Keeping A Sharp Eye On Public Pension Obligations
PROTECTING TEXAS’ ABILITY TO PROSPER

This report examines the effect of public pension obligations on government financial stability. Many local and state governments around the U.S. are burdened with public pension programs that are underfunded. A recent study by the Pew Center on the States, for example, notes that states are $757 billion short in funding pension promises.

Pension costs, by their very nature, are thorny issues to address. Public pension plans help fund the post-employment years of public servants. But the plans’ long-term obligations typically exceed their assets.

Texans aren’t ones to run from a challenge — we meet it head on. By recognizing early how public pension plans affect state and local finances around the country, state and local governments can act on this issue before it becomes a crisis in Texas.

Texas’ public pension situation doesn’t appear as alarming as the problems faced by some other states. But the cost of these state and local obligations are growing, and we shouldn’t assume that problems will never arise.

We encourage you to visit www.TexasItsYourMoney.org and to read this report for a detailed look at the condition of state and local employees’ pension plans. You will also find the other reports in this series that shine light on the growth of taxing entities and public debt in Texas.

As Texas Comptroller, one of the most important duties of my office is to chart the probable course of the Texas economy, which affects the taxes that support state and local governments. We are committed to understanding the factors that influence our economy and sharing our knowledge with Texas taxpayers.

One important issue is the health of public pension systems, which provide retirement security for millions of Texans — and whose investments, in most cases, took a major beating in the tough economic years of the Great Recession. Today, some of the nation’s largest public pension systems are in severe financial difficulty, placing in peril both workers and government budgets, such as those funding public education and transportation.

In Texas, many public pension systems appear to be stable and should be able to support the workers who have paid into them through retirement. But the challenges facing these systems are significant and will continue, calling for continuing vigilance from our leaders and our citizens.

I hope you find this report informative. As taxpayers, all Texans should be aware of the public pension issue.”

— SUSAN COMBS

EVERY TEXAN’S RIGHTS

YOU HAVE A RIGHT

to know who is taxing you and for what purpose. Your hard-earned dollars deserve the light of day, down to the penny.

YOU HAVE A RIGHT

to know exactly how and where state and local governments spend your money.

Through our Web resources such as Where the Money Goes, we’ve opened the state’s books for public inspection, and we’re encouraging all other levels of Texas government to make transparency their highest priority as well, by placing annual budgets, annual financial reports and virtual “check registers” online.

YOU HAVE A RIGHT

to expect that government obligations are funded transparently, and that government finances are managed soundly and prudently.

Government should provide its citizens with an honest assessment of the financial challenges it faces.

YOU HAVE A RIGHT — AND A RESPONSIBILITY — to be aware of and engaged in the affairs of your government.

Our democracy depends on it. In short, you need to know, and have the right to know.
FUNDING PUBLIC PENSIONS: A GROWING ISSUE

In summer 2012, several municipal bankruptcies in the United States focused public attention on a growing nationwide problem: the increasing instability of many state and local public pension programs.

Public pension plans depend on investment income for roughly two-thirds of their funding; employer and employee contributions supported by taxes and fees comprise the remaining third. For many plans, contributions have not adequately funded promised benefits. The dramatic financial losses of the 2008 recession have further worsened pension underfunding to the point where investment gains may not fully fund plans.

More than 15 percent of Texas workers are employed by state and local government. Many of these workers are in traditional defined benefit pension plans that promise regular payments to retirees. Some employers have failed to contribute enough to fully fund promised benefits and/or experienced investment returns that fell short of assumptions, exacerbating the funding gaps in their pension plan. While some of the largest plans, given current contribution rates, promised benefits and plan assumptions — including rates of return, retirement age and longevity — are projected to run out of money in the future, most others are on track to be fully funded within 30 years.

State and local governments and their employees must maintain adequate contributions to ensure their plans remain fiscally sound.

- Public pension plans are supported by tax and fee revenue, in the form of employer contributions and public employee salaries, and investment earnings.
- These contributions and investment returns must be sufficient to fund retirement benefits promised to employees.
- The adequacy of these revenue sources will depend upon specific elements of pension design and basic actuarial assumptions, or predictions of future events, including investment returns and average employee pay, length of service and life expectancy.
- The accuracy of these basic assumptions can result in large differences in the plan’s costs over time, with serious implications for taxpayers and the plan’s members.

SNAPSHOT OF STATEWIDE AND LOCAL PENSION PLANS IN TEXAS

NOVEMBER 2012

<table>
<thead>
<tr>
<th></th>
<th>STATEWIDE PLANS</th>
<th>LOCAL PLANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUMBER OF PLANS</td>
<td>8</td>
<td>81</td>
</tr>
<tr>
<td>NUMBER OF MEMBERS</td>
<td>2,096,860</td>
<td>183,807</td>
</tr>
<tr>
<td>TOTAL NET ASSETS</td>
<td>$165,881,743,166</td>
<td>$28,146,868,760</td>
</tr>
<tr>
<td>PERCENT OF PLANS AT OR ABOVE 80 PERCENT FUNDED RATIO</td>
<td>86%*</td>
<td>19%</td>
</tr>
<tr>
<td>PERCENT OF PLANS WITH 30 YEAR OR LESS AMORTIZATION RATE</td>
<td>50%</td>
<td>67%</td>
</tr>
</tbody>
</table>

*Only 7 of the state’s 8 pension plans were included in this calculation, as Judicial Retirement System Plan One is a closed, pay-as-you-go plan. Funded ratio is calculated with actuarial asset value. (See more details on these public pension plans beginning on page 8.)

Source: Pension Review Board

PENSION TERMS - DEFINED

PENSION is a retirement benefit plan offered to employees by an employer. The employee and/or employer makes periodic payments, usually monthly, towards the investment fund. After retirement, the employee typically receives a monthly payout. In Texas, contributions to local plans may be specified in state law or set through agreements between plan administrators and the sponsoring local government.

ACTUARIAL ASSETS are the value of pension plan investments and holdings as assessed by an actuary. Actuaries often use valuation methods that spread the effects of short-term market volatility on assets over time, a process called “smoothing” that results in less dramatic annual changes in assets and, consequently, less dramatic annual changes in contribution rates.

ACTUARIAL SOUNDNESS is a pension fund’s ability to pay current benefits and cover the cost of promised benefits over a given period of time.

AMORTIZATION PERIOD is the length of time required to pay off a plan’s unfunded liability, based on current employer and employee contributions and actuarial assumptions.

ANNUAL REQUIRED CONTRIBUTION (ARC) is the recommended annual combined employer and employee contribution that covers the annual cost of the plan’s current earned pension benefits and a portion of the plan’s unfunded liability. The ARC is calculated to keep the plan actuarially sound.

FUNDED RATIO is a plan’s current assets as a share of liabilities.

UNFUNDED LIABILITY is the share of all pension benefits earned by current and former employees that cannot be covered by current plan assets.

RATE OF RETURN is the ratio of money gained or lost on an investment compared to the amount of money invested.
Recent events have catapulted pension issues firmly into the national spotlight.

Pensions for state and local public employees are funded by investment returns and contributions from employees and their employers — state and local governments that are supported by the taxes and fees paid by families and businesses. If a pension fund were to run short of resources to meet its obligations to retirees, governments would have to dedicate more tax and fee revenue to pensions, increase employee contributions to the fund or reduce benefits.

In some parts of the country, promises made to employees when markets were strong are contributing to financial crises in the wake of the recession. California’s cities have been particularly hard hit. In summer 2012, three California cities declared bankruptcy; two of them cited pension costs as a major factor. And their difficulties continue, even in bankruptcy. On Oct. 1, 2012, for instance, San Bernardino failed to make a $1 million debt service payment on bonds it had issued to support pensions.

But the problem is not limited to California. Central Falls, Rhode Island, which declared bankruptcy in August 2011, has entered into an agreement that will require the small town to raise taxes, reduce staff and cut worker pensions by up to 55 percent. And much larger communities are feeling the pinch as well; Chicago estimates its unfunded pension liabilities at $26.8 billion, nearly 14 times its anticipated tax revenues for 2012. The city’s pensions are only 50 percent funded.

Bankruptcy is not the only option for cities trying to get a grip on their pension underfunding challenges. One of the most difficult for employees to accept is reducing or changing benefits, particularly for current employees. The state of Rhode Island (see page 18) has implemented significant public sector pension reforms, in a bid to overcome investment losses that reduced its assets. Rhode Island’s defined benefit pension plan has been replaced by a plan combining a smaller traditional monthly annuity with a 401k-style retirement account for which employees assume the risk or reward when it comes to future benefits.

In Texas, several pension systems have changed benefit eligibility requirements. For employees hired after 2009, the Employees Retirement System of Texas increased the minimum retirement age without penalty. For each year before age 60, non law enforcement workers who retire early lose 5 percent of their benefit, up to 25 percent.
BANKRUPTCY IN STOCKTON, CALIFORNIA

California is among the states facing the most pressing public pensions challenges. The unfunded state liability has quintupled in the last decade and was recently estimated at $497.9 billion for the state’s three biggest pension funds, an amount equivalent to $30,500 for every household in the state. Its cities have been hit hardest, with three in bankruptcy proceedings at this writing. On June 28, 2012, Stockton, Calif., became the largest U.S. city ever to file for bankruptcy. And while it may be the biggest to “fail” so far, cities throughout the Golden State face similar problems.

**Boom to Bust**

Stockton was booming in the years before the real estate and banking collapse of 2007 and 2008. From 2000 to 2006, the median housing price nearly quadrupled, as people moved to the city to escape the even higher costs of the Bay area. Over the years, the gap between Stockton’s holdings in the California Pension Employees Retirement System (Calpers) and the generous benefits paid out to the city’s retirees grew to $152 million. Stockton plugged part of that gap by selling pension obligation bonds in 2007. However, the heavy investment losses sustained in the 2008 recession knocked 25 percent off Calpers’ total asset value, leaving Stockton with a new unfunded liability in the pension system — on top of the bond debt that it already owed.

As the Great Recession began to bite at city revenues, Stockton reacted initially by freezing hiring for 90 new open positions in May 2008; even so, the city still ran a $5 million budget deficit for fiscal 2008. Deficits in each year since have all but wiped out the city’s reserves. In 2010, Stockton’s city council declared a fiscal emergency. Its unfunded pension liability had reached $413 million, and if present trends continue will top $500 million by 2015. When funding liabilities for health and other retirement benefits are added in, the city’s shortfall is $800 million.

**City Services cut drastically**

For fiscal 2013, Stockton expects a $26 million deficit, and projects that the annual shortfall may hit $47 million within three years. To cope with its fiscal problems, the city has slashed services, cutting fire department staffing by 30 percent, the police force by 25 percent and all other city employment by more than 40 percent since 2009. A building that Stockton planned to use as its new city hall has been repossessed.

PUBLIC PENSION PLANS IN TEXAS

Texas public pension plans cover 2.3 million active and retired members. The table on pages 20-22 of this report provides details on 89 defined-benefit and hybrid plans, 8 statewide and 81 local plans, overseen by the Pension Review Board (PRB). The PRB monitors Texas’ public retirement systems to assess their ability to provide promised benefits in the future.

The Texas public pension plans covering the most members are:

- Teacher Retirement System of Texas (TRS)
- Employees Retirement System of Texas (ERS)
- Texas County and District Retirement System (TCDRS)
- Texas Municipal Retirement System (TMRS)
- Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS)
- Houston Municipal Employees Pension System (HMEPS)

These plans cover 93 percent of all state and local government workers covered by a pension plan in Texas.

As with most other investments globally, Texas public pension program earnings fell during the recent recession. According to data reported to the PRB, the total unfunded liability for all Texas pension plans was $43.8 billion as of November 2012. The plans had $206.7 billion in combined actuarial assets and $250 billion in liabilities. The combined funded ratio for all plans was 82.5 percent. Texas’ public pension plans saw a sharp decrease in their investment earnings during the recession. Although earnings have rebounded, overall they are still below pre-recession levels.

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**TEXAS LOCAL PUBLIC PENSION PLANS’ EARNINGS ON INVESTMENTS**

![Graph showing earnings on investments for Texas local public pension plans from 2000 to 2010.]

Source: U.S. Census Bureau

**TEXAS STATEWIDE PUBLIC PENSION PLANS’ EARNINGS ON INVESTMENTS**

![Graph showing earnings on investments for Texas statewide public pension plans from 2000 to 2010.]

Source: U.S. Census Bureau
ASSESSING THE FINANCIAL STABILITY OF PLANS

- Public pension plans rely on investment earnings and contributions from employees and employers — supported by revenue from taxes and fees — to pay for benefits earned by workers.
- Insufficient contributions, overly generous benefits, unmet actuarial assumptions such as investment returns, average retirement age, life expectancy or turnover or a combination of these factors may cause a shortfall that threatens a plan’s long-term ability to pay the benefits promised to retirees.

TO THE POINT

One indicator for measuring pension plan health is its funded ratio. A common perception is that a funded ratio of 80 percent or more signifies a fiscally sound plan. Recently, however, the American Academy of Actuaries argued that the 80 percent funded ratio is a myth that has been perpetuated as a standard, and when used as a single measure, does not provide an adequate picture of the financial soundness of a system. Still, a ratio below 80 percent may indicate a pension plan is not fiscally healthy.

Multiple measures can be used to assess the financial stability of pension plans:

<table>
<thead>
<tr>
<th>MEASURE</th>
<th>WHAT IT MEANS</th>
</tr>
</thead>
</table>
| FUNDED RATIO                                  | 100 percent or more — a plan is fully funded and can meet all of its obligations. Some actuaries believe this is the only healthy plan condition.  
80 percent — a funded ratio below 80 percent may indicate that a pension plan is not fiscally healthy.                              |
| AMORTIZATION PERIOD*                          | As of 2012, the Governmental Accounting Standards Board (GASB) recommends that public pension plans maintain an amortization period of no more than 30 years.  
The Pension Review Board (PRB) considers plans with an amortization period of 40 years or more to be actuarially unsound.             |
| RATE OF RETURN                                | Most public pension plans assume an annual rate of return between 7 and 8 percent over the 30-50 year lifetime of an employee. From 2001-2011, however, total actual returns averaged 5.6 percent annually.  
Lower rates of return over time will reduce a plan’s ability to meet its obligations unless employer/employee contributions are increased. |
| ANNUAL REQUIRED CONTRIBUTION (ARC)*          | As of 2012, GASB recommends employers provide the full ARC to guarantee long-term financial stability.  
Some plans covering local employees in Texas are required by law to provide the full ARC. For some other plans, Texas law limits the annual contributions that can be provided by employers. In other cases, governments facing tight budgets may underfund annual contributions. |

*See page 14 for a discussion of GASB changes beginning in 2014.

Of the measures used to determine financial stability, the funded ratio and the amortization period combined are typically used in combination for a snapshot of financial health. See page 13 for a comparison of how the largest Texas public pension systems perform on financial stability benchmarks.
HOUSTON PENSION PROBLEMS

A $2.4 BILLION TAB

Houston’s city workers are served by three major pension systems: Houston Police Officers Pension System (HPOPS), Houston Firefighters’ Relief and Retirement Fund (HFRRF) and Houston Municipal Employees Pension System (HMEPS). All three systems are established in state law as defined benefit plans. The city does have the right to negotiate benefit changes with HMEPS and HPOPS through a “meet and confer” process; the HFRRF statute does not allow for this.

According to reports on file with the Texas Pension Review Board, the plans serving police and firefighters both have relatively healthy funded ratios (82.8 percent and 93.4 percent, respectively), but the plan for general municipal employees is in considerably worse shape, with a funding ratio of 61.4 percent in November 2012. The three funds have a combined unfunded liability of more than $2.4 billion.

The city of Houston estimates that pension payments will be $269 million in fiscal 2013, $22 million more than 2012. In 2011, the city’s average per employee contribution was $7,649 for the three plans combined. Officials expect the city’s total annual contribution to increase by $147 million during the next five years. Houston’s contributions to employee pensions, as a share of total payroll spending, began rising dramatically in 2002, due to factors including:

- benefit increases in HMEPS and HFRRF;
- the ability of HPOPS members to “spike” their benefits because the plan calculated pensions based on their highest pay in any two-week period, including overtime; and
- all three funds’ inability to meet their investment return targets.

Houston has made various attempts to control its pension costs. Through the “meet and confer” process, for instance, it increased employee contributions and the retirement age and reduced benefit accrual rates in HMEPS, and took steps to reduce benefit “spiking” in HPOPS, while lowering benefits for new police officers. Due to different governing statutes, the city and HFRRF have not negotiated similar changes.

HOUSING PROBLEMS

PROJECTED CITY OF HOUSTON CONTRIBUTIONS TO EMPLOYEE PENSIONS AS A PERCENTAGE OF GENERAL FUND SPENDING

<table>
<thead>
<tr>
<th>Year</th>
<th>Municipal Employees</th>
<th>Police Officers</th>
<th>Firefighters</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4.2%</td>
<td>3.5%</td>
<td>3.2%</td>
<td>10.9%</td>
</tr>
<tr>
<td>2012</td>
<td>5.4%</td>
<td>4.5%</td>
<td>3.6%</td>
<td>13.4%</td>
</tr>
<tr>
<td>2017</td>
<td>6.5%</td>
<td>5.8%</td>
<td>4.9%</td>
<td>17.1%</td>
</tr>
</tbody>
</table>

Note: Totals may not sum due to rounding. Source: City of Houston

The city of Houston expects contributions to employee pensions to rise from $181 million and 10.9 percent of all city expenditures in 2007 to $394 million or 17.1 percent by 2017.

SUSAN COMBS: TEXAS COMPTROLLER OF PUBLIC ACCOUNTS
MAJORITY OF PRIVATE SECTOR USES DEFINED CONTRIBUTION PLANS

The availability of defined benefit (DB) pension plans to private sector workers has declined over the past three decades.

- Changes in federal law in the 1970s required full funding of private-sector DB plans. This increased the cost of DB plans for private-sector employers.
- In 2006, further changes to plan reporting were introduced.
- Companies are now required to include DB plan funding status on their balance sheets. As a result, underfunded plans have a direct, negative impact on a company’s shareholder equity.
- The private sector has moved away from DB plans, shifting to defined contribution (DC) plans to supplement workers’ social security retirement.
- By contrast, most public employers continue to offer defined benefits.
- From 1995 to 2008, as the number of local governments increased, DB pension plans in the U.S. increased by more than 50 percent, from about 2,200 to 3,400.

See www.TexasTransparency.org/yourmoney/pensions/ for the Appendix with more information on pension plans.

ACCESS TO RETIREMENT PLANS

Private Industry Workers

- Defined Benefit (DB) 20%
- Defined Contribution (DC) 80%

State and Local Government Workers

- Defined Benefit (DB) 84%
- Defined Contribution (DC) 16%

Note: Some workers may have access to both DB and DC plans, one type, or neither.
Source: Bureau of Labor Statistics

HOW RETIREMENT BENEFITS COMPARE TO SALARY

Annuities for retirees participating in defined benefit (DB) plans vary substantially among individuals and employers based on the employee’s final average salary, years of service, and a benefit formula multiplier that determines the share of final average salary credited to the retirement benefit for each year of service. Benefits for cash balance plans (see page 4) are calculated on the retirement balance of employee contributions, matching employer contributions, and the compounded interest accrued over the employee’s work life. This balance is converted into an annuity that guarantees a monthly benefit for the employee’s lifetime. For the examples below, full retirement age ranges from 50 to 65; plans covering firefighters and law enforcement officers generally have earlier full retirement ages; the earlier a person retires, the greater the value of the lifetime pension benefit. Changes to the benefit formula multiplier and to the years used to calculate final average salary directly affect the retirement benefit. All plans except HMEPS increased the number of years used to calculate final average salary. Only HMEPS and the Dallas system lowered the benefit formula multiplier.

This chart shows the annual benefit at full retirement age based on a retiree’s highest career salary of $52,000 and 25 years service.

Note: These retirement annuities were calculated based on a final salary of $52,000 and do not necessarily reflect an average annuity for the system.
Sources: Pension Review Board, Texas County and District Retirement System and Texas Municipal Retirement System data provided to the Comptroller of Public Accounts, November 2012
A CLOSER LOOK AT LOCALLY ADMINISTERED PLANS IN TEXAS

INDEPENDENT PLANS SERVE 31 PERCENT OF LOCAL GOVERNMENT PENSION MEMBERS

• 81 locally administered public pension plans report to the Pension Review Board.
• The largest is the Houston Municipal Employees Pension System (HMEPS), with 26,675 members and actuarial assets of $2.3 billion and liabilities of $3.8 billion.
• The smallest is the San Benito Firemen’s Pension Fund, with 30 members and actuarial assets of $1.7 million and liabilities of $3.7 million.
• About 60 percent of Texas’ local defined benefit plans cover firefighters or police, with the remainder covering general employees.
• These local defined benefit plans serve about 184,000 members, substantially fewer than the 414,000 current and former local government employees who are members of the statewide multi-employer county, district and municipal cash balance retirement systems.

LOW FUNDED RATIOS ATTRACT NOTICE

• About 31 percent of the local plans have funded ratios below 80 percent and amortization periods greater than 30 years.
• Another 53 percent of the local plans have either a funded ratio below 80 percent or an amortization period above 30 years, and should be monitored for further changes in financial stability.
• Six plans have infinite amortization periods, and all of these except the Irving Supplement Benefit Plan also have funded ratios below 80 percent.
• HMEPS, the largest of the local plans, has a funded ratio of 61.4 percent.
• HMEPS has an amortization period of 30 years.
• HMEPS’s employer contribution, funded by taxes and fees, has fallen below the annual required contribution (ARC) in every year since 2003. However, the city’s current funding agreement with HMEPS will increase employer contributions annually until they are equivalent to the ARC.

FUNDED RATIOS OF LARGEST LOCAL PLANS IN TEXAS

DALLAS COUNTY HOSPITAL DISTRICT RETIREMENT INCOME PLAN (DCHDR) AMORTIZATION PERIOD: 30 86.2%
DALLAS EMPLOYEES’ RETIREMENT FUND (DERF) AMORTIZATION PERIOD: 30 86.0%
HOUSTON POLICE OFFICERS PENSION SYSTEM (HPOPS) AMORTIZATION PERIOD: 30 82.8%
DALLAS POLICE & FIRE PENSION SYSTEM-COMBINED (DPFPS) PLAN AMORTIZATION PERIOD: 30 73.9%
FORT WORTH EMPLOYEES’ RETIREMENT FUND (FWERF) AMORTIZATION PERIOD: 28.4 71.4%
CITY OF AUSTIN EMPLOYEES’ RETIREMENT SYSTEM (COAERS) AMORTIZATION PERIOD: 27.1 65.7%
HOUSTON MUNICIPAL EMPLOYEES PENSION (HMEPS) SYSTEM AMORTIZATION PERIOD: 30 61.4%

Source: Pension Review Board data provided to the Comptroller of Public Accounts, November 2012.

None of the local pension plans in Texas has a 100 percent funded ratio.
MORE THAN 400,000 COUNTY AND MUNICIPAL WORKERS CONTRIBUTE TO STATEWIDE PLANS FOR THEIR PENSIONS

TWO PLANS SERVE 18.3 PERCENT OF TEXAS PUBLIC PENSION FUND MEMBERS

The Texas County and District Retirement System (TCDRS) and the Texas Municipal Retirement System (TMRS) are multi-employer investment plans that provide benefits for hundreds of thousands of Texans. In these “cash balance” plans, benefits are based on individual account balances at retirement, which are a result of employee and employer contributions and guaranteed compound interest, as required by state law, accrued over the employee’s years of service.

TCDRS KEY FACTS

• Covers 620 county and district employers.
• Is a cash balance plan in which members make regular contributions to individual accounts that are annually credited with investment income and matched with employer contributions when each member retires.
• Employers can annually adjust the level of benefits, costs, employee deposit rate, employer matching rates, and cost of living adjustment each year, but must pay the entire annual required contribution.

In 2011, TCDRS had:
• a system-wide funded ratio of 89 percent (532 of the 624 member plans were funded above 80 percent);
• a 20-year closed amortization period; and
• a 30-year investment return higher than the assumed rate of return of 8.0 percent.

TMRS KEY FACTS

• Covers 849 municipalities;
• Is a cash balance plan in which members make regular contributions to individual accounts that are matched with employer contributions and supplemented with investment income.
• Employers can design a benefit plan to meet their cost structure, and adjust benefits and rates, but must pay the entire annual required contribution.

In 2011, TMRS had:
• a system-wide funded ratio of 85.1 percent, up from 74.4 percent in 2008;
• a closed amortization period of 30 years or less; and
• a 23-year investment return (the longest available) that is higher than the assumed rate of return of 7.0 percent.

For more details on these plans, see the Appendix at www.TexasTransparency.org/yourmoney/pensions/.

TCDRS AND TMRS INVESTMENT RATE OF RETURN, 12/31/2011

Note: Annualized rates of return are calculated net of fees.
*TMRS 30 year rate of return is data from a 23-year period, not 30 years.
Source: Texas County and District Retirement System and Texas Municipal Retirement System

AT A GLANCE

<table>
<thead>
<tr>
<th></th>
<th>TCDRS</th>
<th>TMRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVERAGE YEARS OF SERVICE (2011)</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>AVERAGE ANNUAL BENEFIT (2011)</td>
<td>$18,312</td>
<td>$16,306</td>
</tr>
<tr>
<td>BENEFITS PAID (2011)</td>
<td>$797 million</td>
<td>$810 million</td>
</tr>
<tr>
<td>ASSET VALUE (12/31/11)</td>
<td>$17.8 billion</td>
<td>$18.3 billion</td>
</tr>
<tr>
<td>LIABILITY (12/31/11)</td>
<td>$19.9 billion</td>
<td>$21.6 billion</td>
</tr>
<tr>
<td>GUARANTEED INTEREST RATE ON ACCOUNTS</td>
<td>7.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>MEMBER ENTITIES</td>
<td>620</td>
<td>850</td>
</tr>
</tbody>
</table>
Eight statewide plans cover state employees and many local government employees. Members of these plans include:

- state government employees and elected officials
- public school teachers
- state law enforcement officers
- certain volunteer firefighters
- emergency services personnel
- state judges
- certain city and county employees

- TCDRS and TMRS, discussed on page 10, receive no state funds.
- The biggest state plan, the Teacher Retirement System of Texas (TRS), serves Texas public K-12 and some state higher education teachers and non-teaching staff.
- Most other state workers are members of the Employees Retirement System of Texas (ERS).

The other state plans are the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), Texas Emergency Services Retirement System (TESRS), and Judicial Retirement System of Texas Plans One and Two (JRS I/II).

Four of the statewide plans — ERS, TRS, LECOS and JRS II — have funded ratios above 80 percent but infinite amortization periods, meaning they will run out of money with current contributions, benefits and actuarial assumptions. For these plans, future investment gains alone are unlikely to achieve actuarial soundness. They also require a long-term shoring up of contributions or benefit design changes to achieve actuarial soundness.

For more details on these plans, see the Appendix at www.TexasTransparency.org/yourmoney/pensions/.

**STATEWIDE PUBLIC PENSION PLANS MOSTLY STABLE**

**FUNDED RATIO, 2012**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Amortization Period</th>
<th>Funded Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>JRS II</td>
<td>Infinite</td>
<td>94.6%</td>
</tr>
<tr>
<td>TCDRS</td>
<td>20</td>
<td>89.4%</td>
</tr>
<tr>
<td>TMRS</td>
<td>30</td>
<td>85.1%</td>
</tr>
<tr>
<td>LECOS</td>
<td>Infinite</td>
<td>83.7%</td>
</tr>
<tr>
<td>TRS</td>
<td>Infinite</td>
<td>82.7%</td>
</tr>
<tr>
<td>ERS</td>
<td>Infinite</td>
<td>82.4%</td>
</tr>
<tr>
<td>TESRS</td>
<td>30</td>
<td>78.9%</td>
</tr>
<tr>
<td>JRS I</td>
<td>30</td>
<td>0%</td>
</tr>
</tbody>
</table>

Note: JRS I has no invested assets. It was closed to new members in 1985 and is a pay-as-you-go plan funded by legislative appropriation.

Source: Pension Review Board data provided to Comptroller of Public Accounts, November 2012

Most of Texas’ local pension plans are on track to be fully funded within 30 years. ERS and TRS, Texas’ largest state employee pension plans, are projected to run out of money without changes to current contribution rates and promised benefits.

Six of the statewide plans have funded ratios above 80 percent, but none is fully funded. Some have open amortization periods, which is akin to refinancing the unfunded liability annually, while others have closed amortization periods during which the liability will be paid down to zero.
The Teacher’s Retirement System of Texas (TRS) and Employees Retirement System of Texas (ERS) serve 71.7 percent of state and local government pension members.

TRS KEY FACTS
- Serves more than 1.3 million current and former teachers and other school and university employees.
- Is a defined benefit (DB) retirement program providing a specific monthly payment upon retirement.
- Benefit equals total years of service multiplied by 2.3 percent of the average of the member’s highest three or five years’ annual salaries depending on hire date.
- More than 80 percent of TRS members are not covered by Social Security.

In 2011, TRS had:
- a funded ratio of 82.7 percent, improved from 74.4 percent in 2008;
- an infinite amortization period, meaning that with current contributions to the plan, the unfunded liabilities cannot be eliminated;
- an employer contribution of 86 percent of the annual required contribution (ARC); and
- a 30-year investment return that is higher than the plan’s assumed rate of return of 8 percent.

ERS KEY FACTS
- Serves more than 300,000 current and former state workers.
- Is a defined benefit (DB) retirement program providing a specific monthly payment upon retirement.
- Benefit equals total years of service multiplied by 2.3 percent of the average of the member’s highest three or four years’ annual salaries depending on hire date.

In 2011, ERS had:
- a funded ratio of 82.6 percent;
- an infinite amortization period, meaning that with current contributions to the plan, the unfunded liabilities cannot be eliminated;
- an employer contribution of 58.5 percent of the annual required contribution (ARC); and
- a 30-year investment return that is higher than the plan’s assumed rate of return of 8 percent.

For more details on these plans and other state-funded pension plans, see the report Appendix online at www.TexasTransparency.org/yourmoney/pensions/.

INVESTMENT RATE OF RETURN, 8/31/11

<table>
<thead>
<tr>
<th></th>
<th>ERS</th>
<th>TRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 YEAR</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>3 YEAR</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>5 YEAR</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>10 YEAR</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>30 YEAR</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: Annualized rates of return are calculated net of fees.
Sources: Employees Retirement System and Teachers Retirement System

AT A GLANCE

<table>
<thead>
<tr>
<th></th>
<th>TRS</th>
<th>ERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVERAGE YEARS OF SERVICE</td>
<td>24.6</td>
<td>22.4</td>
</tr>
<tr>
<td>(2011)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVERAGE ANNUAL BENEFIT</td>
<td>$22,764</td>
<td>$18,614</td>
</tr>
<tr>
<td>(2011)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BENEFITS PAID (2011)</td>
<td>$7.2 billion</td>
<td>$1.7 billion</td>
</tr>
<tr>
<td>ASSET VALUE (8/31/11)</td>
<td>$115.3 billion</td>
<td>$24 billion</td>
</tr>
<tr>
<td>LIABILITY (8/31/11)</td>
<td>$139.3 billion</td>
<td>$29.1 billion</td>
</tr>
<tr>
<td>EMPLOYEE CONTRIBUTION (FISCAL 2012)</td>
<td>6.4%*</td>
<td>6.5%*</td>
</tr>
<tr>
<td>EMPLOYER CONTRIBUTION (FISCAL 2012)</td>
<td>6.4%*</td>
<td>6.0%*</td>
</tr>
</tbody>
</table>

*Percent of Payroll
Assessing the financial stability of a billion-dollar pension system is a complicated task, especially under such unpredictable economic conditions. These **three** benchmarks — while certainly not an exhaustive list — are a good first step in gauging how sound Texas’ biggest pension systems are. The **10 pension systems** below serve **2.2 million** Texans — **95 percent** of all public pension system members in Texas.

<table>
<thead>
<tr>
<th>Does the pension system have...</th>
<th>TRS</th>
<th>TMRS</th>
<th>ERS</th>
<th>TCDRS</th>
<th>LECOS</th>
<th>HMEPS</th>
<th>DERF</th>
<th>AERF</th>
<th>FWERF</th>
<th>DCHDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>a funded ratio above <strong>80 percent</strong>?*</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>an amortization period of <strong>30 years</strong> or less, the current GASB standard?**</td>
<td>✗</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
</tr>
<tr>
<td>an employer and employee contribution of at least <strong>100 percent</strong> of the annual required contribution (ARC), the current GASB standard?**</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✔️</td>
</tr>
</tbody>
</table>

**TOTAL BENCHMARKS MET:** 1/3 3/3 1/3 3/3 1/3 3/3 2/3 1/3 1/3 3/3

**KEY**

**TRS:** Teacher Retirement System of Texas  
**TMRS:** Texas Municipal Retirement System  
**ERS:** Employees Retirement System of Texas  
**TCDRS:** Texas County and District Retirement System  
**LECOS:** Law Enforcement and Custodial Officer Supplemental Retirement Plan  
**HMEPS:** Houston Municipal Employee Pension System  
**DERF:** Dallas Employees’ Retirement Fund  
**AERF:** Austin Employees Retirement Fund  
**FWERP:** Fort Worth Employees Retirement Fund  
**DCHDR:** Dallas County Hospital District Retirement Income Plan

*A funded ratio below 80 percent can be a sign that a pension plan is not fiscally sound. Some experts have argued that plans need to be 100 percent funded.  

None of the plans in this table is 100 percent funded.  
Sources: Pension Review Board, Comprehensive Annual Financial Reports of the pension systems listed in the table

---

**PENSION BONDS POSE POTENTIAL RISK**

Dallas, Houston and El Paso are the only Texas cities that have outstanding pension bond debt.  

**Pension Obligation Bonds (POBs)** offer governments an option for increasing assets in pension funds by borrowing money. This option has allowed pension plans with unfunded liabilities to increase annual contributions using funds borrowed by the government that employs its members. This reduces its unfunded liabilities in the short term, while offering the potential to generate investment revenue that will service the debt.

As **POBs** are taxable income to investors, they are issued with higher interest rates than tax-exempt bonds. In recent years, pension fund managers have calculated that by whatever point the historically low interest rates in the U.S. begin to rise, they will have paid off or substantially paid down high unfunded liabilities.

If markets are favorable, extra investment interest income (above what is used to service bond debt) could reduce the long-term unfunded pension liability. However, the retirement fund and/or the issuing government risk being liable for funding any debt service shortfall arising from insufficient investment returns.

**OUTSTANDING PENSION BOND DEBT**

<table>
<thead>
<tr>
<th>CITY</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>DALLAS</td>
<td>$315,272,086</td>
</tr>
<tr>
<td>EL PASO</td>
<td>$209,195,000</td>
</tr>
<tr>
<td>HOUSTON</td>
<td>$607,625,000</td>
</tr>
</tbody>
</table>

Note: These amounts are principal only.  
Source: Bond Review Board
The Governmental Accounting Standards Board (GASB) issued new standards for the valuation of public pension assets and liabilities.

The new standards require plans to use a market-based valuation of their assets for reporting purposes. Under existing standards, changes in assets due to market volatility are “smoothed” over three to five years; as a consequence, for instance, the effect of 2008 market losses are still being seen today for some plans. The new standards eliminate smoothing for reporting purposes.

The new standards also require plans to use a different rate of return in evaluating liabilities:

- At present, pension plans discount liabilities using a rate of return reflecting their long-term investment experience — an “assumed” rate of return.
- Under the new standards, the share of liabilities expected to be covered by plan assets would be discounted by the assumed rate of return, but the remaining unfunded liabilities would be discounted by a more modest municipal bond rate that reflects the sponsoring government’s responsibility for its liabilities. This combined rate would effectively increase many plans’ liabilities and thus significantly decrease funded ratios.

Despite various criticisms of the new standards, many rating agencies have already begun using similar approaches to evaluate plan liabilities. Their bond ratings affect the rate at which governments can borrow money. A downgraded rating makes debt more expensive.

The new GASB standards will take effect in fiscal 2014 and 2015. The Pension Review Board is surveying plans to find out whether they will change their actuarial methodologies to comply with the new standards or issue supplemental reports that incorporate them.

### AN ESTIMATED EFFECT OF GASB CHANGES

<table>
<thead>
<tr>
<th>PLANS</th>
<th>CURRENT EMPLOYEES</th>
<th>NUMBER OF RETIREES</th>
<th>INACTIVE MEMBERS*</th>
<th>TOTAL MEMBERSHIP</th>
<th>AVERAGE AGE AT RETIREMENT</th>
<th>FUNDED RATIO, 2010</th>
<th>ESTIMATED FUNDED RATIO UNDER NEW GASB STANDARDS**</th>
<th>AMORTIZATION PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEACHERS AND STATE UNIVERSITIES (TRS)</td>
<td>957,392</td>
<td>312,680</td>
<td>46,494</td>
<td>1,316,566</td>
<td>59.8</td>
<td>82.9%</td>
<td>71.3%</td>
<td>INFINITE</td>
</tr>
<tr>
<td>STATE EMPLOYEES (ERS)</td>
<td>137,293</td>
<td>83,430</td>
<td>84,900</td>
<td>305,623</td>
<td>58.4</td>
<td>85.4%</td>
<td>70.8%</td>
<td>INFINITE</td>
</tr>
<tr>
<td>COUNTY EMPLOYEES (TCDRS)</td>
<td>121,919</td>
<td>43,635</td>
<td>63,172</td>
<td>228,726</td>
<td>61.0</td>
<td>89.4%</td>
<td>89.0%</td>
<td>20</td>
</tr>
<tr>
<td>CITY EMPLOYEES (TMRS)</td>
<td>101,151</td>
<td>44,067</td>
<td>40,381</td>
<td>185,599</td>
<td>58.0</td>
<td>82.9%</td>
<td>87.8%</td>
<td>30</td>
</tr>
<tr>
<td>STATE LAW ENFORCEMENT (LECOS)</td>
<td>36,806</td>
<td>7,728</td>
<td>5,785</td>
<td>50,319</td>
<td>53.3</td>
<td>86.3%</td>
<td>32.5%</td>
<td>INFINITE</td>
</tr>
</tbody>
</table>

Note: LECOS is a supplementary plan for certain state law and custodial officers and is managed by ERS.
*Inactive members are former employees who have money invested in the system but are not yet eligible for retirement.
**Estimated by Center for Retirement Research at Boston College.
Sources: Pension Review Board, Center for Retirement Research at Boston College.
All defined benefit public pension plans ultimately rely on two sources of revenue: contributions from the employer and the salaries of covered public employees, both of which are supported by taxes and fees, and investment earnings generated by the pension plan's assets.

These funding sources determine the financial health of the plan, along with a third factor: plan design — the benefits to be provided and the ways in which employees will qualify to receive those benefits.

Gauging the adequacy of all three elements depends upon actuarial assumptions — predictions of future events. The pension plan administrator, with guidance from an actuary, typically sets these assumptions.

Basic actuarial assumptions in pension design include:

• the returns likely to be realized on future investments (the rate of return);
• the salaries likely to be earned by public employees in the future, which determine their contributions and retirement benefits; and
• the average length of service and life expectancies of current and retired employees, which determine the duration of the retirement to be funded.

The accuracy of these predictions helps determine the financial health of the plan.

• Without reasonable assumptions, the plan design may offer overly generous benefits or fail to require sufficient contributions.
• Small variances from these assumptions can result in large differences in the plan's costs over time, with serious implications for both taxpayers and the plan's members.

These assumptions can impact pension plan elements such as:

• the minimum retirement age;
• the amount of employer and employee contributions; and
• the size of the final monthly benefits to be paid.

Employer and employee contributions should be set at an amount adequate, when combined with investment returns, to pay promised benefits.

• If the assumptions are overly optimistic, the cost of the benefits will be understated and the plan will be underfunded, meaning the plan may run out of money in the future and be unable to pay for promised benefits under current contribution rates.
• Overly optimistic assumptions also can lead pension managers to agree to benefit increases that threaten the plan's financial health.
• It is important, therefore, for pension boards and their actuaries to guard against the temptation to use overly optimistic projections; these may reduce pension funding costs in the short term but will lead to much greater costs in the future, when reality falls short of the projections.
• Inadequate contributions can be addressed by adjustments to other plan elements, such as higher employer and/or employee contributions, an increased minimum retirement age, reduced benefits or some combination of these.
• If employer contributions funded by taxes and fees have to be increased, it can lead to higher taxes and fees or reductions in other government services as plan sponsors divert budget resources to pay promised pension benefits.

Similarly, predictions of investment earnings should reflect reasonable expectations for future market conditions.

The following chart shows what can happen when investment returns fail to meet expectations.

▲ The chart provides an example of the impact of various assumed rates of return on a plan's assets as a share of its liabilities, shown here as funded ratio. This example assumes no change in benefits or contributions over time and is based on a 31-year amortization period.
Investment earnings of plan assets provide the largest source of revenue for public pensions. However, it can also be the most volatile source.

**PENSION REFORM EFFORTS**

In an effort to shore up retirement systems, many state legislatures have made changes to public pension plans.

- Since 2009, **44 states have made changes to public pension plans** to cut costs and increase their stability. These changes generally address plan benefits, employee and employer contributions or, to a lesser extent, the methods plans use to value their assets and liabilities.

- As of 2012, **six U.S. states** have adopted **hybrid plans** that have defined benefit and defined contribution components. Hybrids can also be cash balance plans (see page 4.)

- In 2009, the Texas Legislature raised employee contributions, increased age and service requirements for ERS and reduced retirement benefits for new employees participating in ERS and LECOS.

- The 2011 Legislature codified increases to employee and employer contributions for Austin police and firefighters, increases that had already been negotiated between the city and the plans.

- Public pension plans also have reduced investment return assumptions to better reflect the actual investment performance of the past 10 years. Most reductions to return assumptions have been incremental, carefully avoiding the problem of setting assumptions too low, which could overstate liabilities, resulting in excessive costs for employees and employers.
METHODS OF IMPROVING DEFINED BENEFIT PENSION PLAN HEALTH

INCREASE CONTRIBUTIONS
• Increase employer contributions to match the annual required contribution (ARC) so that the fund is placed on a path to full funding.
• Increase employee contributions to improve the plan’s funding status.

REDUCE BENEFIT COSTS
• Increase the age at which employees are eligible to receive pension benefits.
• Increase the years of service required for pension eligibility.
• Increase the number of months or years used to calculate the average final salary.
• Decrease the share of final average salary credited to the retirement benefit formula.

RECENT PLAN CHANGES
Within the last five years, the largest defined benefit (DB) plans in Texas — five plans providing benefits to state employees and the Houston Municipal Employees Pension (HMEPS) — have all made changes to their plans.

SNAPSHOT
PENSION REFORM IN FORT WORTH

With a 71.4 percent funded ratio, the recent performance of the Fort Worth Employees’ Retirement Fund (ERF) has prompted serious concerns about its long-term viability, particularly given the budget shortfalls the city has faced for several consecutive years.

Fort Worth ERF’s funding issues began in the 1990s when city contributions to the plan were cut and plan benefits were increased. Investment returns in the last decade weren’t sufficient to cover the increased plan costs. In an effort to address underfunding, benefits were adjusted and city contributions were increased in 2007. However, the 2008 recession wiped out any gains in plan funding achieved by those efforts.

PENSION CONTRIBUTION INCREASES
The share of Fort Worth’s total city expenditures devoted to retiree pensions has increased since 2006, from 4.1 percent to 6.5 percent. In the last four years alone, the city’s annual contribution to the retirement fund more than doubled, rising from $37 million to $75 million. In addition, the city made a $7 million lump-sum payment to aid the fund in 2010.

In 2011, Fort Worth reduced benefits for new hires other than public safety workers. This included raising the minimum retirement age, reducing the multiplier used to calculate benefits, eliminating cost-of-living adjustments and potentially very significant for some employees, removing overtime earnings from benefit calculations. Despite these efforts, however, Fort Worth’s unfunded liability has increased from $431.7 million in 2010 to $748.2 million, according to data reported to the Pension Review Board.

INVESTMENTS UNDERPERFORM
As with many pension funds across the nation, the city’s investments have performed significantly worse than expected in recent years. In March 2011, the retirement fund’s trustees reduced their assumptions for annual investment returns from 8.5 percent to 8.25 percent; even so, in the last decade, actual returns averaged less than 5.7 percent, and just 0.7 percent for the last five years.

Fort Worth’s city council and city manager continue to grapple with the funding gap. On Oct. 23, 2012, the city council approved significant changes to its non-uniformed and police pensions — both for new employees and future benefits for existing employees — beginning in 2013:
• basing pensions on the highest five years of salary, rather than three;
• changing the multiplier used to determine final pension benefits from 3 to 2.5 percent;
• eliminating overtime from pension calculations; and
• changing a cost of living adjustment for certain employees.

The city has asked the courts to affirm the benefit reductions. Litigation is under way. Changes to firefighters’ pensions will be negotiated separately.


SUSAN COMBS: TEXAS COMPTROLLER OF PUBLIC ACCOUNTS
As governments struggle to fund pension promises, they may have difficulty funding other services, such as transportation and public safety. In the last few years, most U.S. states have passed legislation addressing the problem of rising public pension costs. No state, however, has enacted reforms more sweeping than Rhode Island’s.

Rhode Island’s pension system was only 49 percent funded in fiscal 2010, giving it the nation’s second-lowest funding ratio (behind Illinois’ 45 percent). Rhode Island estimated its funding shortfall at $7 billion in a state with just over a million residents.

The Employees’ Retirement System of Rhode Island administers pension funds for state employees, teachers, municipal employees, state police and judges. All were affected by the Rhode Island Retirement Security Act of 2011 (RIRSA), signed into law on Nov. 18, 2011, which enacts wholesale changes to retirement benefits. Its supporters say the new law immediately reduces the unfunded liability by $3 billion, and should save taxpayers about $4 billion over the next 20 years.

RIRSA changes Rhode Island’s traditional defined benefit plan to a “hybrid;” the new pension system has a smaller defined benefit plan and a supplemental defined contribution plan. Employee contributions now will be divided among the two plans through individual retirement accounts.

The defined benefit component will provide 1 percent of final salary for each year worked, so that a 25-year veteran, for instance, would earn 25 percent of his final salary upon retirement. This amount will be supplemented by the defined contributions element, which will fluctuate with the success of the pension fund’s investments.

Among other provisions, RIRSA also:

• provides full retirement benefits for new employees only if they work until the Social Security retirement age of 67;
• ties the state’s automatic cost-of-living increases (COLAs) to a formula linked to pension fund investment performance; and
• suspends COLA payments if the state’s funding ratio falls below 80 percent.

RIRSA went into effect on July 1, 2012. The new law is controversial, and legal challenges mounted by public employee unions are under way.

Close-Up: Rhode Island Passes Sweeping Pension Reform

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SNAPSHOT

Pennsylvania’s Pension Issues

Visit www.TexasTransparency.org/yourmoney/pensions/ to download this report and read additional materials including a snapshot of pension difficulties in Pennsylvania.

Change Comes to Rhode Island

With the Retirement Security Act (RIRSA) of 2011, Rhode Island became the first state in the U.S. to substantially alter benefits for existing employees. Among the major changes:

<table>
<thead>
<tr>
<th>Before:</th>
<th>After:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit system</td>
<td>“Hybrid” benefit system, with a smaller defined benefit plan and a supplemental defined contribution plan</td>
</tr>
<tr>
<td>State employee contribution of 8.75 percent (9.5 percent for teachers)</td>
<td>State employee and teacher contribution of 3.75 percent to defined benefit portion; 5 percent to defined contribution portion</td>
</tr>
<tr>
<td>Minimum retirement age for full benefits: 62</td>
<td>Minimum retirement age for full benefits, new employees: 67</td>
</tr>
<tr>
<td>Annual cost of living adjustment (COLA) linked to Consumer Price Index; COLAs awarded only on the first $35,000 of a member’s pension benefit</td>
<td>COLA suspended while pension plan funding level remains below 80 percent, with an “interim” COLA to be awarded only once every five years. If funding level exceeds 80 percent, COLAs to be based on fund investment returns; awarded only on the first $25,000 of a member’s pension benefit</td>
</tr>
</tbody>
</table>

Sources: Employees’ Retirement System of Rhode Island, Rhode Island Office of the General Treasurer and the Pew Center on the States
The table on pages 20-22 includes the latest Pension Review Board data on state and local pension plans in Texas for fiscal 2011, including eight statewide plans and 81 local plans.

- Twenty-five plans, or 28 percent, are highlighted in red because they have a funded ratio below 80 percent and an amortization period above the recommended 30 years.

- Another 48 plans, or 54 percent, are highlighted in gold because their unfunded ratios or amortization periods are outside the recommended level. All should be closely monitored to ensure that their actuarial soundness does not further decay.

<table>
<thead>
<tr>
<th>PLAN NAME</th>
<th>FUNDED RATIO</th>
<th>AMORTIZATION PERIOD</th>
<th>UNFUNDED LIABILITY</th>
<th>UNFUNDED LIABILITY PER MEMBER</th>
<th>ASSUMED RATE OF RETURN</th>
<th>ACTUAL ROR REPORTED 9/30/12 5-Yr / 10-Yr</th>
</tr>
</thead>
</table>

Data for columns 1 to 5 were supplied by the Pension Review Board in November 2012. Actual Rate of Return data were submitted by each fund in response to a public information request from the Comptroller’s office and are as of Sept. 30, 2012, unless otherwise noted. Of the 89 entities, 26 funds did not provide the requested information within the time specified in the Texas Government Code, Chapter 552; 20 funds provided only partial information.

1 Funded Ratio —
shows the plan’s current assets as a share of the plan’s liabilities. A funding ratio of less than 80 percent may be a sign that a plan is fiscally unsound; some experts argue that plans can be considered stable only at a 100 percent funded ratio.

2 Amortization Period —
the length of time required to pay off a plan’s unfunded liability based on current employer and employee contributions.

3 Unfunded Liability —
share of all pension benefits earned by current and former employees that cannot be covered by the plan’s current assets.

4 Unfunded Liability per Member —
the liability per member currently accruing benefits and paying into the plan.

5 Assumed Rate of Return —
the rate of return expected on a plan’s investments.

6 5-Year and 10-Year Actual Rate of Return as Reported —
the real return on the plan’s investments as reported to the Comptroller’s office. (A 30-year rate of return would be more informative, but is unavailable for many plans.)

INTERACT ONLINE

Use the Public Pension Search Tool on www.trackingtx.org/index.php/pension to view and sort recent data on Texas public pension plans, including key indicators. You also can use the tool to drill down for detailed financial and actuarial information for each individual plan as reported to the Pension Review Board. Data online will be updated on a quarterly basis.
# State & Local Pension Plans in Texas

See our Web tool at [www.trackingtx.org/index.php/pension](http://www.trackingtx.org/index.php/pension) for more data on these plans, including assets held by each.

## PLAN NAME

<table>
<thead>
<tr>
<th>PLAN NAME</th>
<th>FUNDED RATIO</th>
<th>AMORTIZATION PERIOD</th>
<th>UNFUNDED LIABILITY</th>
<th>UNFUNDED LIABILITY PER MEMBER</th>
<th>ASSUMED RATE OF RETURN</th>
<th>ACTUAL ROR REPORTED 9/30/12 5-Yr / 10-Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ABILENE FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>55.9%</td>
<td>32.9</td>
<td>$38,982,852</td>
<td>$214,191</td>
<td>8.0%</td>
<td>3.09% / 7.33%</td>
</tr>
<tr>
<td><strong>AMARILLO FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>84.0%</td>
<td>35.9</td>
<td>$22,112,825</td>
<td>$90,999</td>
<td>8.3%</td>
<td>4.60% / 8.20%</td>
</tr>
<tr>
<td><strong>ATLANTA FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>74.3%</td>
<td>30.0</td>
<td>$90,470</td>
<td>$27,590</td>
<td>7.2%</td>
<td>2.53% / N/A</td>
</tr>
<tr>
<td><strong>AUSTIN EMPLOYEES' RETIREMENT SYSTEM</strong></td>
<td>65.7%</td>
<td>27.1</td>
<td>$932,942,173</td>
<td>$111,756</td>
<td>7.8%</td>
<td>3.28% / 8.34%</td>
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<tr>
<td><strong>AUSTIN FIRE FIGHTERS RELIEF &amp; RETIREMENT FUND</strong></td>
<td>88.7%</td>
<td>20.5</td>
<td>$74,924,339</td>
<td>$77,803</td>
<td>7.8%</td>
<td>1.34% / 7.30%</td>
</tr>
<tr>
<td><strong>AUSTIN POLICE RETIREMENT SYSTEM</strong></td>
<td>67.2%</td>
<td>30.7</td>
<td>$270,760,099</td>
<td>$160,213</td>
<td>8.0%</td>
<td>-1.30% / 6.90%</td>
</tr>
<tr>
<td><strong>BEAUMONT FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>71.2%</td>
<td>53.6</td>
<td>$36,926,504</td>
<td>$160,550</td>
<td>8.0%</td>
<td>2.50% / 7.46%</td>
</tr>
<tr>
<td><strong>BIG SPRING FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>67.4%</td>
<td>25.7</td>
<td>$4,602,913</td>
<td>$69,741</td>
<td>8.0%</td>
<td>2.65% / 7.89%</td>
</tr>
<tr>
<td><strong>BRAZOS RIVER AUTHORITY RETIREMENT PLAN</strong></td>
<td>72.6%</td>
<td>30.0</td>
<td>$7,455,335</td>
<td>$50,717</td>
<td>6.5%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td><strong>BROWNWOOD FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>39.6%</td>
<td>27.2</td>
<td>$3,747,374</td>
<td>$113,557</td>
<td>7.2%</td>
<td>3.20% / N/A</td>
</tr>
<tr>
<td><strong>CAPITAL MTA RETIREMENT PLAN FOR ADMINISTRATIVE EMPLOYEES</strong></td>
<td>61.8%</td>
<td>10.5</td>
<td>$5,217,817</td>
<td>$19,616</td>
<td>7.5%</td>
<td>DNR / DNR</td>
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<tr>
<td><strong>CAPITAL MTA RETIREMENT PLAN FOR BARGAINING UNIT EMPLOYEES</strong></td>
<td>60.3%</td>
<td>29.0</td>
<td>$19,536,309</td>
<td>$27,516</td>
<td>7.5%</td>
<td>DNR / DNR</td>
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<tr>
<td><strong>CITY PUBLIC SERVICE OF SAN ANTONIO PENSION PLAN</strong></td>
<td>88.2%</td>
<td>20.0</td>
<td>$152,897,317</td>
<td>$44,370</td>
<td>7.8%</td>
<td>3.94% / N/A</td>
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<tr>
<td><strong>CLEBURNE FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>58.9%</td>
<td>21.9</td>
<td>$10,155,702</td>
<td>$188,069</td>
<td>7.5%</td>
<td>DNR / DNR</td>
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<tr>
<td><strong>COLORADO RIVER MUNICIPAL WATER DISTRICT DEFINED BENEFIT RETIREMENT PLAN &amp; TRUST</strong></td>
<td>88.6%</td>
<td>30.0</td>
<td>$1,107,922</td>
<td>$16,293</td>
<td>N/A</td>
<td>N/A / N/A</td>
</tr>
<tr>
<td><strong>CONROE FIRE FIGHTERS' RETIREMENT FUND</strong></td>
<td>57.6%</td>
<td>33.5</td>
<td>$9,533,825</td>
<td>$117,702</td>
<td>7.8%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td><strong>CORPUS CHRISTI FIRE FIGHTERS' RETIREMENT SYSTEM</strong></td>
<td>58.6%</td>
<td>22.3</td>
<td>$73,485,485</td>
<td>$176,648</td>
<td>8.0%</td>
<td>3.80% / 7.96%</td>
</tr>
<tr>
<td><strong>CORPUS CHRISTI REGIONAL TRANSPORTATION AUTHORITY</strong></td>
<td>85.2%</td>
<td>12.0</td>
<td>$3,785,266</td>
<td>$19,412</td>
<td>7.5%</td>
<td>4.61% / N/A</td>
</tr>
<tr>
<td><strong>CORSICANA FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>51.9%</td>
<td>29.0</td>
<td>$5,873,138</td>
<td>$112,945</td>
<td>7.5%</td>
<td>3.68% / N/A</td>
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<tr>
<td><strong>CYPRESS-FAIRBANKS ISD PENSION PLAN FOR NON-TRS EMPLOYEES</strong></td>
<td>76.1%</td>
<td>30.0</td>
<td>$1,572,937</td>
<td>$320</td>
<td>4.3%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td><strong>DALLAS COUNTY HOSPITAL DISTRICT RETIREMENT INCOME PLAN</strong></td>
<td>86.2%</td>
<td>30.0</td>
<td>$88,893,356</td>
<td>$10,426</td>
<td>8.3%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td><strong>DALLAS EMPLOYEES' RETIREMENT FUND</strong></td>
<td>86.0%</td>
<td>30.0</td>
<td>$474,906,000</td>
<td>$70,409</td>
<td>8.3%</td>
<td>2.69% / 9.15%</td>
</tr>
<tr>
<td><strong>DALLAS POLICE &amp; FIRE PENSION SYSTEM-COMBINED PLAN</strong></td>
<td>73.9%</td>
<td>30.0</td>
<td>$1,990,369,365</td>
<td>$221,423</td>
<td>8.5%</td>
<td>0.02% / 6.70%</td>
</tr>
<tr>
<td><strong>DALLAS/FORT WORTH AIRPORT BOARD DPS RETIREMENT PLAN</strong></td>
<td>67.0%</td>
<td>23.0</td>
<td>$158,601,188</td>
<td>$147,432</td>
<td>7.2%</td>
<td>2.40% / 3.90%</td>
</tr>
<tr>
<td><strong>DALLAS/FORT WORTH AIRPORT BOARD RETIREMENT PLAN</strong></td>
<td>71.8%</td>
<td>23.0</td>
<td>$120,322,817</td>
<td>$97,270</td>
<td>7.2%</td>
<td>2.40% / 3.90%</td>
</tr>
<tr>
<td><strong>DART EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN &amp; TRUST</strong></td>
<td>82.5%</td>
<td>30.0</td>
<td>$30,981,997</td>
<td>$89,029</td>
<td>8.0%</td>
<td>1.07% / 6.57%</td>
</tr>
<tr>
<td><strong>DENISON FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>71.1%</td>
<td>23.9</td>
<td>$5,552,667</td>
<td>$100,958</td>
<td>7.8%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td><strong>DENTON FIREMEN'S RELIEF &amp; RETIREMENT FUND</strong></td>
<td>70.2%</td>
<td>26.5</td>
<td>$19,617,547</td>
<td>$120,353</td>
<td>7.2%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td><strong>EL PASO CITY EMPLOYEES' PENSION FUND</strong></td>
<td>76.0%</td>
<td>23.0</td>
<td>$182,387,494</td>
<td>$44,344</td>
<td>8.0%</td>
<td>3.18% / 8.17%</td>
</tr>
</tbody>
</table>

**Sources:** Pension Review Board and individual pension systems that supplied data of return data to the Comptroller’s office.

**DNR** - Did not respond fully to a public information request within the specified time allowed under Texas Government Code, Chapter 552.

**N/A** - Not available.

**Your Money and Pension Obligations**

*■ Plans that have either an amortization period that exceeds 30 years or a funded ratio below 80 percent.

*■ Plans that have an amortization period that exceeds 30 years and a funded ratio below 80 percent.

*Reported data as of 6/30/12.
### PLAN NAME

<table>
<thead>
<tr>
<th>PLAN NAME</th>
<th>FUNDED RATIO</th>
<th>AMORTIZATION PERIOD</th>
<th>UNFUNDED LIABILITY</th>
<th>UNFUNDED LIABILITY PER MEMBER</th>
<th>ASSUMED RATE OF RETURN</th>
<th>ACTUAL ROR REPORTED 9/30/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>EL PASO FIREMEN'S PENSION FUND</td>
<td>79.9%</td>
<td>76.0</td>
<td>$108,582,531</td>
<td>$136,068</td>
<td>7.8%</td>
<td>2.43%</td>
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<tr>
<td>EL PASO POLICE PENSION FUND</td>
<td>78.2%</td>
<td>INFINITE</td>
<td>$174,514,074</td>
<td>$167,802</td>
<td>7.8%</td>
<td>2.43%</td>
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<tr>
<td>EMPLOYEES RETIREMENT SYSTEM OF TEXAS</td>
<td>82.6%</td>
<td>INFINITE</td>
<td>$5,132,908,152</td>
<td>$37,387</td>
<td>8.0%</td>
<td>2.50%</td>
</tr>
<tr>
<td>FORT WORTH EMPLOYEES' RETIREMENT FUND</td>
<td>71.4%</td>
<td>28.4</td>
<td>$748,205,870</td>
<td>$119,122</td>
<td>8.3%</td>
<td>0.37%</td>
</tr>
<tr>
<td>GALVESTON EMPLOYEES' RETIREMENT FUND</td>
<td>79.0%</td>
<td>INFINITE</td>
<td>$10,689,568</td>
<td>$24,076</td>
<td>8.0%</td>
<td>3.30%</td>
</tr>
<tr>
<td>GALVESTON EMPLOYEES' RETIREMENT PLAN FOR POLICE</td>
<td>46.9%</td>
<td>53.5</td>
<td>$25,694,496</td>
<td>$193,192</td>
<td>7.5%</td>
<td>1.95%</td>
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<tr>
<td>GALVESTON FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>72.8%</td>
<td>36.5</td>
<td>$14,087,546</td>
<td>$113,609</td>
<td>8.0%</td>
<td>2.09%</td>
</tr>
<tr>
<td>GALVESTON WHARVES PENSION PLAN</td>
<td>72.6%</td>
<td>30.0</td>
<td>$3,511,192</td>
<td>$43,890</td>
<td>7.5%</td>
<td>DNR</td>
</tr>
<tr>
<td>GREENVILLE FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>54.7%</td>
<td>45.7</td>
<td>$10,797,507</td>
<td>$186,164</td>
<td>8.3%</td>
<td>DNR</td>
</tr>
<tr>
<td>GUADALUPE-BLANCO RIVER AUTHORITY</td>
<td>75.3%</td>
<td>12.3</td>
<td>$5,288,829</td>
<td>$37,509</td>
<td>8.0%</td>
<td>1.70%</td>
</tr>
<tr>
<td>HARLINGEN FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>65.2%</td>
<td>INFINITE</td>
<td>$10,761,642</td>
<td>$106,551</td>
<td>8.0%</td>
<td>2.80%</td>
</tr>
<tr>
<td>HARRIS COUNTY HOSPITAL DISTRICT PENSION PLAN</td>
<td>78.1%</td>
<td>20.0</td>
<td>$126,436,540</td>
<td>$33,825</td>
<td>8.0%</td>
<td>1.23%</td>
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<tr>
<td>HOUSTON FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>93.4%</td>
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<td>$220,625,000</td>
<td>$57,142</td>
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<td>3.92%</td>
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<tr>
<td>HOUSTON MTA NON-UNION PENSION PLAN</td>
<td>77.6%</td>
<td>30.0</td>
<td>$31,775,580</td>
<td>$43,528</td>
<td>8.0%</td>
<td>DNR</td>
</tr>
<tr>
<td>HOUSTON MTA WORKERS UNION PENSION PLAN</td>
<td>68.0%</td>
<td>30.0</td>
<td>$81,715,182</td>
<td>$32,634</td>
<td>8.0%</td>
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<tr>
<td>HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM</td>
<td>61.4%</td>
<td>30.0</td>
<td>$1,461,524,000</td>
<td>$118,390</td>
<td>8.5%</td>
<td>2.90%</td>
</tr>
<tr>
<td>HOUSTON POLICE OFFICERS PENSION SYSTEM</td>
<td>82.8%</td>
<td>30.0</td>
<td>$770,090,000</td>
<td>$144,972</td>
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<td>3.70%</td>
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<tr>
<td>IRVING FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>67.4%</td>
<td>INFINITE</td>
<td>$65,253,147</td>
<td>$209,817</td>
<td>8.3%</td>
<td>1.99%</td>
</tr>
<tr>
<td>IRVING SUPPLEMENTAL BENEFIT PLAN</td>
<td>84.9%</td>
<td>INFINITE</td>
<td>$7,907,326</td>
<td>$5,755</td>
<td>7.0%</td>
<td>0.45%</td>
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<tr>
<td>JUDICIAL RETIREMENT SYSTEM OF TEXAS PLAN ONE**</td>
<td>0.0%</td>
<td>30.0</td>
<td>$245,777,134</td>
<td>$14,457,478</td>
<td>8.0%</td>
<td>N/A</td>
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<tr>
<td>JUDICIAL RETIREMENT SYSTEM OF TEXAS PLAN TWO</td>
<td>94.6%</td>
<td>INFINITE</td>
<td>$16,227,423</td>
<td>$29,721</td>
<td>8.0%</td>
<td>2.50%</td>
</tr>
<tr>
<td>KILLEEN FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>64.5%</td>
<td>27.0</td>
<td>$13,181,124</td>
<td>$70,487</td>
<td>7.8%</td>
<td>DNR</td>
</tr>
<tr>
<td>LA REO FIREFIGHTER'S RETIREMENT SYSTEM</td>
<td>63.2%</td>
<td>23.5</td>
<td>$49,350,479</td>
<td>$136,329</td>
<td>8.0%</td>
<td>3.10%</td>
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<tr>
<td>LAW ENFORCEMENT &amp; CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND</td>
<td>83.7%</td>
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<td>$162,274,461</td>
<td>$4,409</td>
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<td>LONGVIEW FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>52.0%</td>
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<td>$36,507,494</td>
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<td>1.32%</td>
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<tr>
<td>LOWER COLORADO RIVER AUTHORITY RETIREMENT PLAN</td>
<td>69.5%</td>
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<td>$150,902,367</td>
<td>$70,713</td>
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<td>3.60%</td>
</tr>
<tr>
<td>LUBBOCK FIRE PENSION FUND</td>
<td>79.4%</td>
<td>22.8</td>
<td>$40,682,725</td>
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<td>LUFKIN FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>37.3%</td>
<td>53.7</td>
<td>$16,950,479</td>
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<tr>
<td>MARSHALL FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>46.9%</td>
<td>23.5</td>
<td>$7,518,284</td>
<td>$153,434</td>
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<td>2.54%</td>
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<tr>
<td>MCALLEN FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>71.1%</td>
<td>39.6</td>
<td>$14,914,549</td>
<td>$92,065</td>
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<td>2.60%</td>
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<tr>
<td>MIDLAND FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>78.1%</td>
<td>41.2</td>
<td>$19,783,245</td>
<td>$104,122</td>
<td>8.0%</td>
<td>4.60%</td>
</tr>
</tbody>
</table>

Sources: Pension Review Board and individual pension systems that supplied rate of return data to the Comptroller’s office. DNR - Did not respond fully to a public information request within the specified time allowed under Texas Government Code, Chapter 552. N/A - Not available.

Plans that have either an amortization period that exceeds 30 years or a funded ratio below 80 percent.
Plans that have an amortization period that exceeds 30 years and a funded ratio below 80 percent.
**JRS I is a closed, pay-as-you go retirement plan. All JRS I benefits are paid by direct appropriation as they become due.**
<table>
<thead>
<tr>
<th>PLAN NAME</th>
<th>FUNDED RATIO</th>
<th>AMORTIZATION PERIOD</th>
<th>UNFUNDED LIABILITY</th>
<th>UNFUNDED LIABILITY PER MEMBER</th>
<th>ASSUMED RATE OF RETURN</th>
<th>ACTUAL ROR REPORTED 9/30/12 5-Yr / 10-Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>NACOGDOCHES COUNTY HOSPITAL DISTRICT RETIREMENT PLAN</td>
<td>53.0%</td>
<td>30.0</td>
<td>$20,624,922</td>
<td>$27,427</td>
<td>8.0%</td>
<td>1.10% / 6.69%</td>
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<tr>
<td>ODESSA FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>62.1%</td>
<td>71.0</td>
<td>$28,188,865</td>
<td>$167,791</td>
<td>8.5%</td>
<td>0.00% / 7.00%</td>
</tr>
<tr>
<td>ORANGE FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>66.1%</td>
<td>34.3</td>
<td>$4,643,644</td>
<td>$125,504</td>
<td>8.0%</td>
<td>1.80% / N/A</td>
</tr>
<tr>
<td>PARIS FIREFIGHTERS' RELIEF &amp; RETIREMENT FUND</td>
<td>52.0%</td>
<td>27.9</td>
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<td>N/A / N/A</td>
</tr>
<tr>
<td>PHYSICIANS REFERRAL SERVICE RETIREMENT BENEFIT PLAN</td>
<td>66.2%</td>
<td>15.0</td>
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<td>$104,912</td>
<td>8.0%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td>PLAINVIEW FIREMEN'S RELIEF &amp; RETIREMENT FUND***</td>
<td>39.1%</td>
<td>35.2</td>
<td>$7,729,513</td>
<td>$214,709</td>
<td>7.8%</td>
<td>-0.90% / 2.90%</td>
</tr>
<tr>
<td>PLANO RETIREMENT SECURITY PLAN</td>
<td>98.3%</td>
<td>25.0</td>
<td>$1,332,782</td>
<td>$681</td>
<td>7.8%</td>
<td>3.40% / 7.90%</td>
</tr>
<tr>
<td>PORT ARTHUR FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>72.4%</td>
<td>22.5</td>
<td>$12,656,143</td>
<td>$122,875</td>
<td>8.0%</td>
<td>3.17% / N/A</td>
</tr>
<tr>
<td>PORT OF HOUSTON AUTHORITY RETIREMENT PLAN</td>
<td>93.4%</td>
<td>3.0</td>
<td>$8,731,509</td>
<td>$15,992</td>
<td>7.2%</td>
<td>3.64% / N/A</td>
</tr>
<tr>
<td>REFUGIO COUNTY MEMORIAL HOSPITAL DISTRICT RETIREMENT PLAN</td>
<td>59.3%</td>
<td>13.3</td>
<td>$1,714,832</td>
<td>$18,243</td>
<td>6.5%</td>
<td>2.13% / 5.45%</td>
</tr>
<tr>
<td>SAN ANGELO FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>69.1%</td>
<td>32.4</td>
<td>$21,490,843</td>
<td>$120,061</td>
<td>7.9%</td>
<td>1.60% / 5.10%</td>
</tr>
<tr>
<td>SAN ANTONIO FIRE &amp; POLICE PENSION FUND</td>
<td>90.6%</td>
<td>9.1</td>
<td>$242,741,389</td>
<td>$61,971</td>
<td>7.8%</td>
<td>1.30% / 7.60%</td>
</tr>
<tr>
<td>SAN ANTONIO METROPOLITAN TRANSIT RETIREMENT PLAN</td>
<td>69.6%</td>
<td>26.0</td>
<td>$80,376,401</td>
<td>$53,835</td>
<td>8.0%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td>SAN BENITO FIREMEN'S PENSION FUND</td>
<td>45.8%</td>
<td>18.7</td>
<td>$2,005,151</td>
<td>$83,548</td>
<td>7.0%</td>
<td>-1.18% / N/A</td>
</tr>
<tr>
<td>SWEETWATER FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>76.8%</td>
<td>39.4</td>
<td>$2,246,455</td>
<td>$80,231</td>
<td>8.0%</td>
<td>2.70% / 8.00%</td>
</tr>
<tr>
<td>TEACHER RETIREMENT SYSTEM OF TEXAS</td>
<td>82.7%</td>
<td>INFINITE</td>
<td>$24,062,262,158</td>
<td>$25,133</td>
<td>8.0%</td>
<td>2.46% / 8.27%</td>
</tr>
<tr>
<td>TEMPLE FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>76.7%</td>
<td>27.4</td>
<td>$10,100,730</td>
<td>$91,825</td>
<td>7.8%</td>
<td>3.81% / N/A</td>
</tr>
<tr>
<td>TEXARKANA FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>85.7%</td>
<td>10.3</td>
<td>$4,125,446</td>
<td>$51,568</td>
<td>7.8%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td>TEXAS CITY FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>41.8%</td>
<td>53.3</td>
<td>$13,315,308</td>
<td>$192,975</td>
<td>7.8%</td>
<td>2.23% / N/A</td>
</tr>
<tr>
<td>TEXAS COUNTY &amp; DISTRICT RETIREMENT SYSTEM</td>
<td>89.4%</td>
<td>20.0</td>
<td>$2,122,555,548</td>
<td>$17,410</td>
<td>8.0%</td>
<td>1.65% / 7.23%</td>
</tr>
<tr>
<td>TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM</td>
<td>78.9%</td>
<td>30.0</td>
<td>$17,150,427</td>
<td>$40,665</td>
<td>7.8%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td>TEXAS MUNICIPAL RETIREMENT SYSTEM</td>
<td>85.1%</td>
<td>30.0</td>
<td>$3,216,312,777</td>
<td>$31,797</td>
<td>7.0%</td>
<td>6.78% / 6.12%</td>
</tr>
<tr>
<td>TRAVIS COUNTY ESD #6 FIREFIGHTER'S RELIEF &amp; RETIREMENT FUND</td>
<td>54.8%</td>
<td>3.2</td>
<td>$2,865,849</td>
<td>$48,574</td>
<td>7.0%</td>
<td>DNR / DNR</td>
</tr>
<tr>
<td>TYLER FIRE DEPARTMENT RELIEF &amp; RETIREMENT FUND</td>
<td>70.5%</td>
<td>26.4</td>
<td>$19,035,929</td>
<td>$122,025</td>
<td>7.8%</td>
<td>2.79% / N/A</td>
</tr>
<tr>
<td>UNIVERSITY HEALTH SYSTEM PENSION PLAN***</td>
<td>65.5%</td>
<td>30.0</td>
<td>$77,421,123</td>
<td>$17,628</td>
<td>7.5%</td>
<td>0.45% / 2.40%</td>
</tr>
<tr>
<td>UNIVERSITY PARK FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>50.7%</td>
<td>40.6</td>
<td>$8,771,026</td>
<td>$250,601</td>
<td>8.0%</td>
<td>N/A / N/A</td>
</tr>
<tr>
<td>WAXAHACHIE FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>61.3%</td>
<td>13.8</td>
<td>$5,159,579</td>
<td>$107,491</td>
<td>7.0%</td>
<td>2.96% / N/A</td>
</tr>
<tr>
<td>WESLACO FIREMEN'S RELIEF &amp; RETIREMENT FUND</td>
<td>53.6%</td>
<td>31.0</td>
<td>$4,308,720</td>
<td>$58,226</td>
<td>7.2%</td>
<td>N/A / N/A</td>
</tr>
<tr>
<td>WICHITA FALLS FIREMEN'S RELIEF &amp; RETIREMENT FUND***</td>
<td>68.3%</td>
<td>38.9</td>
<td>$19,044,765</td>
<td>$126,955</td>
<td>8.0%</td>
<td>3.60% / 5.40%</td>
</tr>
</tbody>
</table>

Sources: Pension Review Board and individual pension systems that supplied rate of return data to the Comptroller’s office.

DNR - Did not respond fully to a public information request within the specified time allowed under Texas Government Code, Chapter 552.

N/A - Not available.

Note: The data in this table were provided to the Comptroller by the Pension Review Board (PRB) and are the latest available as of November 2012. PRB monitors the health of Texas’ public retirement systems. The next data update will be made available online in December 2012 to the Texas Public Pension Search Tool on www.trackingtx.org/index.php/pension.
Public pensions are an important retirement income source for more than a million active and retired public sector workers in Texas. However, guaranteeing the financial health and sustainability of public pension plans is dependent on three basic factors: investment returns, employer/employee contributions and affordable benefit payments.

The largest Texas plans serving education and other state workers have billions of dollars flowing through the systems each year, but face long-term challenges because of persistent underfunding of the combined tax-supported employer contributions and employee contributions. The infinite amortization period for these plans means that with current plan design, assumptions and contribution rates, the plans will never be fully funded and decades from now they won’t be able to pay the benefits that are owed.

No doubt Texas as a whole is not in the same crisis situation that has forced drastic changes in benefits and funding reforms in Rhode Island, Utah, California and other states, but there are examples of plans that have funded ratios and amortization periods that fail to meet fiscally sound standards.

It is important that taxpayers — who depend on elected officials and public sector workers to ensure that their tax dollars are spent wisely — can be confident that public pensions in Texas are being managed properly to ensure long-term financial health.

CONSTITUTION AND STATUTES: WHO CAN MAKE CHANGES?

The Texas Constitution allows state and local governments to create retirement systems and set basic fiduciary and governance principles regarding boards of trustees, assets and member benefits. There are 344 local retirement systems in Texas that serve over 291,000 members and hold more than $30 billion in assets.

In 2003, the Legislature added an amendment to the Texas Constitution to ensure participants in local retirement plans were protected against any benefit reductions that would affect benefits already earned. This section prohibits local retirement plans from reducing the accrued benefits of current and former employees who would have been eligible for those benefits without any additional service. It also prohibits any reduction of retiree benefits. Local governments had one opportunity to opt-out of compliance by holding an election in May 2004. The cities of Denison, Galveston, Houston, Marshall, McAllen, Paris and Port Arthur successfully opted-out. (The amendment does not apply to TCDRS or TMRS.)

State law (Title 109 of the Revised Civil Statutes) sets the contribution rates, benefit levels, and the composition of the board of trustees for the following 12 local public pension systems:

**TEXAS LOCAL RETIREMENT SYSTEMS ENABLED BY TITLE 109**

- **AUSTIN EMPLOYEES’ RETIREMENT SYSTEM**
- **AUSTIN FIRE FIGHTERS RELIEF & RETIREMENT FUND**
- **AUSTIN POLICE RETIREMENT SYSTEM**
- **DALLAS POLICE & FIRE PENSION SYSTEM**
- **EL PASO FIREMEN’S PENSION FUND**
- **EL PASO POLICE PENSION FUND**
- **FORT WORTH EMPLOYEES’ RETIREMENT FUND**
- **GALVESTON EMPLOYEES’ RETIREMENT PLAN FOR POLICE**
- **HOUSTON FIREFIGHTER’S RELIEF & RETIREMENT FUND**
- **HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM**
- **HOUSTON POLICE OFFICERS PENSION SYSTEM**
- **SAN ANTONIO FIRE & POLICE PENSION FUND**

For more detail on statutory requirements of local pension plans, as well as information on pension board composition, see [www.TexasTransparency.org/yourmoney/pensions/](http://www.TexasTransparency.org/yourmoney/pensions/)

**TEXAS FIRE FIGHTERS HAVE DIFFERENT RULES**

The Texas Local Fire Fighters’ Retirement Act (TLFFRA) is the governing statute for retirement systems for 41 cities with paid fire fighters and 81 cities with volunteer fire departments. Within the guidelines set under the statute, TLFFRA systems can set their own member contribution rates, benefit levels, and other plan provisions on a local basis.
PENSION RECOMMENDATIONS

Public pensions’ actuarial assumptions, investment returns, benefit design and employee and employer contributions have an impact on pension plan members, sponsors and taxpayers. This information must be readily available. As the report notes, some states and cities across the nation are discovering large unfunded liabilities because of unreasonable assumptions, insufficient contributions or unsustainable benefits. The following recommendations should help create consistent standards, provide a good snapshot of how often pension administrators are reviewing and updating their investment return assumptions and provide for improved governance of state and local pension plans.

RECOMMENDATIONS

1. The Legislature should consider giving the Pension Review Board sufficient authority and resources to administer a mandatory board member training program and to improve and expand the collection and reporting of public pension plan data for a clearer picture of pension plan health. This could include technology upgrades and staffing resources to ensure data collection is streamlined and readily made available online.

2. Although many public pension boards follow standards on ethics and conflict of interest, consider requiring the Pension Review Board to adopt model ethical standards and conflict of interest disclosure requirements for public pension boards.

3. To provide greater transparency, and to allow public input, consider requiring all public pensions to post primary contact information on a public website. Each plan should also post online and report to the Pension Review Board basic historical investment returns, including net investment returns for each of the last 10 fiscal years and one-year, three-year, five-year, 10-year, 30-year, and since inception rolling rates of returns. The report should also include the plan’s most current assumed rate of return and assumed rates of return for the last ten fiscal years.

4. To provide a more complete review of public pensions in Texas, consider a study by the Legislature and the appropriate government agencies to examine the financial health of public pension plans and their ability to meet long-term obligations, considering their benefits, contributions and investment returns, and recommending solutions to mitigate any risk of failing to meet those obligations.

EXERCISING YOUR POWER AS A TAXPAYER

GET INVOLVED. Visit the Pension Review Board (PRB) website, www.prb.state.tx.us, for information on board meetings, which are open to the public. The PRB monitors all Texas public retirement systems, both state and local, in regard to their actuarial soundness and compliance with state law.


LEARN THE BASICS OF PENSIONS. Visit the PRB website for resources and information, including regularly published reports. These include asset reports, plan presentations and legislative reports and updates. Go to www.prb.state.tx.us/agency-information/publicationsreports.html for more information.

KNOW WHICH PLANS ARE COMPLIANT. Find out whether a pension plan is compliant with state law. The PRB conducts ongoing reviews of public pension plans by reviewing annual reports submitted by the public pension plans. For information on how the PRB determines a plan’s compliance visit www.prb.state.tx.us/files/faqs/compliance08.pdf.

FIND OUT ABOUT STATE AND LOCAL PENSIONS. Use the Texas Public Pension Search Tool on www.trackingtx.org/index.php/pension to view and sort recent data on Texas public pension plans, including key indicators. You also can use the tool to drill down for detailed financial and actuarial information for each individual plan as reported to the PRB. Find funding ratios, assumed rates of return and information on underfunded liabilities. Data online will be updated on a quarterly basis.

www.TexasItsYourMoney.org