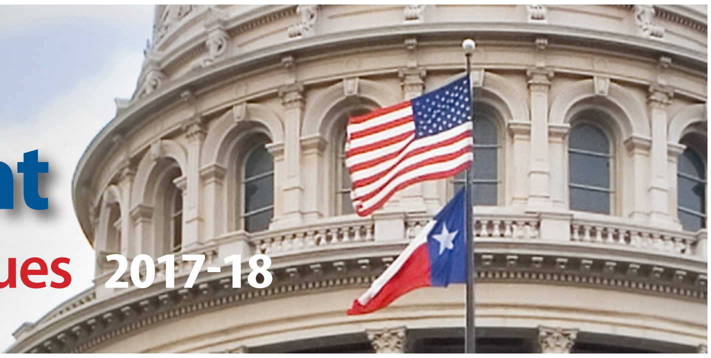
Texas Public Policy Foundation

Local Government

Legislator's Guide to the Issues 2017-18



Local Pension Reform

The Issue

Over the years, more than one dozen local retirement systems have successfully petitioned the Legislature to codify certain aspects of their pension plans in state law, including provisions related to "contribution rates, benefit levels and the composition of their board of trustees." By establishing their plan provisions in state statute, these select systems have erected a major political barrier to local oversight and control.

Absent approval from the Texas Legislature, many critical features of these state-governed systems cannot be changed or modified locally. This is true even in instances where the long-term sustainability and reliability of these systems has been called into question.

Obtaining legislative approval of good government changes is no easy task either. 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 timeframe can be an especially challenging hurdle for stakeholders who are either new to the legislative process or lack the right connections at the statehouse.

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.

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/AVG.	50,826	$8,699,111,420	$171,155		74.01%

** Funded ratios in black denote systems that are below the 80% threshold, signifying a plan that may be considered actuarially unsound.*
Source: Texas Bond Review Board

Combined, unfunded pension liabilities for these 13 state-governed systems, with 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's estimate of nearly $7.5 billion.

Among the plans, 4 of the 13 systems had unfunded liabilities in excess of $1 billion, while 6 of the systems' future pension debt was greater than $500 million. The Dallas Police & Fire Pension System—Combined has accumulated the highest total amount of unfunded liabilities at $2.1 billion.

continued on back

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

Another measure of a plan's financial health—and the one favored by the Pension Review Board (PRB)—is the amortization period. 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" recommended guideline of 40 years is exceeded by two systems: the Dallas Police & Fire Pension System—Combined (infinite) and the Fort Worth Employees' Retirement Fund (55.7 years).

In the absence of local control, the health and sustainability of some of Texas' largest local retirement systems have come into question. For this reason, it is critical that the Legislature move to 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.

The Facts

- More than one dozen local retirement systems in Texas have ingrained aspects of their plans in state law, including benefit levels, contribution rates, and the composition of their boards of trustees.
- In the absence of local control, the soundness and sustainability of these pension plans have come into question.
- Unfunded liabilities among these 13 state-governed plans totals $8.7 billion or $171,155 owed per active member.

Recommendation

The Legislature should restore local control of local retirement systems under state governance to allow for greater community oversight.

Resources

Restoring Local Control of State-Governed Pension Plans by James Quintero, Texas Public Policy Foundation (June 2016).

"A Solution to Our Public Pension Problem" by Vance Ginn and James Quintero, *Forbes* (May 2, 2016).

Texas Public Policy Foundation

901 Congress Avenue, Austin, Texas 78701 | 512.472.2700 PH 512.472.2728 FAX | www.TexasPolicy.com