

Restoring Local Control of State-Governed Pension Plans

Over the course of several decades, more than one dozen local retirement systems have successfully petitioned the Legislature to establish some or all of their pension plans in state law. Commonly codified plan elements include: contribution rates, benefit levels, and board composition. By securing their provisions in state law, this select group of state-governed systems has erected a major obstacle to community-driven reform and effectively cemented a series of unsustainable practices.

Headed for Trouble

In general, making it difficult, if not impossible, for community stakeholders to enact good government changes locally has not yielded positive fiscal results. According to the Pension Review Board (PRB), the fiscal condition of Texas' 13 state-governed systems is depicted in the table below.

	Unfunded Liability	Unfunded Liability Per Active Member	Amortization Period	Funded Ratio	Discount Rate
Austin Employees' Retirement Fund	\$ 1,083,708,976	\$ 120,039	33	68.1%	7.5%
Austin Fire Fighters Relief & Retirement Fund	\$ 92,955,348	\$ 90,688	12.3	89.9%	7.7%
Austin Police Officers' Retirement Fund	\$ 346,350,300	\$ 194,907	31.3	66.6%	7.8%
Dallas Police & Fire Pension System—Combined	\$ 3,267,049,695	\$ 595,416	Infinite	45.1%	7.25%
Dallas Police & Fire Pension System—Supplemental	\$ 23,022,828	\$ 590,329	10	45.8%	7.25%
El Paso Fireman's Pension Fund	\$ 138,989,515	\$ 159,575	26	79.2%	7.75%
El Paso Police Pension Fund	\$ 179,938,283	\$ 171,044	33	81.1%	7.75%
Fort Worth Employees' Retirement Fund	\$ 1,398,326,670	\$ 222,663	72.5	60.7%	7.75%
Galveston Employees' Retirement Fund	\$ 12,905,194	\$ 28,116	13.7	78%	7.5%
Houston Firefighters' Relief & Retirement Fund	\$ 467,019,000	\$ 124,705	30	89.4%	8.5%
Houston Municipal Employees Pension System	\$ 2,183,209,000	\$ 184,595	32	54.2%	8%
Houston Police Officers' Pensions System	\$ 1,350,934,000	\$ 256,783	20	77.5%	8%
San Antonio Fire & Police Pension Fund	\$ 359,920,963	\$ 94,344	11.1	88.8%	7.25%
TOTAL/AVERAGE	\$ 10,904,329,772	\$ 217,939	-	71.1%	7.7%

* Figures marked in red signify systems outside the PRB's "recommended amortization period" of 15 – 25 years.

Source: Pension Review Board, January 2017 Actuarial Valuations Report

As the data above indicates, the immediate fiscal condition and long-term sustainability of these 13 state-governed systems are problematic. Combined, unfunded liabilities for the group totaled \$10.9 billion or an average pension debt of \$218,000 owed per active member. Individually, five of the 13 systems had unfunded liabilities of \$1 billion or more, with the most debt owed by the Dallas Police & Fire Pension System (\$3.3 billion) and the Houston Municipal Employees Pension System (\$2.2 billion). It is worth noting too that these estimates are based on generous actuarial assumptions as indicated by the various discount rates, some of which range 8 percent or more.

Of the 13 systems, nine plans currently have funded ratios below 80 percent and the average among the group is 71.1 percent. It is commonly assumed that "a ratio below 80 percent may indicate a pension plan is not fiscally healthy," according to research conducted by the previous Texas Comptroller. No system has a funded ratio of 100 percent or more.

Most tellingly, eight systems have amortization periods outside of the PRB's "recommended" range of 15-25 years and two systems are outside the agency's "maximum" guideline of 40 years. A system's amortization period is the "most appropriate measure" of a plan's financial health according to the PRB.

Restoring Local Control of State-Governed Systems

In the absence of local control, the health and sustainability of some of Texas' largest public retirement systems have been harmed. To better protect taxpayers and retirees alike, it is critical that the Legislature restore local governing authority over these systems back to the community of their origin. Such reform would allow community stakeholders to make necessary and immediate changes to improve the long-term viability of these plans.