



Summary: Study of the Financial Health of Texas Public Retirement Systems

In accordance with House Bill 13, passed by the 83rd Texas Legislature, the Pension Review Board has published a study examining each Texas public retirement system’s ability to meet its long-term obligations, taking into account the contributions made to, benefits paid by, and investments made by the retirement system. As required by the law, the study contains findings and the Board’s recommendations regarding how a public retirement system may mitigate its risk of not meeting its long-term obligations, as well as responses to the study received from public retirement systems. [Link to Financial Health Study](#)

Key Findings

Public retirement systems that have consistently received adequate funding are in a better position to meet their long-term obligations than systems that have not.

Public retirement systems face higher funding requirements now than in 2000; the increase is generally greater for plans at risk of not meeting their long-term obligations.

Public retirement systems with the longest amortization periods experienced the largest decline in their funded ratios, putting them at risk of not meeting their long-term obligations.

Consistent and adequate contributions play a greater role than strong investment performance in determining a system's ability to meet its long-term obligations.

Long-term funding for public retirement systems should satisfy the equation, **C+I = B+E**, or Contributions (C) + Income (I) = Benefits (B) + Expenses (E). Contributions and Income combine to add to the system’s trust fund, while Benefits and Expenses combine to deplete it.

Contributions + Income = Benefits + Expenses



To ensure long-term viability, retirement system sponsors and members must contribute money to the trust fund that is sufficient to cover system benefit obligations over a reasonable period of time.

QUICK FACTS ON TEXAS PUBLIC RETIREMENT SYSTEMS IN THIS STUDY

- *Nearly 2.4 million members*
- *Approximately \$220 billion net assets*
- *93 actuarially funded defined benefit systems (including TCDRS & TMRS)*
- *TCDRS: 656 counties and districts*
- *TMRS: 844 municipalities*
- *1,591 retirement systems reviewed as part of this study*



PENSION REVIEW BOARD

This table shows the number of Texas retirement systems, including the 1,500 TCDRS and TMRS plans, within amortization period ranges.

After considering different measurements of public retirement systems' financial health, the PRB determined that the most appropriate measure is a system's current amortization period, which measures the length of time, in years, needed to pay for the UAAL, and reflects a system's ability to pay its normal cost plus its unfunded actuarial accrued liability. (Normal cost is the portion of the cost of projected benefits allocated to the current year. UAAL is the present value of benefits earned to date that are not covered by plan assets.)

Current Actuarial Valuation Amortization Periods		
Amortization Period (Years)	Number of Plans	Percent of Total
Infinite (Never)	9	1%
At least 40 but less than infinite	16	1%
At least 25 but less than 40	418	26%
At least 15 but less than 25	509	32%
At least 1 but less than 15	306	19%
Zero (None)	333	21%
Total	1,591	100%

PRB Guidelines for Actuarial Soundness

Recommended Amortization Period:
15-25 years

Maximum Amortization Period:
40 years

Amortization Period Comparison 2000 to 2013		
Amortization Period	2000	2013
Infinite (Never)	5	9
At least 40 but less than infinite	3	16
At least 25 but less than 40	35	35
At least 15 but less than 25	16	20
At least 1 but less than 15	10	12
Zero (None)	24	1

Key Recommendations

The retirement system sponsor and the system should establish an adequate funding policy.

Actuarial valuations should adequately disclose total contribution levels needed for systems to have appropriate amortization periods. The governing body of the retirement system and the sponsor should be provided this information.

The cost of benefit changes, including multiplier increases and granting of COLAs, should be actuarially valued prior to adoption to ensure that additional costs will be funded adequately and continuously. Such benefit changes should only be granted if the costs can be properly funded after adoption and amortized in accordance with the PRB *Guidelines for Actuarial Soundness*.