2019-20 LEGISLATOR'S GUIDE to the Issues

Local Pension Reform

The Issue

Over the years, more than a dozen municipal retirement systems have convinced the Legislature to codify certain parts of their pension plans in state law, such as contribution rates, benefit levels and the composition of their board of trustees. By establishing these provisions in state law, these select few systems have made it difficult to make good government changes locally.

Absent legislative action, many critical features of these state-governed systems cannot be changed or modified by community stakeholders. Instead, a new law must be passed before reforms are realized, which is no easy feat.

Since the Texas Legislature only convenes a regular session for 140 days every other year, community stakeholders only have a short time to achieve reform. This narrow window can be an especially challenging hurdle to overcome for stakeholders who are new to the legislative process or lack the right connections.

Generally speaking, the fossilization of these plans' features has not produced superior results. In fact, according to the Pension Review Board's March 2018 Actuarial Valuations report, the fiscal standing of a majority of these state-governed systems is in poor shape.

Combined, unfunded liabilities for Texas' 14 state-governed systems—which have 50,000 active members—totaled more than $10.6 billion. The amount of pension debt owed per active member amounted to an average of $209,693.

Among the systems, 5 of the 14 plans had unfunded liabilities standing in excess of $1 billion. Twelve of the 14 plans had unfunded liabilities totaling at least $100 million. Of all the systems, the Dallas Police & Fire Pension System—Combined had the single largest unfunded liability, at $2.2 billion.

What's more, 10 of the 14 systems had funded ratios below 80%, which can be taken as a sign of duress. Importantly, none of these plans had funded ratios of 100%, which would indicate that they are fully funded and prepared to meet their obligations.

Finally, 10 of the 14 systems had amortization periods in excess of the PRB's recommended timeline of 25 years. Even the PRB's "maximum" recommended guideline of 40 years was exceeded by three systems: the Fort Worth Employees' Retirement Fund (Infinite), the Galveston Employees' Retirement Plan for Police (48.7 years), and the Dallas Police & Fire Pension System—Combined (44 years).

The actuarial evidence makes clear that the hardening of these plans in state law has been to the detriment of health and sustainability. It's time for the Legislature to move away from this model of governance and toward an approach that restores local control of local retirement systems. More specifically, 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.

Overview of Local Retirement Systems Under State Governance

	Unfunded Liability	Unfunded Liability Per Active Member	Discount Rate	Amortization Period	Funded Ratio
City of Austin Employees' Retirement System	$1,168,107,291	$128,887	7.5%	31	67.5%
Austin Fire Fighters Relief & Retirement	$115,259,156	$104,972	7.7%	16.2	88.3%
Austin Police Retirement System	$374,484,500	$212,654	7.7%	27.3	66.2%
Dallas Police & Fire Pension System-Combined	$2,209,380,724	$408,011	7.25%	44	49.4%
Dallas Police & Fire Pension System-Supplemental	$15,720,295	$349,340	7.25%	10	52.9%
El Paso Firemen's Pension Fund	$138,989,515	$160,311	7.75%	26	79.2%
El Paso Police Pension Fund	$179,938,283	$179,043	7.75%	33	81.1%
Fort Worth Employees' Retirement Fund	$1,570,660,433	$250,105	7.75%	Infinite	58.5%
Fort Worth Employees' Retirement Fund Staff Plan	$1,199,669	-	7.75%	10.3	73.7%
Galveston Employees' Retirement Plan for Police	$29,145,290	$205,249	8.0%	48.7	42.1%
Houston Firefighters' Relief & Retirement Fund	$943,914,000	$229,719	7.0%	30	80.5%
Houston Municipal Employees Pension Systems	$2,123,492,000	$179,546	7.0%	30	56.4%
Houston Police Officers' Pension System	$1,349,679,000	$256,544	7.0%	30	78.3%
San Antonio Fire & Police Pension Fund	$408,920,749	$107,188	7.25%	13.1	87.9%
TOTAL/AVG.	$10,628,890,905	$209,693		26.9	68.7%

Source: Texas Bond Review Board

The Facts

- More than one dozen local retirement systems in Texas have engrained certain 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 14 state-governed plans totaled $10.6 billion or more than $209,000 owed per active member as of March 2018.

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 (March 2017).

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

Senate Bill 152 and House Bill 1502 of the Regular Session of the 85th Texas Legislature.