



Testimony

SB 12 Let People Prosper by Securing Teachers' Retirement

Testimony Before the Texas Senate Committee on State Affairs

by Vance Ginn, Ph.D.

Chair Huffman and Members of the Committee:

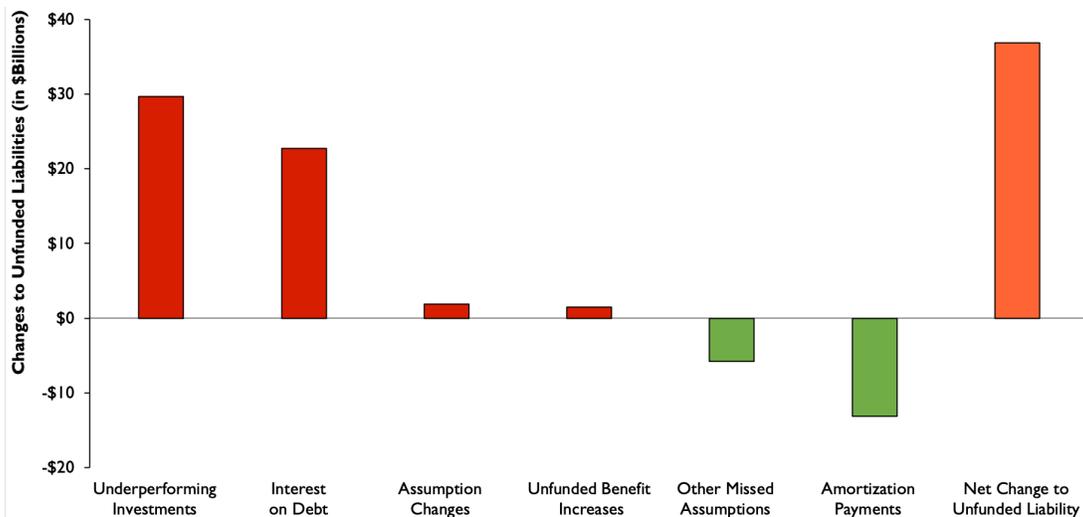
My name is Dr. Vance Ginn, and I am a senior economist and director of the Center for Economic Prosperity at the Texas Public Policy Foundation. I am testifying today against [Senate Bill 12](#).

The Teacher Retirement System (TRS) of Texas is a defined-benefit pension system that provides more than 1.5 million Texans a payout in retirement. TRS is six times larger than the next public pension plan in Texas. Texas must secure teachers' retirement by ensuring TRS is actuarially sound, but, more importantly, by giving teachers control over their livelihood through structural reforms to TRS.

Less secure retirement from not being 100 percent funded. Actuaries agree a pension should be 100 percent funded to prevent expensive, intergenerational inequality. The Society of Actuaries notes, "[A pension plan's funding goal should always be 100 percent](#) of the plan liability calculated assuming median expected future investment returns." TRS is currently funded well below this at 76 percent.

Less secure retirement from structural problems. Last July, the TRS board lowered its assumed rate of return to 7.25 percent, providing a more transparent look at the unfunded liability of \$46.2 billion. However, TRS actuaries place the probability of achieving this return over the next decade at around 50 percent, with other forecast models calculating this probability to be only 30 percent. If the assumed return matched the average over the last decade of nearly 6 percent, the unfunded liability would soar to more than \$80 billion. **Figure 1** indicates structural problems of underperforming investments and interest on debt.

Figure 1. Causes of TRS's pension problem based on actuarial experience (2001-2017)



Source: Pension Integrity analysis of TRS financial reports. Data represent cumulative actuarial liability.

Less secure retirement from unfunded liabilities. TRS has a “normal cost” of the annual contribution necessary to fully pre-fund the plan according to actuarial assumptions. In a fully funded plan, the normal cost is the only necessary contribution. By contrast, an underfunded pension plan is forced to make amortization payments in addition to the normal cost to pay down any unfunded liabilities that accrue when actuarial assumptions are missed. TRS’s amortization payments have grown since 2003 and are a large part of teacher and taxpayer contributions.

Less secure retirement from costly discretionary decisions. While lowering the assumed return to 7.25 percent may delay the timeline for retirees receiving a discretionary COLA or 13th payment to retirees, keeping the status quo and paying one of these would likely cause additional long-term funding harm to TRS. In 2017, contributions totaling \$6.5 billion went into the TRS fund, half coming from employers and half from teachers. Of those contributions, only 65 percent (\$4.2 billion) was used to pre-fund benefits for active teachers, with the rest (\$2.3 billion) used to pay down unfunded pension liabilities, meaning teachers and districts are increasingly paying for unfunded benefits accrued from previous years.

Less secure retirement from lack of teacher retirement choices. Teachers are trusted with teaching our students across Texas, they should also be trusted with making choices about their retirement. By forcing them into TRS, a defined-benefit pension system, they do not have the option of other types of plans that allow them more freedom to move from Texas or move to a different profession and keep a fully vested amount at an earlier tenure. This option is available in higher education in Texas with the Optional Retirement Program (ORP) that is a defined-contribution plan that works like a 401K whereby the teacher can be vested in the second year. An ORP allows the teacher to have more freedom throughout her career and in retirement. This would help solve the structural problems of TRS.

Shortcomings of SB 12. While SB 12 would increase contributions over time by taxpayers collected at the state and school district levels and by teachers to help TRS become actuarially sound, it does not solve structural problems at a cost to taxpayers in the 2020-21 period of \$555 million at the state level and more thereafter. This includes \$360 million for increased contributions and \$195 million for a 13th payment to retirees.

Recommendations to improve SB 12:

- Add structural reform that allows at least new teachers to have the choice of a defined-contribution plan that is similar to the ORP in higher education;
- Strike 13th payment to retirees, as this is a discretionary decision that would further burden TRS; and
- Lower the \$555 million cost to taxpayers to help bring the Senate’s 2020-21 budget within population growth plus inflation. [Senate Bill 1 is currently \\$1.7 billion above that limit.](#)

By addressing TRS’s solvency problem, Texas can secure the retirement for teachers while reducing the likelihood taxpayers will be on the hook to bail out an underperforming pension system. We hope the structural problems will be addressed this session so Texas will be in the best position to have excellent teachers. Because besides a child’s family, teachers are the most important part of her educational future.

Thank you for your time and the work you do, and I look forward to continued discussion on this topic. ★



Vance Ginn, Ph.D. is a senior economist and director of the Center for Economic Prosperity at the Texas Public Policy Foundation, a 501(c)(3) non-profit, non-partisan free market think tank based in Austin. He is a former college lecturer, and an expert on economic and fiscal issues with research to let people prosper by removing government barriers in Texas, D.C., and beyond.

