. None of the state's protected plans have funded ratios of 100 percent or more.

The PRB claims that the amortization period is in fact "the most appropriate measure" of a system's financial health. Yet, looking at that measurement, almost two thirds of Texas' state-governed systems still show the need for improvement. Whereas the PRB recommends that a plan's amortization period remain below 25 years, seven of the 13 systems ingrained in state statute have amortization periods outside this guideline. Even the PRB's "maximum" guideline of 40 years is exceeded by two systems: the Dallas Police & Fire

continued

Overview of Local Retirement Systems Under State Governance

	Active Members	Unfunded Liability	Liability Per Active Member	Amortization Period	Funded Ratio*
Austin Employees' Retirement Fund	9,028	$900,174,491	$99,709	24.0	70.91%
Austin Fire Fighters Relief & Retirement	1,025	$78,713,151	$76,793	10.6	90.93%
Austin Police Retirement System	1,777	$315,148,059	$177,348	28.6	67.45%
Dallas Police & Fire Pension System--Combined	5,487	$2,096,942,149	$382,166	Infinite	63.80%
Dallas Police & Fire Pension System -- Supplemental	39	$20,471,488	$524,910	10.0	51.15%
El Paso Firemen's Pension Fund	871	$114,707,333	$131,696	23.0	80.69%
El Paso Police Pension Fund	1,052	$193,755,713	$184,178	32.0	78.23%
Fort Worth Employees' Retirement Fund	6,198	$1,271,153,104	$205,091	55.7	62.23%
Galveston Employees' Retirement Plan for Police	450	$11,881,160	$26,403	31.5	79.50%
Houston Firefighters' Relief & Retirement Fund	3,745	$532,645,292	$142,228	30.0	86.56%
Houston Municipal Employees Pension Systems (HMEPS)	11,949	$1,798,058,000	$150,478	33.0	58.07%
Houston Police Officers' Pension System (HPOPS)	5,261	$1,155,510,000	$219,637	23.0	79.75%
San Antonio Fire & Police Pension Fund	3,944	$209,951,480	$53,233	6.2	92.91%
TOTAL/AVERAGE	50,826	$8,699,111,420	$171,155		74.01%

Source: Texas Bond Review Board

** Funded ratios marked in red denote systems that are below the 80 percent threshold, signifying a plan that may be considered actuarially unsound.*

Pension System—Combined (infinite) and the Fort Worth Employees' Retirement Fund (55.7 years) (Texas Pension Review Board, 2).

Past and present data clearly demonstrate that, in the absence of local control, the fiscal health of Texas' state-governed pension plans has not measured up. Substantive changes to the status quo are needed to ensure the sustainability and reliability of these systems.

Recommendation

The 85th Texas Legislature should restore local control of local retirement systems that are currently governed by state law. Policymakers should restore management and authority over these systems back to the community of their origin, so that stakeholders can implement necessary changes and ensure these systems' long-term viability and recovery.

Did you know?

In March 2016, Moody's Investor Services, one of the nation's top credit rating agencies, downgraded the city of Houston's credit rating citing a number of concerning fiscal factors, including "large unfunded pension liabilities (among the highest in the nation)." Moody's found that fixed costs, which includes debt and pension obligations, represent "a high portion of the budget (a little over 31 percent in FY 2015)" and are expected to grow absent reform.

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