

Restoring Local Control of Local Retirement Systems in Texas

Testimony before the Pensions, Investments & Financial Services Committee

by The Honorable Talmadge Heflin

Chairman Truitt 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 non-profit, non-partisan free market think tank based here in Austin. Thank you for taking the time today to investigate a matter as critical as this: local government retirement systems in Texas.

Regarding Interim Charge #1, my remarks today will focus on those local retirement systems in Texas that have had their plans enshrined in state law, and the need to return control of these plans back to local communities to ensure stability and sustainability.*

According to a Public Pension Review Board report dated January 2011, there are approximately 1,800 local retirement systems in Texas.¹ Of these, the vast majority are administered at the local level by small cities and counties, subject to the will of local taxpayers. However, a very small number of these systems—11 to be exact—are unique in that their plan details have been codified in state statute. In other words, changes to these select few pension plans, concentrated mainly in the state's major metropolitans, cannot be made without an act of the Legislature.

This state of affairs has produced two major challenges—one having to do with local control, the other with funding.

First, local officials and taxpayers living in many of the state's major metropolitans are unable to adjust or modify these public pension plans on their own initiative, despite whatever economic and fiscal challenges they may face. Instead, any meaningful changes to these local retirement systems must be done through the legislative process, leaving reformers with only a very small window of time to make any good government reforms and complicating the process by which to achieve those results by involving the Legislature.

Whether by design or by default, the net effect of this state-local interplay is the same: local control of local retirement systems in the state's major metropolitans is effectively extinguished.

Secondly, as a consequence of erecting obstacles to local control and making it both logistically and politically difficult to enact sound fiscal reforms, the health of these pension systems is not as good as it otherwise could have been, as evidenced by the large combined unfunded liability, or planned future cost for which there are no funding sources yet, and the average-to-subpar actuarial soundness of many of these plans.

The Texas Attorney General's Office estimates the combined unfunded liabilities for these local retirement plans tallied up to a whopping \$4.6 billion in March 2011, with the Houston Municipal Employees Pension System featuring the largest single unfunded liability at \$1.2 billion.² That means that local taxpayers in those areas will, at some point in the future, be on the hook for several billion dollars more in required contributions, presumably seized through higher taxes and fees.

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* Interim Charge #1 reads as follows: "Review local retirement systems that are not a part of statewide systems, the administration of these retirement systems, and current liabilities. Study and make recommendations aimed at curbing rising pension costs to local governments."

Local Retirement Systems Codified in State Statute	Unfunded Liability, as of March 2011	Funding Ratio
City of Austin Employees' Retirement System	\$658,466,636	71.80%
Austin Fire Fighters Relief & Retirement Fund	\$74,924,239	88.70%
Austin Police Officers' Retirement System	\$215,522,737	70.60%
Dallas Police & Fire Pension System	\$750,381,064	81.80%
El Paso Firemen & Policemen's Pension Fund	\$216,624,678	82%
Fort Worth Employees' Retirement Fund	\$431,737,003	81.20%
Galveston Employees' Retirement Plan for Police	\$24,292,509	49.50%
Houston Firefighters' Relief & Retirement Fund	\$147,496,000	95.40%
Houston Municipal Employees Pension System	\$1,166,968,000	66.20%
Houston Police Officers' Pension System	\$706,029,000	83.30%
San Antonio Fire & Police Pension Fund	\$231,074,564	88.71%
TOTAL	\$4,623,516,430	

In addition, the actuarial soundness of nearly one-third of these local retirement plans is in question, as 4 of the 11 systems have funding ratios below the 80 percent threshold and another 4 of the 11 systems' funding ratios are within 3 percentage points of it (*see Table above*).

Recommendation

It is the recommendation of the Foundation that the Legislature return control of these plans back to locally elected officials and taxpayers. If believed prudent, this transfer to local control can be attended by guidelines for accountability, transparency and governance—for instance, recent reforms in other states have removed some of the built-in conflict of interest by having employee groups and the local lawmakers they help elect determine benefit and contribution levels. 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. ★

¹ Texas Pension Review Board, "Guide to Public Retirement Systems in Texas," January 2011.

² Texas Attorney General, "Texas Defined Benefit Pension System Financial Data," May 12, 2011.

