



HB 9 Let People Prosper by Structurally Reforming Teachers' Retirement *Testimony Before the Texas House Committee on PIFS*

by Vance Ginn, Ph.D., Director

Chair Murphy and Members of the Committee:

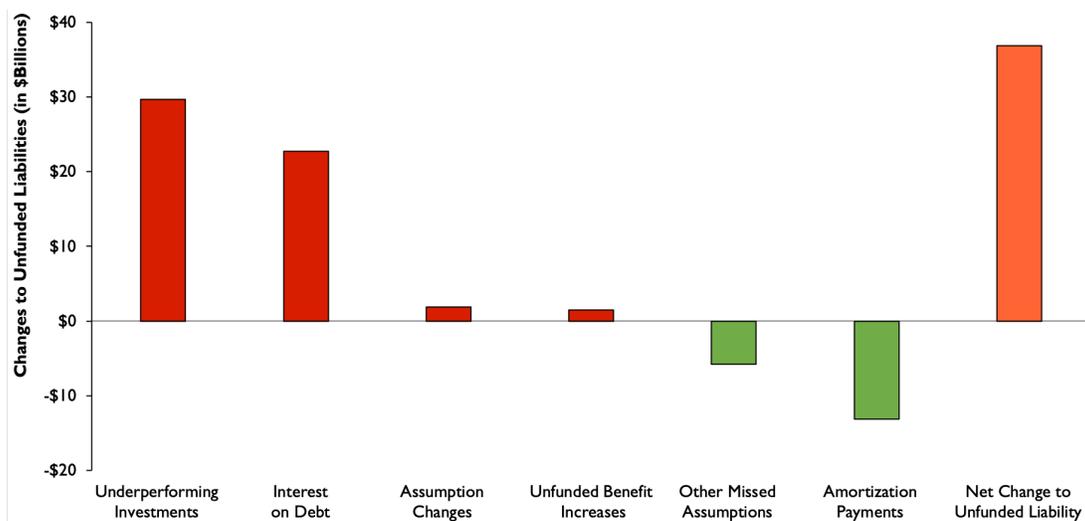
My name is Dr. Vance Ginn, and I am a senior economist and director of the Center for Economic Prosperity at the Texas Public Policy Foundation. I am [testifying today](#) against [House Bill 9](#). While it could improve the financial soundness of the Teacher Retirement System (TRS) of Texas in the short term, HB 9 does not structurally reform the system to secure teachers' retirement and reduce the risk to taxpayers over time.

TRS 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.

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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 401(k) whereby the teacher can be invested in the second year. An ORP allows the teacher to have more freedom throughout his or her career and in retirement. This would help solve the structural problems of TRS.

Shortcomings of HB 9. HB 9 would increase contributions by taxpayers collected at the state level from 6.8 percent to 7.8 percent in 2020 (and progressively higher to 8.8 percent in 2026) to decrease the funding period from 87 years to 30 years, respectively. This increase in contributions would cost taxpayers \$684 million in the 2020-21 biennium and more thereafter. While this improves the financial soundness of TRS if the assumed rate of return is met, HB 9 does not solve the structural problems of TRS and adds additional costs to taxpayers of \$658 million for a 13th payment to retirees in 2020.

Recommendations:

- 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 \$1.3 billion cost to help bring the House’s 2020-21 budget within the appropriate limit of population growth plus inflation, which [HB 1 currently exceeds by \\$12.4 billion](#).

By addressing TRS’s structural problems, 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 can be in the best position to have excellent teachers. Because besides a child’s family, teachers are the most important part of his educational future.

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



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