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Better Management of Local Retirement Systems Under State Governance

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Key Points

- Certain local retirement systems use the state as a barrier to reform.
- By codifying certain aspects of their pension plans in state law, some local retirement systems are precluding local control.
- The next Legislature should act to restore local control of local retirement systems under state governance.

Over the years, more than a dozen local retirement systems have successfully petitioned the Legislature to have key elements of their pension plans codified into state statute, including aspects pertaining to "contribution rates, benefit levels and the composition of their board of trustees," according to the Texas Pension Review Board (PRB).[1]

By establishing these provisions in state law, these local retirement systems have effectively erected a barrier to managing important aspects of their systems since, depending on the specifics of each system's governing statute, meaningful changes can require legislative action.

Complicating matters further for anyone seeking to improve these state-governed systems is the fact that the Texas Legislature convenes a regular session for just 140 days every other year, leaving only a narrow window of time to achieve needed change. This is especially critical in instances where meet-and-confer is not an option.

As of June 2015, the number of local retirement systems under state governance totaled 13 systems. These systems, located in seven major metropolitans throughout Texas, included:

Overview of Local Retirement Systems Under State Governance

Local Retirement System	Active Members	Unfunded Liability	Unfunded Liability Per Active Member	Amortization Period (Yrs.)*	Funded Ratio**
Austin Employees' Retirement Fund	8,592	$861,988,246	$100,325	26	**70.4%**
Austin Fire Fighters Relief & Retirement	1,074	$66,697,659	$62,102	10.5	91.8%
Austin Police Retirement System	1,732	$306,202,257	$176,791	28.9	**66.4%**
Dallas Police & Fire Pension System—Combined	5,487	$1,265,114,368	$230,566	35	**75.6%**
Dallas Police & Fire Pension System—Supplemental	39	$15,703,085	$402,643	10	**59.1%**
El Paso Firemen's Pension Fund	871	$114,707,333	$131,696	23	80.7%
El Paso Police Pension Fund	1,052	$193,755,713	$184,178	32	**78.2%**
Fort Worth Employees' Retirement Fund	6,199	$1,128,966,628	$182,121	49.3	**63.9%**
Galveston Employees' Retirement Plan for Police	141	$27,657,453	$196,152	55.1	**44.3%**
Houston Firefighters' Relief & Retirement Fund	3,745	$532,645,292	$142,228	30	86.6%
Houston Municipal Employees Pension Systems	11,781	$1,746,998,000	$148,289	35	**57.7%**
Houston Police Officers' Pension System	5,343	$1,021,056,000	$191,102	23	81.0%
San Antonio Fire & Police Pension Fund	3,944	$209,951,480	$53,233	6.2	92.9%
TOTAL	50,000	$7,491,443,514	$149,829	-	**73%**

Source: *Texas Pension Review Board*

**The Pension Review Board's Guidelines for Actuarial Soundness recommends an amortization period of between of between 15-25 years.*

*** Funded ratios marked in red denote systems below the 80% threshold, which may indicate that a pension plan is fiscally unhealthy.*

continued

Generally speaking, the establishment of these local retirement systems in state law has not been a net positive for the actuarial soundness of these plans.

Taken together, these 13 state-governed systems, which feature a combined 50,000 active members, had unfunded liabilities totaling almost $7.5 billion as of June 2015. Further, four pension plans had unfunded liabilities that were in excess of $1 billion while almost half had long-term obligations totaling more than $500 million each. The average plan had almost $150,000 in unfunded liabilities per active member.

Looking to another measurement—the amortization period, which the PRB has determined it to be "the most appropriate measure"[2] of a system's financial health—almost two thirds of Texas' state-governed systems rate poorly in this area. Whereas the PRB recommends that a plan's amortization period not exceed 25 years, eight of these 13 systems' amortization periods are outside this upper bound. Worse yet, two plans—the Fort Worth Employees' Retirement Fund (49.3 years) and the Galveston Employees' Retirement Plan for Police (55.1 years)—have amortization periods that are in excess of the PRB's "maximum" guideline of 40 years.[3]

But perhaps most telling is that eight of the 13 plans have funded ratios that are below 80 percent, a threshold that most actuaries as well as the Texas Comptroller consider to signify a fiscally sound plan. None of the plans listed above are fully funded.

The data makes clear that, in the absence of local pension management, many of these state-governed systems have veered into fiscally troubled waters.

Recommendation

The 85th Texas Legislature should restore local management of local retirement systems under state governance. Authority of these state-governed systems should be devolved back to the community of their origin so that community stakeholders can implement good government reforms in the quickest and most direct manner possible.

Endnotes

1 Texas Pension Review Board, *Guide to Public Retirement Systems in Texas: 2015*, (pg. 89), February 2015.

2 Texas Pension Review Board, *Summary: Study of the Financial Health of Texas Public Retirement Systems*, (pg. 2), December 2014.

3 *Ibid*.